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Detailed feedback from online survey VSME ED Public Consultation

This report offers only a partial view of the overall feedback. For a complete view the findings in this report (feedback from online survey) needs to be read in conjunction with the findings in the comment letter analysis, also considering that the comment letters mainly refer not to single respondents but to associations and authorities. The statistics in this report, in isolation from the qualitative findings of the comment letter analysis may be misleading.

About this report

1. EFRAG has conducted an online questionnaire-based survey to gather views from stakeholders that have participated in the public consultation of the Exposure Draft for a voluntary sustainability reporting standard for non-listed SMEs (including micro undertakings) (VSME ED). The results of the public consultation survey that included 311 participants as preparers, users and other (consultants, accountants, etc.) are summarised in this report.
2. In addition, the same respondents uploaded 26 Comment Letters (directly uploaded through the online survey). Some organisations have sent both comment letters and answered to the online questionnaire. In this case, to avoid double counting, following a consistency check between the two submissions, the online questionnaire responses have been accounted (more comparable).
3. In this report, for each question the analysis includes insights at the aggregated level and key insights by stakeholders' group (the stakeholder groups are: "preparers", "users" including banks and large corporates heads of supply chains¹; and "others", including standard setters, NGOs, unions/worker representatives, academics, consultants/accountants/assurance providers, associations etc.). Being VSME ED a voluntary standard that builds on "market acceptance" specific emphasis was given to the categories "preparers" and "users" by devoting specific question of the online questionnaire to them.
4. To note, however, that some key stakeholders such as European or national associations representing SMEs preparers or representing large undertaking or investors have classified themselves in the online questionnaire as "other" instead of "preparers" or "users". For these reasons, to ensure that their perspective would emerge, this report includes for each question, an additional box that captures the "preparers" and "users" perspective provided under the "other" category.

5. This report uses the following terms to describe the extent to which particular feedback was shared by respondents (both when referring to total respondents or a subset of respondents).

All: 100% of respondents
Most: 80% to 99% of respondents
A majority: 50% to 79% of respondents
Some: 20% to 49% of respondents
A few: 1% to 19% of respondents
None: 0% of respondents

6. It shall be considered that for few questions a mismatch emerges between the statistical result and the qualitative analysis. This is due to the fact that different trends emerge between comment letters and surveys. Where mismatches exist between the statistics on AGREE/DISAGREE and the content of the qualitative comments provided, this is explained in the analysis below.

About the VSME ED public consultation

7. The public consultation launched on 22 January 2024 and was conducted in parallel with the field test (with different deadline for submissions). Field test participants have also replied to the online questionnaire- based survey.
8. The public consultation questionnaire was designed to receive feedback from constituents on key aspects of the EDs, including (i) the proposed architecture; (ii) the relevance of the proposed disclosures; (iii) the simplifications achieved; and (iv) the market acceptance. The questionnaire aimed to capture users' and preparers' perspectives while offering the opportunity to all other interested constituents to also provide feedback.
9. The online questionnaires consisted of two parts: Part 1 (the most critical questions that EFRAG encourages to answer in full) and Part 2 (additional and more detailed technical questions that EFRAG encouraged to answer as much as possible).
10. The analysis and structure of this key findings report has been done by analysing the 7 questions in Part 1 of the public consultation questionnaire and the 33 questions in Part 2 of the public consultation questionnaire as follows:
- Part 1
 - i. Q1 – *The standard setting objective*
 - ii. Q2 – *The 3 modules Basic Module, Narrative-Policies, Actions and Targets (PAT) Module, Business Partners (BP): appropriateness and expected combinations*
 - iii. Q3 – *The Basic Module being proportionate starting point*
 - iv. Q4 – *The Narrative-PAT Module, and the approach to reserve it to undertakings that have Policies, Actions and Targets (PAT) in place*
 - v. Q5 – *The Business Partners (BP) Module, and the approach to be a replacement and standardisation of information requests by business partners*
 - vi. Q6 – *(for preparers and users only) The percentage of ESG questionnaires or ESG requests that VSME ED three modules could replace*
 - vii. Q7 – *Sector approach for VSME ED.*

- Part 2
 - i. Q8 - Q12 – Principles for preparation, envisaged combinations of modules (for users and preparers), consolidated basis, subsidiary exemption and additional component including sectors
 - ii. Q13 - Q19 – Basic Module per each of the 12 disclosures: (for preparers) feasible/difficult, (for users) essential/not necessary, (for others) comments on the inclusion of the disclosure; whether datapoints are missing; specific questions on B3-B7 and EMAS, B9, B10 and B11; guidance BM
 - iii. Q20 - Q24 – Approach to materiality of matters and Principles for preparation (common to Narrative-PAT and Business Partners Modules) - impact and financial materiality, financial opportunities.
 - iv. Q25 – Q28 – Narrative-PAT Module for each of the 5 disclosures: (for preparers) if feasible/difficult, (for users) if essential/not necessary, (for others) comments on the inclusion of the disclosure.
 - v. Q29 – Q38 - Business Partners (BP) Module, for each of the 11 disclosures: (for preparers) if feasible/difficult, (for users) if essential/not necessary, (for others) comments on the inclusion of the disclosure; materiality versus “if applicable”; BP7, BP8 and BP9; split in sub-modules, additional taxonomy alignment disclosures; guidance.
 - vi. Q38-Q40 – additional comments.
- Part 3
 - i. Q41-42 – Value Chain Cap

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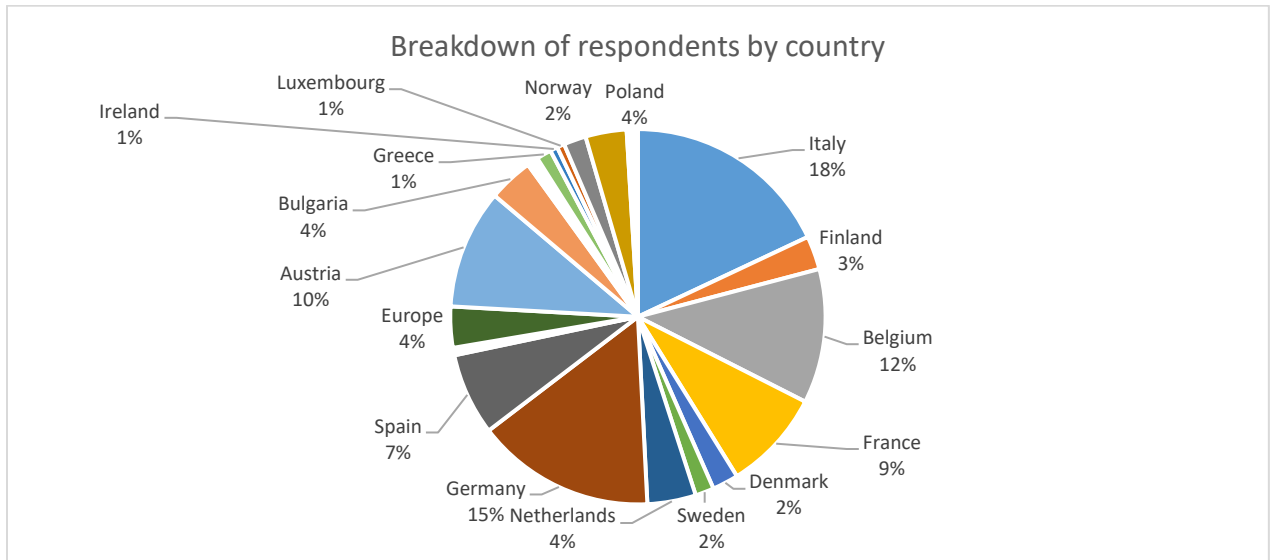
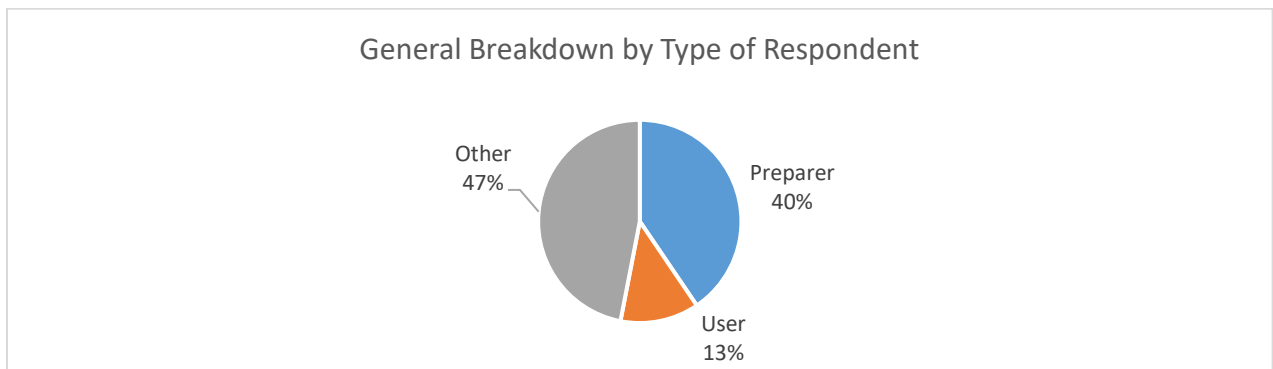
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Overview of public consultation respondents

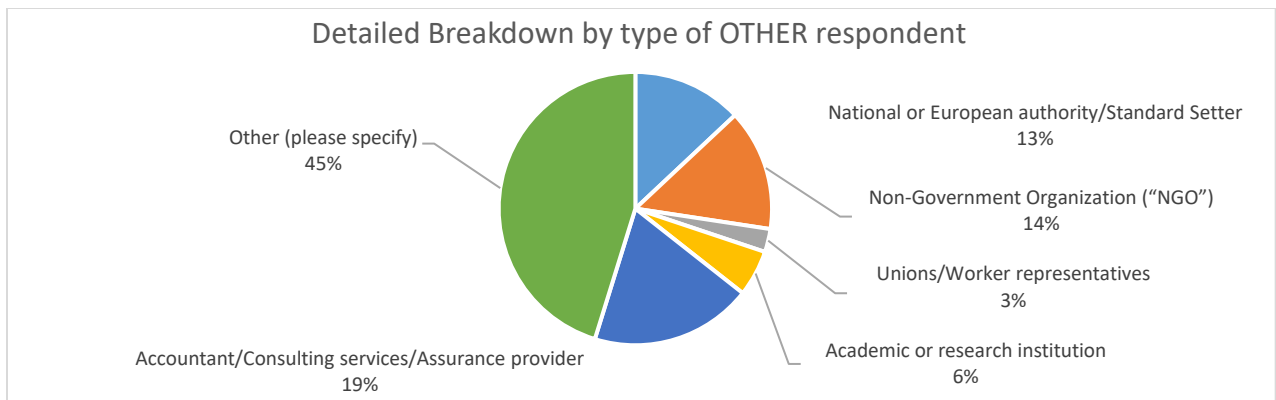
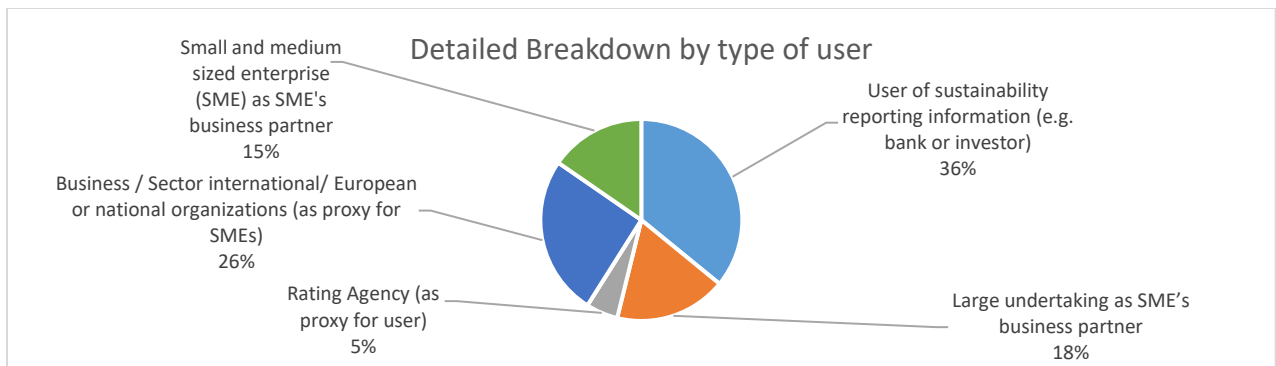
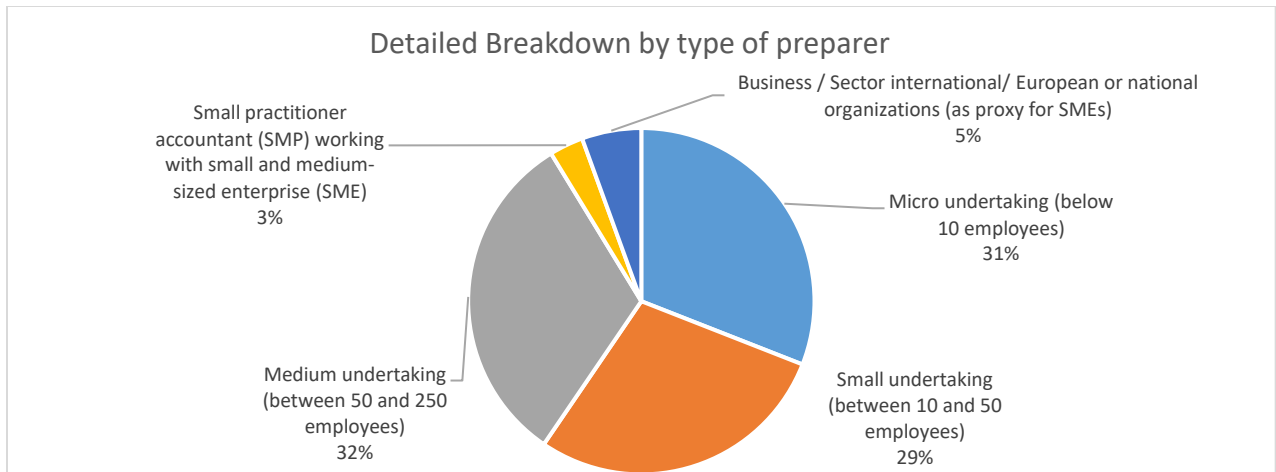
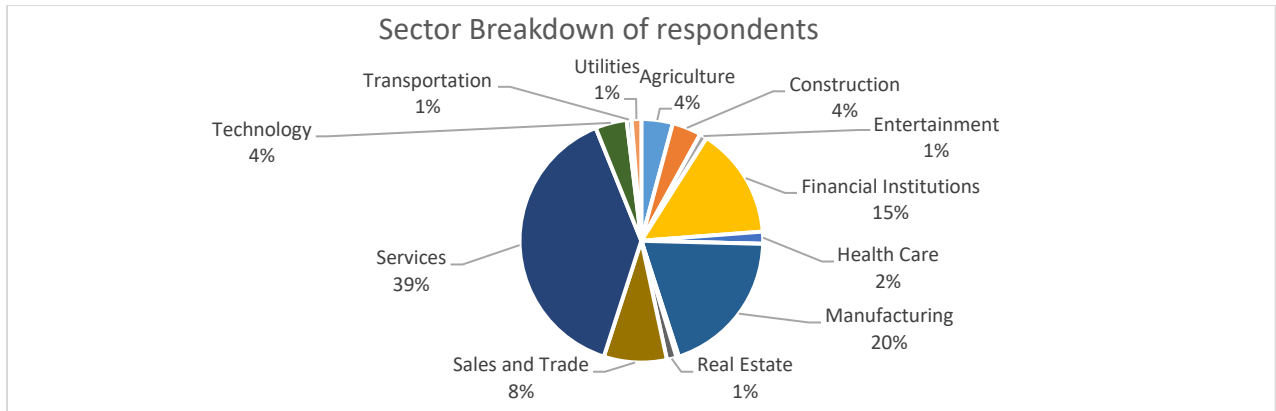
11. EFRAG registered 311 respondents to the online public consultation questionnaire.

General Breakdown by Type of Respondent	Number of respondents
Preparer	126
User	39
Other	146 ¹



¹ The category Other includes also business associations representing preparers or users, but that did a self-classification under “other, if other please specify”. Hence they incorrectly have identified themselves not as preparers or users. EFRAG secretariat considered that despite their self-classification being incorrect a reclassification could not be implemented without disrupting the analysis, as the category preparers and users had specific questions in the survey’s questionnaire, different from the category “others”.

VSME: Detailed feedback report of Online Survey responses (D2)



Part 1

Question 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/No/Please explain your answer)

12. For **Question 1** of Part 1, **292 out of 311 (94%)** respondents answered the question. This is taken into account for the following statistics and breakdowns.

Key Insights (aggregate):

13. Most respondents agreed with Question 1, with the following comments common across all respondent types:
- VSME is a clear, modular and resource-efficient tool that helps SMEs manage sustainability issues and a good start for sustainability reporting and SMEs' sustainable growth
 - Simple tool for monitoring internal performance, and a path to a sustainable economy
 - There was a general call for adding digital tools, simplifying structure/language and adding guidance.

Key insights (by type of respondent):

14. PREPARERS regularly had the following concerns and suggestions:
- Simplify structure/language, and add guidance, tools, especially for micro undertakings.
 - Suggested the need of action on the EU Commission side to ensure that business counterparts commit to abandon their questionnaires.
15. USERS had the following concerns and suggestions:
- All banks, investor respondents agreed to the question, but mentioned that some specific requests from business partners will remain necessary based on transactions (for banks) and sectors.
 - All large undertakings agreed, but many stated that more granular data may be required for certain sectors.
 - Uptake will greatly increase if VSME is developed as online standardised templates to collect data from SMEs and make them available for free to both users and undertakings.
 - Legitimacy and legal status of the VSME shall be emphasised
16. Respondents from OTHER category had the following comments and suggestions:
- VSME supports sustainable performance/growth, improved communication (i.e. actions, policies, targets, risks).
 - Standardised requests help with transparency, trust, and disclosures.

- Sustainability requirements are perceived as a threat to micro undertakings and interactive tools, or support are needed to assist these undertakings.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Agreement with the objective of VSME. Moreover, they highlighted the importance of templates, and to transform the VSME into an interactive online tool, to ease accessibility. An additional suggestion is to further simplify modules/guidance to bare essentials, to avoid unnecessary work for SMEs. Some associations also highlight that a strong commitment from the European Commission and users is essential for VSME to replace existing transparency practices.

Users: VSME is a good starting point for SMEs to help SMEs monitor their sustainability performance, and to reduce the multiple questionnaires. Further simplification is needed, since VSME has complex language and guidance.

Question 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/No/Please explain your answer)

17. For Question 2 of Part 1, 287 out of 311 (92%) respondents answered the question. This is taken into account for the following statistics and breakdowns.

Key Insights (aggregate):

18. Most of the preparers and, a majority of users and “others”, agreed with Question 2, with the following comments common across all respondent types:
 - A modular and gradual approach is helpful for SMEs to grow into sustainability reporting.
 - Flexibility in choosing the appropriate level of reporting is crucial for SMEs. This flexibility allows SMEs to tailor their reporting to their specific circumstances and stakeholder demands.
 - There's also a call for tools and guidelines to assist SMEs in understanding and fulfilling the reporting requirements.
 - The materiality analysis should be optional or eliminated as deemed too complex.

Key insights (by type of respondent):

19. PREPARER respondents had the following concerns and suggestions:
- General consensus to focus only on the BM (to have a single approach to include all requests from Business counterparts).
 - Create a “Basic Plus” Module with metrics from BP / PAT modules.
 - There is a lack of clarity (e.g. language, how to choose modules, and overlapping data spread across different modules).
 - Some said Basic Modules should apply only to micro-enterprises, whereas others said it should apply to all SMEs.
 - BP Module (metrics) should come before PAT Module (policies)
20. USER respondents had the following concerns and suggestions:
- Clear preference by users for Basic Module+ BP Module alternative.
 - Banks and investors agreed with the flexibility for SMEs to select modules/disclosures.
 - Large undertakings had concerns that many SMEs will not report on all 3 modules.
 - Add data required by banks to Basic Module.
 - Allow SMEs to use estimated data.
21. OTHER respondents had the following comments and concerns:
- Support the modular approach, allowing SMEs to start with basic modules and expand to more detailed ones as needed.
 - Some said the Basic Module should be for all SMEs, while others said it should only apply to micro/small undertakings.
 - Further simplification needed, for example, to merge all 3 modules into one module with simplified disclosure.
 - Some respondents say the Basic Module should be sufficient for all undertakings, whereas others see the PAT Module as highly valuable to both SMEs and users.
 - A few NGO respondents recommend a better correspondence with the structure of the ESRS and call for a restructuring of the modules (2 Modules only: first module being the Narrative-PAT Module corresponding to ESRS 2, second Module being the Basic Module + merging of metrics of the current BP Module).

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Basic Module should be sufficient for SMEs to fulfil data requests from the majority of their counterparts. Rename the Business Partner Module to eliminate confusion and add parts of BP to Basic. Materiality analysis is too burdensome for SMEs.

Users: VSME modular approach is a good start and offers flexibility. Call for additional emphasis of clearly outlining the flexibility inherent in the modular approach. Preference for Basic and Business Partner Module. Concerns relevant to the materiality analysis to be deleted in the BP Module.

Question 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?

22. For **Question 3** of Part 1, **288 out of 311 (93%)** respondents answered the question. This is taken into account for the following statistics and breakdowns.

Key Insights (aggregate):

23. A majority of preparers and "other" respondents agreed with Question 3; most users also agreed. The following comments common across all respondent types emerged:
- VSME Basic Module is a good starting point and an effective tool for attracting SMEs to approach reporting.
 - The language of the basic module is too complex for micro undertakings. Respondents recommended a review of the standard to ensure the use of plain and precise English.
 - Guidance, tools, examples, and templates are required by SMEs.
 - Clarification on the usage of "if applicable" is necessary.

Key insights (by type of respondent):

24. Comments on the specific disclosures of the Module are elaborated in Q13 below.
25. PREPARER respondents had the following concerns and suggestions:
- A majority was supportive of the Basic Module as being without a materiality analysis, it is more approachable to SMEs beginning their sustainability process.
 - Some preparers advocated for further simplifications in language and deemed that support is needed in the form of additional definitions and guidance, sample calculation, real life examples, templates, and online tools.
 - Some preparers asked for additional clarification of the term "if applicable".
26. USER respondents had the following concerns and suggestions:
- User respondents were the most supportive of the Basic Module mentioning that it is understandable as it uses simple and concrete language.
 - Few respondents suggested that language could be further simplified and that additional guidelines should be provided to help SMEs concretely implement the standard.
27. OTHER respondents had the following concerns and suggestions:
- A majority of Standard Setters agree with the Basic Module as it allows for SMEs to embark on the journey of providing sustainability related information. Using the "if applicable" approach, as opposed to a materiality analysis, is constructive as it makes the process more accessible to SMEs. However, some respondents suggested further guidance on the

“if applicable” usage to promote consistent application of the concept. One standard setter suggested to look at the German Sustainability Code to further simplify VSME.

- A majority of NGOs agreed with the Basic Module provided that additional guidance is provided to the undertakings. Few NGO respondents highlighted the need for the materiality analysis in the Basic Module to ensure that disclosures are relevant and meaningful. In addition, few NGO respondents suggested to tag ESRS and SFDR datapoints to make them more visible. Lastly, few NGO respondents call for an architectural change (2 modules only, prioritising the Narrative-PAT Module) as described in Q2.
- A majority of accountants support the Basic Module, with suggestions to improve cross referencing between the main text of the Standard and the guidance.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Majority supports Basic Module, however, there is a general request to further simplify the language as still some disclosures are too complex to understand for SMEs. In general, SME associations had comments on specific disclosures, which are elaborated in the appropriate question below (Q13).

Users: Supportive of the module, and feel it provides a good baseline for the sustainability reporting of SMEs and agree with the “If applicable” approach. Many commented that further simplification of the language would be beneficial.

Question 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 are relevant for the undertaking.

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

28. For **Question 4** of Part 1, **269 out of 311 (86%)** respondents answered the question. This is taken into account for the following statistics and breakdowns.

Key Insights (aggregate):

29. A majority of respondents supported the approach to reserve the Narrative-PAT Module to undertakings that have policies, actions and targets in place, with the following comments common across all respondent types:
- A full materiality analysis is a challenge for all SMEs.
 - The reliability of the materiality analysis and the narrative nature of the module is a main concern for users.
 - Need for general guidance for the Narrative-PAT module, with specific guidance and tools to assist SMEs with materiality.

Key insights (by type of respondent):

30. Comments on the specific disclosures of the Narrative-PAT Module are elaborated in Q25 below.
31. PREPARER respondents had the following concerns and suggestions:

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- A majority of preparers highlights that cost is a barrier for this module as a major issue arises due to the presence of the materiality analysis, which is deemed costly as it would require the need of external consultants.
 - A majority of preparers argue that further simplification of the language is needed and that guidance should be introduced for this Module.
 - Some preparers argued that this Module is useful to clarify how the SME is approaching ESG.
32. USER respondents had the following concerns and suggestions:
- A majority of user respondents (in particular banks) found the narrative nature of the module problematic as they questioned the reliability of the materiality analysis as it is overcomplex for SMEs. PAT also made it difficult to quickly obtain the necessary information and make comparisons across respondents or over time. A more quantitative approach is preferable.
33. OTHER respondents had the following concerns and suggestions:
- This category had the highest number of disagreeing respondents.
 - A majority of Standard Setters agreed with the content of the Module but advocated for additional guidance. In particular, one standard setter advocated for a guidance to help SME identify material sustainability matters, including a list of material sustainability matters per sector combined with a free online tool. Some Standard Setters highlighted that materiality analysis would be too complex and burdensome for SMEs.
 - Majority of NGOs welcomes the creation of a module dedicated to PAT. Some NGO respondents did not find the structure of this module proportionate and understandable, reiterating the suggestion of restructuring the modules of the standard as articulated in Q2. Very few NGO respondents stated that SMEs should be given the possibility to indicate whether they have PAT in place or not.
 - Few accountant respondents suggest placing the Basic Module and BP Module before the Narrative PAT Module. Majority of accountants respondents suggest including guidance for this Module, particularly few respondents suggested to have it as in the LSME (AR3, Appendix A, Section 3).

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: The module presents itself as highly abstract and demonstrates a lack of maturity and practical applicability. Materiality analysis is too complex for SMEs and it can discourage entrepreneurs to use VSME. Suggestion to postpone this Module or replacing the PAT with a list of actions implemented or to be implemented.

Users: Showed only mild support for Q4. Only largest and most sophisticated SMEs will be able to report the Narrative-PAT Module in its entirety. They recognise that a full materiality analysis goes beyond the capacities and resources of most SMEs.

Question 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
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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?

34. In **Question 5** of Part 1, **269 out of 311 (86%)** respondents answered the question. This is taken into account for the following statistics and breakdowns.

Key Insights (aggregate):

35. A majority of respondents agree with Q5 with the following comments common across all respondent types:
- BP Module can replace and standardize information requests from business partners, even if some sector specific requests will remain.
 - Criticism that Materiality Analysis is required for the BP Module. It is easier for companies to report concrete data that is well itemized rather than to prepare a complex materiality assessment in advance.
 - Additional guidance and tools are needed (e.g., on climate risks, transition plans, violations of OECD Guidelines).
 - Large documents written for countries or multinational companies are too difficult to read for SMEs (e.g., OECD guidelines). This is compounded for those with English as a foreign language.
 - Some metrics of BP module should be part of the basic module, because this information will be required by banks/large companies in the value chain.
 - All BP disclosures should be under the “if applicable” concept.
 - Data requirements should be identified based on the needs of the data user. This differentiation (which requirements come from financial sector respectively from large corporates) is helpful for companies to prioritize better.
 - Further steps need to be undertaken towards more formalized limitation of the information requested by value chain (in terms of setting the value chain cap for information to be reported to large undertakings).

Key insights (by type of respondent):

36. Comments on the specific disclosures of the BP Module are elaborated in Q30 below.
37. PREPARER respondents had the following concerns and suggestions:
- Majority of preparers agreed with the content of the BP Module but outlined the need for additional guidance/tools.
 - Majority of preparers found the materiality analysis to be too complex.
 - Concerns from some respondents emerged on some specific disclosures, these are elaborated in Q30 below.

- A few respondents agreed but had concerns about the fact that it will not be sufficient to cover business partners' requests because of additional information required.
38. USER respondents had the following concerns and suggestions:
- A majority of respondents remark that the BP Module makes information requests more effective.
 - Some users mention that VSME cannot replace all existing questionnaires that are tailor-made based on the business model and strategies of individual banks (or nationally established questionnaires catering to the specificities linked to national legislation).
 - A majority of users mention the materiality condition will limit the number of SMEs using this module and thus materiality should be removed to ensure that SMEs report datapoints in both Basic and Business Partner Modules.
 - Some users (banks) argue that some Pillar 3 information is missing and should be added.
 - Very few user respondents mention that BP Module should be asked only to medium undertakings.
 - Majority of users deem that disclosures that are not SFDR nor Pillar 3 (BP10 and BP11) should be deleted from the BP Module.
39. OTHER respondents had the following concerns and suggestions:
- Majority of Standard Setters agrees with the theoretical content and approach to the BP Module. However, majority mentions that there is still room for improvement (see Q30 for detailed disclosure breakdown). Some standard setters also mentioned that the VSME will not be able to replace all questionnaires used by business partners as specific sector-specific requests will remain.
 - Some NGO respondents argued that elements of the BP Module should be part of the Basic Module. In addition, few respondents call for a better alignment with SFDR indicators and for renaming the BP Module. Lastly, few NGOs reiterated the suggestion that relevant disclosure requests from current BP module are integrated in the suggested new section 1 and 2 following a restructuring of the modules.
 - Few accountants mention that sector-specific information requests from the value chain might be a significant issue and hence suggest EFRAG consider incorporating a sector specific element into the BP Module.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: BP module is too complex and should be simplified. The Business Partner module should be divided since the data requirements of banks, investors and large corporations vary significantly. Sector-specific information, if necessary and reducing effort for companies, should be represented in additional modules. Materiality analysis is difficult, and scope 3 is classified as unfeasible. The fulfilment of these reporting obligations requires the collection, documentation, and processing of a large amount of data, which in turn will result in the deployment of specialist personnel or outsourcing to consulting firms.

Users: A better balance needs to be found between the need to respond to business partners requests of information and the need to ask SMEs to disclose simplified and manageable data. No need for materiality analysis in the BP Module.

Question 6

FOR USERS and PREPARERS ONLY: Kindly indicate the proportion of ESG questionnaires or other ESG information requests that are used to collect data from SMEs (both for reporting and managerial purposes) that could be replaced if the SMEs provide the information covered by the three modules of the VSME ED.

- Below 20%; 20-50%; 50% -80%; above 80% -
- Please explain what items are missing and your rationale.

40. In **Question 6** of Part 1, **132 out of 168 (79%)** respondents answered the question. This is taken into account for the following statistics and breakdowns.

Key Insights (aggregate):

41. A majority of respondents identified a degree of coverage higher than 50%. The main supporting arguments were:
- The VSME covers a substantial amount of ESG requests /questionnaires with similar questions.
 - For many respondents this depends on the completion of the VSME modules and only if all three modules are filled out in detail.
 - For some respondents it depends on the sector whether the information is sufficient
42. On the other hand, those respondents that identified a degree of coverage below 50% had the following comments:
- Currently the questionnaires of business partners ask for more information on sectors and differ between banks and large companies in the value chain.

Key insights (by type of respondent):

43. Some preparers argued that it will depend on their capacity to fill the 3 modules of VMSE, while others argued that it will depend on how the standard will be finalised.
44. A majority of user respondents assess the proportion of ESG questionnaires than can be replaced is above 50%. To further increase this proportion, they suggested adding data points as mentioned below. Some financial institutions acknowledge that VSME will not include all data needed to manage their sustainability risks as this is highly individual.
45. Few respondents (bank respondents) mentioned missing information to be added. The details are provided under Q13, Q14, Q25, Q27, Q30 and Q36.
46. Few respondents mentioned that the success of the VSME also on a central European software interface into which the reporting companies can enter their data and from which it can be read by customers. Without a software interface with import and export functions, a few respondents see acceptance as low. A prerequisite would be that such a database is sufficiently

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

As this question was asked to Preparers and Users only, this group of participants (which classified themselves as Others) could not provide any comments.

secure, i.e. the sensitive company data of SMEs is protected and the SME control access to its VSME data.

Question 7

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 SELECT ONE]

- Option 1: Undertakings applying VSME ED should apply on a voluntary basis existing reporting practices, without specific EFRAG guidance.
- Option 2: Undertakings applying VSME ED should apply on a voluntary basis the content of the future Sector ESRS for large undertakings.
- Option 3: Undertakings applying VSME ED should apply on a voluntary basis sector specific guidelines and disclosures designed for non-listed SMEs, to be issued by EFRAG as a non-authoritative annex to the future sector-ESRS.
- Option 4: 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.

47. In **Question 7** of Part 1, **278 out of 311 (89%)** respondents answered the question. This is taken into account for the following statistics and breakdowns.

Key Insights (aggregate):

48. Option 1 received the third most approval with main supporting arguments:

- Feasibility and simplicity should be a top priority.
- Sector-specific information should not be asked as it might become mandatory for all.
- Sector standards designed for large companies would be too difficult for SMEs.
- Several member states already have specific laws for reporting and auditing rules. Creating sectoral guidance at the EU level would require SMEs to cross-reference all these elements.

49. Option 2 received the lowest support, with the following main supporting arguments:

- There should be a link to the sector content, making it easier to understand and compare.
- Interoperability between VSMS and ESRS includes some sector metrics as well. But the answer depends on the level of difficulty of future Sector ESRS for large undertakings.
- If the sector standards aimed at large undertakings are difficult to exercise for SMEs, EFRAG may consider developing complementary implementation guidance notes for SMEs rather than additional sector-specific standards designed for SMEs.

50. Option 3 received the highest approval with the main supporting arguments below:

- Sustainability issues depend strongly on the specificity of the sector to which the company belongs. While ESRS are broadly formulated, there is a need for further standardization,

mainly regarding models, methodologies, and standards to quantify sustainability information.

- This approach supports the goal of enhancing sustainability reporting practices among SMEs without imposing undue burdens, as sector-specific standards help companies to identify the environmental topics that are relevant – potentially replacing costly materiality analyses.
- Sectoral standards need to be tailored for non-listed SMEs due to the fact that they are significantly different from LSMEs.

51. Option 4 received the second most approval with main supporting arguments:

- It will provide SMEs with a comprehensive overview of major relevant issues within their sector(s), enabling them to transition to a more targeted approach, addressing the core IROs specific to their sector(s) rather than generic ones.
- The sector guidance will not only give information on material topics but also on specific disclosures. Without guidance it will remain difficult for SMEs to complete these disclosures.
- The more guidance provided, the more comparable the information given.
- Respondents of all four options made clear that it is difficult to give an answer to this question until there is clarity on the sector-specific ESRS standards and how they will be structured.

Key insights (by type of respondent):

52. PREPARER respondents had the following concerns and suggestions:

- Majority selected option 3 with the following arguments:
 - Simplicity for non-listed SMEs needed.
 - This option allows a voluntary adoption based on relevance and readiness while promoting alignment with broader reporting framework.
 - Other request for a common LSME-VSME guidance based voluntary sector-disclosing approach. The main argument provided is that providing a guidance that is the same for both listed and non-listed undertakings could facilitate comparability.

53. USER respondents had the following concerns and suggestions:

- Majority selected option 3 with the following arguments:
 - Non-listed SMEs should have separate and simple guidance compared to those being listed.
 - Guidelines must be consistent with other international financial and sustainability standards
 - Banking representatives emphasize the importance of sector dimension for SMEs to be covered by specific guidance.

54. OTHER respondents had the following concerns and suggestions:

- The Standard Setters support the sector dimension. Some asking for a VSME specific non-authoritative guidelines; a smaller ratio demands for a common LSME-VSME approach. Specifically, a few standard setters call for practical support from EFRAG, one highlighting the need for concise implementation guidance (less than 5-page format) outlining material sustainability issues per sector. Another Standard Setter proposes to eliminate paragraph 11 and notes SMEs need sector-specific guidance. Moreover, a standard setter suggests that if EFRAG decides to develop a sectorial ESRS adapted to SME (listed and non-listed), it would be convenient to delete all reference to sector in the VSME. Lastly, a standard setter suggests that if the reporting entity use “subject specific” disclosure covered by the disclosure requirements in a disclosure requirement in the BP-module, then everything within the chosen BP-DR’s must be disclosed unless immaterial.
- NGOs Support for sector dimension. Majority supports option 3. Few NGO respondents mention that sector specific sustainability matters stem from the characteristics of the sector in question and not the size of the business and hence there is no need to develop SME specific sector guidelines as the sustainability matters remain largely the same.
- Accountants have split views with some choosing option 3, others option 4. In general, accountants mention that EFRAG should adopt the option that is least burdensome for non-listed SMEs. Few respondents suggest prioritising those sectors that are being identified as being at highest risk.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Split views as some of the respondents in this category wanted EFRAG to provide guidelines for non-listed SMEs, whereas others explained that such guidelines are not necessary as SMEs know best which data are requested. Sectoral specifications might create confusion for companies (ESRS SEC 1 sector classification is already problematic).

Users: Same result as stated above. Those in favour of guidelines explained that SMEs could benefit from voluntary sector information. EFRAG should ensure that the relevant sector information requirements reflect the size and complexity of the SMEs and are able to be incorporated in the VSME-disclosures. Those who do not want guidelines explained that it is quite complex to create sector guidance that considers the diversity of sectors across member states.

Part 2

Question 8

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

- Complying with this Standard (paragraphs 9 and 10 in VSME ED)
- Preparation on a consolidated basis (paragraph 12 in VSME ED)
- Timing and location of the Sustainability Report (paragraphs 13, 14 and 15 in VSME ED)
- Classified and sensitive information, and information on intellectual property, know-how or results of innovation (paragraph 16 in VSME ED)

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

55. In **Question 8** of **Part 2**, **262 out of 311 (84%)** respondents answered the question.

Key Insights and Suggestions (Aggregate):

56. Most respondents agreed with Question 8 a, b, & d on question 8 c) the majority of respondents agreed.
57. On part 8 a) of the question, the majority of the respondents suggested:
 - Adding positive impact aspects (as currently the only focus is on negative impact)
 - Clarity on context when 'comparable' is used.
58. On part 8b), most users supported the flexibility provided to Preparers to choose whether to report on consolidated basis or to exclude subsidiaries.
59. On part 8c), those disagreeing requested greater reporting flexibility (European SME association), specifically mentioning the possibility of updating singular pieces of information, when they change (not annual frequency).

Key Insights (by type of respondent):

60. PREPARER respondents had the following concerns and suggestions:
- A majority of preparers agrees with all four sub principles of Q8.
 - Most preparers agree with the alignment of sustainability report timing and location in line with financial reporting.
 - Some preparers suggested to have an equal focus on positive and negative impacts.
 - Very few preparers suggested that due to the size of the SMEs, the recommendation of a consolidated sustainability will probably not be taken up by many SMEs.
 - Some preparers argue that an annual basis timing is excessive and complex for SMEs.
61. USER respondents had the following concerns and suggestions:
- The majority of users agrees with all four sub principles of Q8.
 - A few respondents mentioned that the management report is not always publicly available for SMEs so more flexibility should be added.
 - One respondent (European banking association) suggested to avoid the focus on negative impacts in paragraph 9 as it might dissuade companies from reporting altogether.
62. OTHER respondents had the following concerns and suggestions:
- The majority of 'Other' respondents agree with all four sub principles of Q8. However, it must be noted that this category has the highest number of disagreeing respondents.
 - Some of Other respondents, mentioned that publishing yearly sustainability report is too complex for SMEs and that more flexibility should be given.
 - Some Standard setters and Accountants also suggested to include the positive impacts.
 - A Standard Setter suggested to have additional details in the reporting scope of the sustainability information.
 - Few Standard Setters asked for further guidance on the understanding of the "consolidated basis".
 - Some NGO respondents suggest deleting the reference to external documents as it reduces information comparability.
 - Few accountant respondents suggested to further simplify the language of the principles.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Preparers overall do not disagree with the 4 sub questions but highlight areas that in their perspective should be addressed. Question 8c is where SME associations demand the most change.

- 8a) Complying with the standard - SME associations regard as important giving the possibility to SMEs to report the positive impacts that they are having. Associations also suggest specifying what 'comparable' means (paragraph 10).
- 8b) Consolidated basis - most SME associations (national and European) do not support consolidated reporting practices, asking to leave a free choice to SMEs reporting.
- 8c) Timing and location - most ask to give more flexibility in the frequency of the reporting, allowing SMEs to decide when to report/ when changes actually occur and/ be able to report for longer periods of time.
- 8d) Sensitive information - some ask for more flexibility with sensitive information can be omitted.

Users: The User associations generally support/agree with the sustainability reporting principles but highlight several concerns. Specifically, for 8a) a European banking association suggests reporting the positive impacts in addition to negative ones. Another European banking association suggests avoiding the wording such as negative/ positive entirely, as the standard is voluntary. Similarly to Preparers, Users also demand clarification on the word 'comparable'.

Question 9

Additional question on Complying with this Standard (for Preparers and Users Only). Undertakings should indicate which modules or which combination of modules they expect to use. This question aims at better understanding the market acceptance as a fundamental aspect of the standard on the two different sides of users and preparers (please refer to BC5 in Annex 2 Basis for conclusions for VSME ED). In this context, how do you anticipate to make use of the modular approach [Multiple selections possible]:

- Basic Module
- Basic Module + Narrative Module
- Basic Module + Business Partners Module
- All 3 Module

63. In **Question 9** of **Part 2**, **145 out of 165 (87%)** respondents answered the question.

Key Insights (aggregate):

64. Only few respondents supported the combination Basic Module+ PAT Module. Some indicated preference for Basic only, some for Basic +BP and some for all 3 modules. Respondents who preferred the 3 modules argued it is for better transparency and accountability. Many respondents also argued that Basic Module is not sufficient as users of the sustainability reports require more information than contained in the Basic Module.
65. However, most of the respondents agree with a phased approach. The respondents noted that the Basic Module is a good starting point as entry level reporting for SMEs considering their size and resources. In this regard, most respondents suggest a gradual approach to include all three modules in the reports to avoid unmanageable pressure on preparers in the beginning.

Key insights (by type of respondent):

66. PREPARER respondents had the following concerns and suggestions:

- Preparers had a relatively higher preference for either 'all 3 modules' (some) or 'Basic module'. "Basic + Narrative" was the least chosen option by preparers.
 - Some preparers outline that users already ask information that is from both the Basic and BP Module.
 - Some preparers outline that they do not have formalised PAT in place, as such they would not complete it.
67. USER respondents had the following concerns and suggestions:
- Users indicated a clear preference for Basic Module + Business Partners. Those who selected All 3 Modules argued that some disclosures from the Narrative Module could be included in the Basic Module. Few users mentioned that there is no widely accepted answer as there is no experience when applying the ESRS, however, there is an indication that a combination of BM and BP Modules should be the prevalent option.
 - Majority of User respondents mention that the Narrative module information is too difficult to process as such it would be of secondary or contextual relevance.
68. In this question, the green box does not appear as the question was only addressed for preparers and users. As such, 'Other' respondents (including associations representing preparers and users) did not answer the question.

Question 10

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?

69. In **Question 10 of Part 2, 251 out of 311 (91%)** respondents answered the question.

Key Insights (aggregate):

70. Most of the respondents agreed with Question 10 and noted that it is easy and aligned with ESRS. Respondents in 'Others' category also mentioned repeatedly that value chain inclusion is an important aspect.
71. Some respondents asked for more guidance and many others appreciated the flexibility that consolidation is not mandatory.
72. A few disagreeing respondents mentioned that it is complex to include subsidiaries.
73. Minority disagreement from respondents across all categories reflects concerns about the practical challenges of collecting accurate subsidiary data and potential issues with approximations in consolidated statements.

Key insights (by type of respondent):

74. PREPARER respondents had the following concerns and suggestions:
- Most preparers highlighted that consolidated statements give a better view.
 - Very few respondents mention that individual statements are more useful, and that consolidation is too complex.
75. USER respondents had the following concerns and suggestions:

- Most users agree with this recommendation as it is coherent with the bank approach to examine financial data.
- Few user respondents suggest allowing reporting companies to decide for themselves which format is most effective based on their business model.

76. OTHER respondents had the following concerns and suggestions:

- Most Standard Setters support this approach as it provides more useful information.
- Most NGOs support the preparation on a consolidated basis as they give a better view of reporting and are easier.
- Most accountants support this approach on the basis that it provides relevant information and can reduce the administrative burden on SMEs.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Support consolidated reporting but highlight challenges in accessing certain data which could lead to approximations. One association mentions that SMEs are unlikely to be parent companies of smaller enterprises, making it challenging for them to gather additional information from such entities. Another association mentions that including SMEs with a different business and smaller operations might entail unproportionate burdens for subsidiaries. Lastly, they emphasise that VSME is voluntary and administrative burden on SMEs should be monitored.

Users: The view that consolidated reporting should mirror financial reporting standards is noted, although not applicable in some cases. There is a call to minimize burdens on SMEs, considering their diverse and sometimes irrelevant activities that are not typically consolidated for financial purposes. Transparency regarding which entities are included in the reporting is emphasised as crucial.

Question 11

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?

77. In **Question 11 of Part 2, 228 out of 311 (73%)** respondents answered the question.

Key Insights (aggregate):

78. Most respondents across all types of categories agreed with the exemption.
79. Many respondents argued that a formal subsidiary exemption is unnecessary within the voluntary VSME ED standard, as companies already have the autonomy to determine their reporting methods. Since there is no legislative requirement for subsidiaries to prepare individual sustainability reports, formalizing an exemption could be redundant. They suggest the VSME should provide SMEs the choice to opt for consolidated sustainability reporting with their parent company or to maintain separate reporting, ensuring flexibility and alignment with business needs.

Key insights (by type of respondent):

80. PREPARER respondents had the following concerns and suggestions:

- Most of respondents agreed that the exemption is relevant if reporting is organized at group level. Few respondents mentioned that there is no need for an exemption as VSME is a voluntary standard.
81. USER respondents had the following concerns and suggestions:
- Most users agreed with the inclusion of a subsidiary exemption. However, few respondents suggested that exemptions should not apply to a voluntary standard and as such the term exemption should be replaced by “option”.
82. OTHER respondents had the following concerns and suggestions:
- Most Standard setters agreed with the explicit inclusion of subsidiary exemption as it represents an opportunity to reduce burden for SMEs. Few respondents suggest guidance/clarifications on how it would work out in practice.
 - Most NGO respondents agree with the subsidiary exemption.
 - Most accountants agree since it serves as an incentive to consolidated reporting. One association of accountants suggests that there is no need for the VSME to specify a subsidiary exemption where no current legislative requirement exists for subsidiaries to prepare individual sustainability reports.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Emphasize that since SMEs use the VSME voluntarily and are not legally required to comply with CSRD provisions, specifying a subsidiary exemption is unnecessary. They argue that the decision to apply consolidated sustainability reporting should be left to SMEs, with the VSME ED referencing this discretion and ensuring business partners respect it. Overall, they recommend leaving the choice to the SMEs themselves, as there are no obligations for them under the CSRD.

Users: Split views. Some agree with the inclusion of the subsidiary exemption other instead believe that an exemption from a voluntary standard is unnecessary and emphasize that SMEs should be relieved of additional burdens. They expect SMEs to report on a stand-alone basis with the option to include subsidiaries if relevant, reinforcing that no subsidiary exemption is needed due to the voluntary nature of the reporting.

Question 12

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?

83. In **Question 12 of Part 2, 259 out of 311 (83%)** respondents answered the question.

Key Insights (aggregate):

84. A majority of respondents agree to the addition of sector specific information as it enhances relevance, comparability, and verifiability of sustainability report and aids stakeholders in understanding sectoral impacts.

85. Stakeholders from various categories highlight that sector-specific disclosures are intricate and diverse, posing challenges for comparability among enterprises in different sectors. They state that the lack of standardized guidelines for gathering and disclosing sector-specific data could lead to inconsistencies in sustainability reporting, making it challenging for stakeholders to assess and compare performances effectively.
86. All categories of respondents stress the importance of maintaining simplicity to encourage widespread SME participation, suggesting that any additional disclosures should be carefully justified and optional to avoid overwhelming smaller entities with unnecessary reporting obligations.
87. Few respondents suggest integrating sector-specific guidelines into the Business Partner module to enhance clarity and alignment with sectoral practices.

Key insights (by type of respondent):

88. PREPARER respondents had the following concerns and suggestions:
 - Most respondents agreed that the involvement of sectors in metrics and EU reporting, facilitates comparison, faithful information, differentiation in ESG reporting, sector tailoring, transparency.
 - Respondents that disagreed pointed out that it will increase the burden of SMEs as there is a lack of guidance
89. USER respondents had the following concerns and suggestions:
 - Most users agreed with this question on the basis that standardization is necessary and on the fact that it allows for comparability and metrics that can be verified.
 - Only one banking association disagreed stating that the standard should stay simple and be the entry-level for SMEs who approach reporting.
90. OTHER respondents had the following concerns and suggestions:
 - The majority of standard setters agreed and refers to the explanation given for Q7. One standard setter suggests better clarification of the wording in paragraph 11.
 - The majority of NGO respondents agreed with the inclusion of this paragraph as paragraph 11 highlights the importance of sector-specific disclosures.
 - The majority of accountants agreed with the inclusion of paragraph 11. Two associations representing accountants suggest that EFRAG could build sector specific disclosures into the BP Module as a matter of priority.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Majority support the inclusion of sector-specific disclosures in the VSME framework. Emphasis is placed on defining 'common to the undertaking's sector' clearly to avoid imposing excessive reporting obligations on SMEs compared to larger firms. There is consensus on the need for sectoral standards that are practical and proportionate for SMEs, allowing flexibility where possible. Moreover, stakeholders advocate for clearer language in the standards to assist SMEs in identifying required additional data and in enhancing reporting on a voluntary basis.

Users: There is agreement on voluntary provision of sectoral information by SMEs, although concerns persist regarding SMEs' access to certain data, potentially leading to approximations.

Question 13

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).

91. In question 13 of Part 2, between 194 and 236 out of 311 (69% on average) respondents answered the question. This variation comes from the fact that the number of respondents varies in each of the disclosures.

Key Insights (aggregate):

92. On the preparers' side B1, B8 and B9 were considered feasible by most respondents, while B2, B4, B5, B6, B7 and B12 were considered feasible by a majority, B11 was considered not feasible by the majority and on B3 there were split views with half considering it feasible and half not. The percentage of already reported disclosures reported under existing schemes (EMAS) varied between 8% - 15% among all the disclosures.
93. On the users side all disclosures from B1 to B10 as well as B12 were considered essential by most of the respondents. B11 was considered essential only by a majority with significant support drop.
94. Some users proposed specific changes to each disclosure to enhance the usability and transparency of sustainability reporting for SMEs. This is further elaborated below.
95. Respondents across all categories highlighted the difficulty in B11, as they indicated the difficulty in understanding the disclosure, considering it to be too complex for SMEs, and request additional guidance. B11 presents a questionable cost-benefit balance, as it is the least essential disclosure for Users, while a majority of Preparers considered B11 as difficult to prepare
96. Users consider the disclosure B3 to be the most essential, while the preparers rated it among the most difficulty to prepare, citing challenges related to data availability and/or collection (e.g., value chain tracking & ease of collection), difficulty in calculation and requiring the need for external support and additional guidance.
97. A majority of respondents requested additional guidance with respect to the calculations, terminology/ simple language, clarity all being disclosure-specific in order to avoid the need for extra burden and to maintain transparent ESG reporting.

Key insights (by type of respondent):

98. **PREPARER** respondents had the following concerns and suggestions for each disclosure:

- **B1:** Most respondents found the disclosure feasible and straight forward.
- **B2:** Feasible for most respondents. Suggestion to include philanthropic activities within this disclosure by a European SME association. Some respondents mentioned that they would benefit from additional guidance to explain the relevant practices.
- **B3:** Split views. There is a strong need for additional guidance (e. g. on emission factors, examples) and/or external support due to the lack of competencies. The majority of respondents mentioned difficulties in data collection and carbon footprint calculation and highlighted that in many cases there is a need for external support. In particular, an overall agreement emerges on the need to facilitate the disclosing of GHG emissions. As such, a majority of respondents advocated for an online calculation tool. One European SME association suggests adding building energy performance certificates and/or vehicle emission standard. Some respondents mention that with additional guidance the disclosure would become feasible.
- **B4:** SMEs: Split views on difficulty, slight majority finds it feasible. Request to add the list of all pollutants within the text of VSME. The most comments appearing are the fact that this disclosure is not always applicable for SME or relevant to them. Some respondents requested additional guidance in that matter as they face difficulties in assessing their pollution. Few respondents also share that this disclosure is already disclosed under other reporting schemes (EMAS, GRI) for some of them. Suggestion by few European or national organizations (as proxy for SMEs) to make the second part of the requirement in paragraph 26 ("or that it already reports according to an Environmental Management System such as Eco-Management and Audit Scheme (EMAS)") a "may" disclosure, to be consistent with ESRS E2 (only focuses on information the undertaking is already required to report under existing legislation, not focusing on voluntary schemes).
- **B5:** Perceived as feasible by the majority of preparers. Difficult for medium sized SMEs, much less for micro and small SMEs. This may be because B5 may not be applicable for many smaller preparers. Overall request to increase clarity on guidance. Request to better define the term "near". One national SME association suggests replacing it with geolocation (postcode).
- **B6:** Perceived as feasible by the majority of preparers. Most respondents asked for clarification of terms and definition (withdrawal, consumption, collected rainwater). One national SME association suggests water stress to be determined via online map automatically and consider the disclosure to apply only for certain sectors (agriculture). Additional issue brought up by the increase in requests linked to determining water usage for shared working spaces (such as offices).
- **B7:** Slight majority view this disclosure as feasible. However, some respondents mentioned difficulties related to the calculation of waste (including time requirements) along with certain challenges related to data availability. Some respondents suggested to replace this disclosure with a drop-down menu. Request by some respondents to clarify that it is not applicable to distributors and to clarify hazardous waste.

- **B8:** Overall perceived as feasible by most respondents. In addition, some respondents suggested clarifying disclosure requirements for self-employed and agency workers, as well as for cross-border placements of employees and interns. Some respondents requested to clarify the basis of the country breakdown (i.e., residence, tax residence, origin). Some respondents also mentioned that this data is already disclosed under existing reporting schemes as such easy to report on.
- **B9:** Deemed as feasible by most respondents. Several requests to have a clear definition of what a work accident entails.
- **B10:** Majority of respondents deemed this disclosure feasible. Some respondents requested further clarifications on the following: how to apply as entry level can be different for different categories of employees, training, adjusted vs unadjusted pay gap. Few respondents also highlighted that tracking trainings may be complicated.
- **B11:** Deemed as the most difficult disclosure by the majority of respondents. Respondents mentioned that it is a challenging disclosure for SMEs which have a limited view on the value chain and that it is difficult to consider which affected stakeholders to consider. In addition, the majority of respondents mentioned that additional guidance is required being the only disclosure that does not have guidance in the Basic Module. It is noted that it should be moved to the PAT module by preparers and business organisations. Some respondents suggest deleting it. Lastly, few respondents request to include positive impacts.
- **B12:** Feasible for majority of respondents. Some respondents pointed to confidentiality issues for B12 although data is easy to calculate and already collected. Split views on whether to delete it or not – despite it not being complicated to collect.

99. **USER** respondents had the following concerns and suggestions for each disclosure:

- **B1:** Deemed as essential for most users. Banks/investors suggested adding NACE sector classification code, size balance sheet, turnover, country of primary operations, location(s) of significant assets, ESG labels or certificates if any. Large undertakings also suggested to add the company's sector(s), turnover (range) and location(s).
- **B2:** Essential for most user respondents. Suggestion by two banking associations to include also formalised policies implemented or future and any initiatives to either reduce emissions or measures to improve energy efficiency. Large undertakings suggested more clarity regarding what is meant by “practices for transitioning” and to have additional indicative elements to be introduced in the guidance. Lastly, one European Standardisation Organisation placed emphasis on excluding philanthropic actions from this disclosure.
- **B3:** All user respondents deem this disclosure to be essential. Suggestion from two banking associations to add i) total consumption not only electricity bills, energy from renewable and energy from non-renewable sources. ii) building energy performance certificates as required under Pillar 3. Few respondents suggested to delete the introductory paragraph as deemed unnecessary. One banking association suggested including scope 3 emissions (which should be disclosed in CO2 equivalent absolute and intensity metrics). Majority of users mention that it would be beneficial for SMEs to have a free online calculation tool that would enable the automatic calculation of GHG emissions. Large undertakings suggest allowing SMEs to make use of average estimates and to have more guidance/ tools/

examples. Lastly, the Sustainable Finance Platform suggested to add a paragraph in case the undertaking's activity is related to energy production, it should disclose the amount of energy production (split between renewable and non-renewable).

- **B4:** Essential for most users. Suggestion to first require disclosure on whether SMEs already report this data (according to law, EMAS, etc.), and only if the answer is positive will the undertaking be required to disclose the metrics. Suggestion by one banking association to limit the disclosure to indicate measures of company emissions relating to environmental pollution other than climate-altering gases (not for micro undertakings). In addition, the disclosure is deemed to be essential for large undertakings, with the suggestion to provide a full list of pollutants to avoid referencing to other documents.
- **B5:** Deemed essential for most users. However, suggestion by one banking association to limit it to: i) Percentage of land owned, leased and/or managed within legally protected and internationally recognized areas (...); ii) Percentage of marine area owned, leased and/or managed within legally protected or internationally recognized areas. Another banking association suggested a reformulation of the disclosure. Both users (banks/investors and large corporates) suggested to clarify the concept of "near". Lastly, the Sustainable Finance platform suggested to make paragraph 29 applicable depending on the location and size of the undertaking and align the text with SFDR PAI 7 wording (activities negatively affecting biodiversity sensitive areas).
- **B6:** This disclosure is deemed essential for most users. Request by one banking association to replace the current metrics (water withdrawal, including from high-water stress areas; water consumption, if applicable) with the indicator of water intensity on all. One banking association suggests using the same units as in the ESRS (m3). Request to develop (or include a link to) a tool with disclosure thresholds for water consumption in m3), which, if surpassed, triggers reporting. Some large undertakings had comments concerning the fact that this datapoint is relevant only for certain sectors. In addition, few large undertakings highlighted the difficulty of determining when a company is in sites of water stress. On this disclosure, the Sustainable Finance Platform suggests that on the guidance of the WRI Aqueduct Water Risk Atlas, the threshold to be considered should be further specified.
- **B7:** Essential for most users. One banking associations suggested amending point d) as a 'may' disclosure. Another national banking association suggested adding within this disclosure radioactive waste (BP6). Another user suggested to have as a voluntary disclosure the share of revenues generated by circular economy. In general, some users pointed out that this data is already being collected. Most large undertakings also deem this disclosure essential but advocate for further guidance. The Platform of Sustainable finance suggests for paragraph 33 c) to have units of weight and not volume for consistency reasons with SFDR.
- **B8:** Deemed essential by most users. One national banking association suggested to add the following datapoints: i) incidence of non-employee personnel (work-supply contracts) on the total number of employees, ii) incidence of female staff in managerial roles and iii) Incidence of female staff hires on total hires. Another banking association suggested a reformulation of the disclosure with additional datapoints: i) Composition of staff by type of contract (permanent, fixed term) and gender, ii) Distribution of employees by country, iii) Staff with other types of contracts (contracted and other), iv) Staff in managerial roles, v) Number of employee hires by gender, vi) Number of employees promoted by gender,

viii) Number of deceased employees. In addition, the same banking association pointed out that there should be a clarification if the employee statistics refer to the year average or point in time. Another banking association suggested that it could be also relevant to have information on the total number of employees who have left the company during the reference period and the turnover rate of employees. Moreover, where appropriate, the provision of contextual information could also be necessary to understand the data (for example, fluctuations in the number of employees during the reference period). Concerning large undertakings, the disclosure is deemed essential for most. Few large undertakings suggested to specify whether 34 c) refers to the origin of employees and clarification on how to proceed in the case of cross-border employees.

- **B9:** Essential for most users. Proposed integration by one banking association: 1) Number of days lost due to injuries, accidents, fatal accidents or professional diseases 2) Number of cases related to discrimination with sanctions or definitive measures (to specify not ongoing lawsuits but definitive measures) 3) Compulsorily employed staff (for protected categories). Most large undertakings deem this disclosure essential, but some respondents highlighted the necessity to clarify which cases of accidents at work are considered in this case.
- **B10:** Deemed as essential for majority of users. Two banking associations suggest reformulating the disclosure in this format: i) Pay gap (men's pay - women's pay/men's pay) by classification: executives, managers and employees, ii) Is structured training provided? Of which mandatory? iii) Average number of training hours per employee and by gender and iv) Training on issues related to sustainability. Two other banking associations have editorial comments concerning the clarity of the disclosure. One banking association also suggests that companies could also voluntarily disclose the equal pay gap. Lastly, the Sustainable finance platform suggests dropping the limitation to report point b) only from 150 employees onwards (limitation not included in the matching SFDR PAI 12). Large undertakings request further clarity and one specific request to delete the disclosure on minimum wages (paragraph 36a).
- **B11:** Deemed as essential by a slight majority of user respondents. It is worth mentioning that this disclosure is the one with the lowest support from the users' side. Two banking associations suggested deleting it. One banking association suggested to rephrase the disclosure from an editorial point of view to increase clarity.
- **B12:** Deemed essential by most user respondents. However, one banking association proposes to reformulate it as follows: whether the undertaking has implemented a charter/code of conduct for its employees and if applicable which topics are covered (corruption, fraud, anti-competitive practices, human rights, labour code provisions, tax transparency) and what measures have been put in place; what verification/internal control processes are in place to ensure compliance with the code of ethics/charter. Another banking association suggests limiting the information as follows: i) Adoption (or not) of active and passive anti-corruption policies, ii) Number of convictions and number of fines imposed for violations of the laws against active and passive corruption, iii) Is there a system in the company to report violations of laws or regulations, crimes and cases of corruption or fraud. Lastly, most large undertakings deemed this disclosure essential, however, few respondents highlighted the presence of confidentiality issues and one association representing large corporates suggested to delete it.

100. **OTHER** respondents had the following concerns and suggestions for each disclosure:

B1:

- Some NGOs asked for structural changes as described in question 2.
- Some Standard Setters asked to add NACE sector classification code, size balance sheet, turnover, country of primary operations as required under EMAS.
- Few accountants suggested switching the order of option B and C. In general, accountants also suggested to improve the navigability of the standard.

B2:

- Some NGOs suggested that if the structure is changed as mentioned by the NGOs, B2 would need to be reassessed. Integrate B2 into paragraph 19 to allow undertakings to complement metrics with additional qualitative and/ or quantitative information.
- Some standard setters suggested providing a reformulation of the content of B2 into a Yes/No approach.
- Few accountant respondents asked to include philanthropic activities.

B3:

- Few NGOs suggested to include scope 3 in B3. In general, most NGOs support this disclosure.
- Some standard suggested to allow to use market-based information and estimates and require building energy performance certificates as this information is required under pillar 3. One standard setter suggests the deletion of introductory paragraphs. Another standard setter suggests adding the level of energy efficiency of collateral (energy performance score in KWh/m²) on the basis that it is a Pillar 3 requirement.
- Majority of accountants suggested providing additional guidance on the disclosure, in particular some specifically required guidance on how to manage shared office spaces/co-working facilities.

B4:

- Majority of other respondents (NGOs, Accountants and Standard Setters) deemed the disclosure essential. Some advocated for additional guidance. In particular, some standard setters suggested to provide examples of the pollutant types addressed in the EPRTR. One standard setter suggested to do not include URL kinks or hyperlinks as the source might change. Some respondents across all categories suggested to clarify the “if applicable concept”.

B5:

- The majority of NGOs supported the disclosure without specific comments.
- Some standard setters requested additional guidance on biodiversity sensitive areas. One Standard setter recommended that optional land-use metrics apply to high biodiversity impact sectors identified by the TNFD.

VSME: Detailed feedback report of Online Survey responses (D2)

- Some accountants suggested that the language of this metric should be further simplified and better defined as for now this disclosure is too difficult to prepare.

B6:

- The majority of NGOs supported the disclosure.
- One standard setter mentioned that it should be recommended that water consumption applies only to high water impact sectors. Another instead mentioned that it should be reported by all undertakings regardless of their activity. Moreover, another standard setter suggested using the term "water use" instead of "water withdrawal" (aligned with Water Framework Directive (Directive 2000/60/EC)) and not to require the disclosure of "water consumption", as water consumption data is scarce. Lastly, one standard setter points out the need to clarify the "if applicable" within these paragraphs and to clarify that the DR is needed only for own operations.
- Majority of accountants advocated for additional guidance.

B7:

- The majority of NGOs supported the disclosure.
- Suggestions from standard setters included: i) create closer links with existing frameworks and legislation. ii) Create a quantifiable list of material flows (key materials used, broken down by type of material – no descriptive provision. iii) Make paragraph 33 (a & b) applicable for certain undertakings only. iv) Move BP6 into B7. In general, consensus for additional clarity in the disclosure.

B8:

- Some NGOs suggested to incorporate additional indicators related to equal treatment and antidiscrimination within VSME. SMEs should also report on the existence of inclusiveness policies and social identities are covered by the policy. Suggestion by one NGO to have additional contract types should be included in B8, i.e. part-time.
- Standard Setters: Essential. Suggestion from minority to: omit the FTE option paragraph 34. In addition, suggestion to provide information on non-contract workers as well.
- No major comments from accountants on this disclosure.

B9:

- Most NGOs deemed the disclosure essential.
- Standard Setters: Suggestion to add the number of days of work lost to paragraph 35 b. One respondent suggested using the new proposed SFDR formula for the rate of recordable work-related accident calculation.
- Accountants: Suggestion to extend metric to cover self-employed or agency works over whom the SMEs has a similar level of control.

B10:

- NGOs: One respondent stated that, since some EU countries use collective bargaining instead of statutory minimum wage laws, the term "minimum wage" should not be used as a benchmark parameter and should be clarified.

VSME: Detailed feedback report of Online Survey responses (D2)

- Standard Setters: Several suggestions from this category: i) Replace the 150-employee threshold in point 36 b. with 50 employees. ii) Move 36(c) – collective bargaining to the Narrative-PAT module. iii) Minimum wage (paragraph 36a) not useful as companies have to abide to it – 2 standard setters asked to remove it. iv) Suggestion to add a new metric by one standard setter: does the SME provide pension or health/ social benefits to all/ or a group of its employees? Lastly one standard setter suggested to move paragraph 36b to the BP Module.
- Accountants: Majority advocates for additional guidance. One respondent argues that disclosing of employee information of micro undertakings, could effectively lead to publishing personal information of employees, these issues might also impact B8 and B9. Suggestions included i) to extend metric to cover self-employed or agency works over whom the SMEs has a similar level of control ii) Consider adding disclosures of the existence of apprenticeships iii) clarify aspects guidelines for minimum wage calculations.

B11:

- NGOs: perceived as essential and requested to keep it as obligatory or at least voluntary. Additional requirement to separate value chain workers, communities and consumer metrics and specify severity of negative impacts for each sub-category. Majority of respondents advocated for additional guidance.
- Standard Setters: majority of respondents concluded that it was essential whilst recognising that it was complex to prepare without further guidance. One standard setter proposes to delete this disclosure for Basic Module and consolidate B11 with BP 7 and BP 8 and move them to the PAT Module. Two standard setters suggest that positive impacts should also be included. Consensus on the need of further guidance across all groups.
- Accountants: Majority suggests that additional guidance should be provided. One accounting association suggests making this a mandatory disclosure.

B12:

- NGOs: Suggestion: Link B12 to governance and make SMEs disclose their legal form. Additional suggestion: add other types of litigations including competition and harassment.
- Standard Setters: No major comments. Only one Standard setter suggesting that omissions should present explanations.
- Accountants: no major comments from this group.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Respondents are supportive of the disclosures concept but not in the form currently presented in the ED. Their primary concern is that SMEs should be able to adopt the standard without excessive burden and to avoid external support. To achieve this, the language and content need to be simplified / revised in terms of clarity and requested additional guidance, tools, and templates.

Users: All respondents agreed that the disclosures are essential as required under SFDR as they provide a solid foundation for SMEs' sustainability reporting. Many suggested certain changes / revisions with respect to each disclosure, some mentioned that simplifying the language, particularly in definitions, along with offering detailed guidance, would be beneficial.

Question 14

FOR USERS ONLY: Is there any datapoint(s) missing from this module that you consider as essential to meet your information needs?

101. In **Question 14** of Part 2, **37 out of 39 (95%)** users answered the question.

Key Insights (aggregate-ONLY USERS):

102. This question was only applicable to the Users and hence has lower number of respondents. Only few respondents provided comments for this question.

103. Split views emerged with about half of respondents indicating that no datapoints are missing and the other half indicating that there are datapoints missing that are considered important.

104. One national banking association suggested the addition of the following datapoints:

- a. other datapoints in B1: i) Information on the nation collective agreement adopted (sector to which it belongs) ii) Does the company have sustainability certifications? If yes, indicate which ones and the expiry date iii) Does the company have an external Climate & Environmental rating? If yes, specify the organisation who assigned the rating, the rating obtained, and the rating scale adopted.
- b. other datapoints in B3: a) reference to utilities bills, as a possible source for finding information relating to: Total energy consumption (not only electricity) indicated with separate evidence of: energy from renewable sources; energy from non-renewable sources (i.e. without certificate of origin and with certificate of origin) b) Energy efficiency level (energy performance score in kWh/m² of properties both given and not given under guarantee)
- c. other datapoints in B7: "radioactive waste"
- d. other datapoints in B8: i) incidence of non-employee personnel (work-supply contracts) on the total number of employees, ii) incidence of female staff in managerial roles, iii) Incidence of female staff hires on total hires.
- e. other datapoints in B9: i) Number of days lost due to injuries, accidents, fatal accidents or professional diseases, ii) Number of cases related to discrimination (e.g. sexual and non-sexual harassment, discrimination on the basis of gender, racial or ethnic origin, nationality, religion or belief, disability, age or sexual orientation) with sanctions or definitive measures (not ongoing lawsuits but definitive measures) iii) Compulsorily employed staff (for protected categories)
- f. other datapoints in B10: i) percentage of the pay gap (men's pay - women's pay/men's pay) by level: managers, employees and work.

105. Two national banking associations advocated for some Business Partner disclosures (e. g. revenues from certain sectors, data on physical risks or data on transition plans / reduction of GHG-emissions) to be inserted into the Basic Module. Other users also share the same view.

106. One national banking federation suggested to include the following datapoints on governance in the Basic Module:

- The percentage of employees and managers that have received training on ESG issues over the last 3 years.
- The number of employees dedicated to ESG topics (expressed in full-time equivalent).

107. One investor respondent suggested to have the following additional datapoints:

- Policy and initiatives towards diversity and inclusion (qualitative information)
 - Responsible procurement policy if any and initiatives/actions undertaken by the SME to include ESG in the selection and/or assessment of suppliers
 - ESG label or certification obtained by the undertaking if applicable
 - A disclosure on "Workforce - Employee well-being and engagement" that includes a) Its Policy and initiatives towards work-life balance (qualitative information) b) Whether it conducts/issues an employee feedback survey to assess employee engagement and/or job satisfaction c) Absenteeism rate
108. One large undertaking user association suggested to include information on human rights as it relates to "third country" subsidiaries even if there are controversial views, that this issue may less a subject for additional external reporting requirements but for (internal) management and compliance tools (code of conduct).

Question 15

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?

109. In **Question 15 of Part 2, 236 out of 311 (76%)** respondents answered the question.

Key Insights (aggregate):

110. A slight majority of respondents agree with the proposal. They noted that SMEs already using EMAS should benefit from streamlined alignment with VSME ED. A single European standard for reporting is considered helpful: reducing workload and enhancing data comparability. Harmonization with recognized standards like GRI, IFRS, and CDP is seen as beneficial.
111. Some respondents across all categories highlight that EMAS is too complex, costly, and burdensome for SMEs, making it rarely used and not well-suited to the needs and capacities of the SMEs. They suggest that simpler, more aligned standards such as ESRS or ISO 14001 should be preferred, as these are more feasible and relevant for SMEs.
112. There is a consensus that VSME should focus on minimal, essential reporting requirements to encourage voluntary adoption by SMEs without overburdening them with complex metrics or additional frameworks like EMAS.
113. Some respondents were not familiar with EMAS.

Key insights (by type of respondent):

114. PREPARER respondents had the following concerns and suggestions:
- Some of preparers strongly advocate aligning VSME's environmental metrics with EMAS to avoid duplicative reporting, praising EMAS for its rigorous validation and credibility. Increased alignment is seen as a way to reduce reporting burden and enhance comparability.
 - Some other preparers mention that EMAS, while potentially helpful in preparation, is often too complex and burdensome for SMEs, making it costly and rarely used.

115. USER respondents had the following concerns and suggestions:

- The majority of user respondents support aligning new sustainability reporting standards with existing frameworks like EMAS. They emphasize integration to minimize duplication and streamline reporting for EMAS-adherent SMEs. Harmonizing requirements across frameworks (e.g., EMAS, GRI) is also advocated to reduce complexity.

116. OTHER respondents had the following concerns and suggestions:

- Most standard setters agreed with this question as they encourage EFRAG to align with global reporting schemes and offer flexibility for non-listed SMEs. In addition, they mentioned the importance of aligning VSME metrics with EMAS to avoid duplication (which will allow to reduce administrative burden).
- Split views in the category others with only one comment mentioning that synergies across existing similar metrics should be made possible.
- A slight majority of accountants disagreed, saying that it could create an additional layer of complexity for SMEs. Few respondents also mentioned that they are not well-informed about other reporting schemes, so they urge that EFRAG to seek optimal alignment with other reporting schemes.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Generally do not support the proposal in Question 15. They find the EMAS tool too complex, costly, and burdensome for SMEs, with very few achieving EMAS registration due to its misalignment with their needs and capabilities. They suggest that while EMAS might help in preparing reports, it should not complicate the VSME process. Instead, simpler environmental management systems are recommended as being more suitable for SMEs.

Users: Also find EMAS too complex, costly, and burdensome for most SMEs, leading to its rare use and limited registration. They suggest that simpler methods like ISO 14001 could be more suitable for SMEs to monitor and manage their environmental impacts effectively.

Question 16

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?

117. In **Question 16 of Part 2, 209 out of 311 (81%)** respondents answered the question.

Key Insights (aggregate):

118. Most respondents agreed with the guidance provided under B9 regarding the number of fatalities resulting from work-related injuries and illnesses. They noted that the legislation already defines these terms, though definitions vary between countries, each conveying a similar meaning with minor differences and exceptions.
119. Some respondents expressed disagreement because they lacked detailed knowledge about the subject. They suggested that EFRAG should standardize the categories based on the most common practices across the EU. This approach would help create a more consistent framework that aligns with widely accepted norms and practices throughout the region.

Key insights (by type of respondent):

120. PREPARER respondents had the following concerns and suggestions:

- A majority of preparers indicated their agreement with guidance for B9, acknowledging that definitions of work-related fatalities vary across different countries. They noted that the guidance aligns with existing legislation in their respective countries, covering incidents arising from work activities or work travel and a few mentioned that it is covered under health and safety regulations as well. This infers, regardless of the differences in definitions and legislations across nations, the core principles of B9 are already incorporated into their legal frameworks, helping SMEs with transparency.
- A few of the preparers mentioned that their countries have different national legislation or definitions (example of Denmark or US).

121. USER respondents had the following concerns and suggestions:

- Majority of users respondents agreed with the question stating that the guidance is aligned with the existing legislation in their respective countries.
- A few of the respondents mentioned that their countries have different national legislation or definitions (example of UK).

122. OTHER respondents had the following concerns and suggestions:

- Split response across standard setters as those who disagreed mentioned that in their legislations is different. (e.g. in the Netherlands not when outside of the undertakings responsibility, in Norway and Denmark incidents that happen while traveling to and from work are not considered work-related fatalities, in Estonia regular commuting is excluded and in Japan no inclusion of work-related fatalities in ESG disclosure requirement for SMEs).
- Most NGOs and accountants agree with the question.

- Some of respondents from Austria agree with the guidance and mentioned that only fatalities as defined by national law should be reported.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Two European or National SME associations mentioned that work-related accidents vary by country, necessitating highly specific guidance in the VSME template to address potential discrepancies in reporting minor, non-profession-related incidents. Another SME association believes that including such data in the VSME is seen as having little value in assessing an enterprise's sustainability performance.

Users: One association agree that only fatalities as defined by national law should be reported.

Question 17

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/No/Please explain your answer)

123. In **Question 17 of Part 2, 233 out of 311 (75%)** respondents answered the question.

Key Insights (aggregate):

124. A majority of respondents agreed to the usefulness of the indicators however a significant minority of the respondents do not believe that this disclosure provides valuable information.
125. Other non-agreeing respondents mentioned the challenges of varying national legislation and definitions. Many respondents asked for simplification of terminology.
126. A few respondents mentioned that it is country dependent as nations have different national legislation and definitions and do not provide relevant and comparable.

Key insights (by type of respondent):

127. PREPARER respondents had the following concerns and suggestions:

- A majority of Preparer respondents agreed with the question mentioned that it is considered it helpful and a good benchmark as it is considered an important component of the staff package and motivation, which can be used for comparability and benchmark creation provided simplification of terminology for much better clarity.
- Some Preparer respondents disagreed, noting that the KPI was not particularly useful due to the difficulty in determining the ratio of entry-level to minimum remuneration and the gender pay gap. They highlighted the complexity arising from various fiscal approaches and differing national legislation and definitions.

128. USER respondents had the following concerns and suggestions:

- A majority of User respondents agreed considering it helpful and a good benchmark.
- Some User respondents disagreed with the questions, pointing out the distinction between company data and value chain data. They argued that the KPI does not provide

useful or comparable information and believe that B10(a) fails to deliver relevant and comparable insights.

129. OTHER respondents had the following concerns and suggestions:

- A majority of standard setters disagreed. One standard setter suggested that the double simplification (omitting reference to the adequate wage and lacking information on the number and location of individuals) does not make this information useful. Another standard setter suggested deleting par 36(a) as it is not part of ESRS Set 1. In addition two standard setters disagreed on the basis that in their countries they do not have minimum wages.
- Most NGOs agree with the disclosure, while a majority of accountants agree with the disclosure.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Two SME association argued this ratio is clearer for companies than the notion of 'adequate' wage which is a blurry concept. In addition, they suggested that companies should be able to refer to the type of employment contracts which is a guarantee of an adequate wage. Few disagree with the question, citing concerns that the KPI does not ensure comparability; they emphasize the need for simplified terminology despite acknowledging its usefulness as a benchmark. They also suggested that the standard should encompass not only wages but also consider other benefits provided by companies.

Users: One association did not agree as they noted that KPI does not provide comparability and it is essential to consider complexities such as structurally disadvantaged regions and specific types of activities when contextualizing required data. Another association noted that any disclosure requirement should clearly specify exemptions for countries without minimum

Question 18

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/No/Please explain your answer)

130. In **Question 18 of Part 2, 249 out of 311 (80%)** respondents answered the question.

Key Insights (aggregate):

131. A majority of respondents agree with the voluntary approach as this helps SMEs to consider value chain risks while acknowledging the challenges in gathering data.
132. At the same time, a few respondents raised concerns about complicating the Basic module potentially hindering adoption by SMEs, especially first-time reporters. They suggested that it should be moved to the PAT module.
133. Emphasis is placed on providing clarity and simplicity in the standards to assist SMEs in understanding and complying with voluntary disclosures like B11.

Key insights (by type of respondent):

134. PREPARER respondents had the following concerns and suggestions:

- A majority of preparer respondents agree to the voluntary disclosure of B11. However, despite agreeing, they mentioned in the comments that this disclosure is difficult being time consuming and requiring technical assistance. In addition, the majority of respondents mentioned that the materiality should not be applied in the Basic Module, being too burdensome and complex for VSMEs. As such, some respondents suggested to move this disclosure in the Narrative Module.

135. USER respondents had the following concerns and suggestions:

- Few Users indicated that they value the information as value chain approach, however, three European or national banking associations highlighted that it is important that the SMEs are not forced to do a materiality assessment in the Basic Module. In particular, one banking federation argued that including multiple options for applicability within a particular module may create confusion and that any data requests that go beyond what is included in the VSME should be reported outside the modules bilaterally.

136. OTHER respondents had the following concerns and suggestions:

- A slight majority of standard setters agreed, even though they acknowledge that it poses a challenge for SME and is out of the conceptual approach of the Basic Module. Specifically, three standard setters disagreed since workers in the value chain, affected communities, and consumers and end-users, will concern a limited number of SMEs due to their limited size and geographical scope. One standard setter asked to delete this disclosure.
- Most NGOs (only one disagreed) agree with this disclosure on the basis that it is important to provide more clarity on reporting on sustainability matters that are cross-cutting to the different sectors and most commonly requested by financial institutions and other stakeholders.
- The majority of accountants agrees with this disclosure even if they advocate for simplifications and clarity. Two associations of accountants agree with this disclosure even if they consider unnecessary the need to introduce the concept of materiality within the Basic Module.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Most national or European associations argued that this datapoint should not be included in the VSME or at least moved to the PAT module on the basis that it was not identified in any of the questionnaires analysed.

Users: Users also raised doubt and oppose its inclusion in the Basic Module, arguing that despite its voluntary nature, it imposes unrealistic expectations on SMEs regarding due diligence.

Question 19

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

Do you think that it is useful for the preparation of the report? Do you think it is sufficient? (Yes/No/Please explain your answer)

137. In **Question 19** of **Part 2**, **256 out of 311 (82%)** respondents answered the question.

Key Insights (aggregate):

138. A majority of respondents show support to the specific guidance provided, as depicted by their agreement rate. The guidance is widely regarded as very useful for SMEs, especially those with limited resources. Many appreciate the detailed explanations, tables, and emphasize the need for more practical examples, especially for complex calculations like scope 1, scope 2, and energy/CO2 emissions data, to better support SMEs in their reporting.
139. While useful, several respondents noted areas needing further clarification, particularly on specific disclosures (e.g., B4, B5, B10) and calculation methods (e.g., GHG emissions, biodiversity impacts). More practical examples and user-friendly tools are recommended to enhance usability.
140. Despite the usefulness of the guidance, some respondents highlighted the difficulty SMEs might face in gathering data and preparing reports, suggesting the potential need for third-party assistance and more straightforward language.
141. There is a strong call for the guidance to be more accessible and easier to navigate. This includes embedding guidelines within each data point, providing direct links to relevant sections, and streamlining technical content to make it more user-friendly for SMEs.

Key insights (by type of respondent):

142. PREPARER respondents had the following concerns and suggestions:
 - Preparer respondents highlighted the usefulness of the guidelines but emphasized the need for more practical examples, such as tables, graphs, and real numbers, to make the guidelines easier to follow. They highlighted need for more workshops and continuous updates based on new Q&As and preparer feedback was also noted.
 - There is a strong consensus on the necessity for a single, comprehensive online tool to quantify complex metrics effectively. Respondents argue that such a tool would significantly enhance the practical application and utility of the standards.
143. USER respondents had the following concerns and suggestions:
 - A majority of User highlighted that the current guidance is insufficient for SMEs, particularly in interpreting data requirements. They stress on the need to simplify the guidance provided, making it less technical and more accessible and unanimously agree on the importance of additional guidance and support for SMEs, regardless of their familiarity with sustainability reporting.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Generally supportive of the proposal yet emphasized that while the guidance is appreciated, it remains overly complex and difficult to navigate, particularly due to language and content issues. They advocate for simplified, standalone tools that do not necessitate extensive external references. There is a strong call for clearer, more practical examples and direct access to information in national languages to enhance usability and compliance for SMEs.

Users: Found the guidance provided useful for navigating sustainability reporting, yet they consistently highlight concerns about the complexity of the language used. One association appreciated the clarity offered by specific guidelines in the Basic Module but notes challenges in executing detailed calculations, such as those related to energy and CO2 emissions, due to data availability and complexity. Overall, users stress the importance of clear, practical guidance that simplifies the application of standards, particularly for SMEs with limited resources, advocating for more straightforward language and comprehensive examples to enhance accessibility and usability.

Question 20

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?

144. In **Question 20 of Part 2, 246 out of 311 (79%)** respondents answered the question.

Key Insights and Suggestions - Aggregate:

145. From the statistical results a majority of respondents agreed that the principles of materiality are proportionate (impact, financial materiality and stakeholders' engagement). However, there is a mismatch between these statistical results and what emerges in the comments. as respondents indicate hesitations to adopt materiality, highlighting the following issues:

- The complexity of the materiality process and selection/engagement with stakeholders.
- The need to provide guidance, examples, templates, tools to help SMEs.
- The fact that the material process is useful but a heavy burden for SMEs, thus suggestion to use sector-guidance instead or replace with on-line tool guided questions (step-by-step illustrative guidance).
- Several respondents requested to add positive impact as optional next to opportunities

Key Insights (by type of respondent):

146. PREPARER respondents had the following concerns and suggestions:

- For impact and financial materiality,
 - Many mentioned that language was too complex.
 - The steps to identify the material topics are clear. They can be related to risk management principles. Despite this, many Preparers consider that materiality is too difficult for SMEs and that guidance, tools and/or closed questions or thresholds are needed.
 - Some Preparers indicate that the definition of financial risk is not clear.
- For impact materiality, the analysis allows the company to understand how it is impacting people and the environment and to adopt management measures.
- For stakeholders' engagement, the definition is not clear. Preparers mention that further guidance is needed on the methods and channels for stakeholder engagement. Some indicate that this is not needed for SMEs and that it is complex and time-consuming.

147. USERS respondents had the following concerns and suggestions:

- Some Users consider that financial materiality is defined differently than in the ESRS. Rating agencies find both impact and financial materiality clear. Users suggest ensuring that the language and approach are maximally comprehensible. The current level of understanding is insufficient; therefore, efforts must be taken to simplify the principles of materiality.
- Other users mention that the scale, scope and irremediable character of the impact may appear too theoretical for an SME.

- Banks: have split views with half agreeing and half disagreeing with materiality principles. Banks respondents from national and European associations request to delete the materiality analysis, some suggest replacing it with “if applicable’. Arguments were: i) materiality is too complex for SMEs; ii) it might not be reliable and potentially impair the ability of banks to aggregate data that are not material to the individual undertaking but become material to the financial institution when considered at portfolio level.
- Only one EU bank asks to keep the materiality analysis in the Business Partner Module, however, to replace it through a digital questionnaire tool.
- Large undertakings consider the approach compliant to ESRS principle, but will be very hard to apply for SMEs, who often lack this analysis capability.
- For Business/Sector International/European or national organizations (as proxy for SMEs), the double materiality analysis should not be extended to the value chain. They consider financial materiality important to ensure the accuracy and relevance of financial reporting.

148. OTHER respondents had the following concerns and suggestions:

- In the category other, there were split views as only a tiny minority agreed that the principle as of materiality are proportionate.
- NGOs suggested the VSME standard could, instead of materiality, focus on enhanced sectoral guidance for non-listed SMEs.

Standard Setters

- Materiality is perceived as very complex across the board; increased guidance is needed. There are split views among standard setters with a relatively small majority supporting. One standard setter suggests that materiality analysis principles should be kept, but a formal materiality analysis should be voluntary.
- Suggestions to include guidance and visuals/ flow charts explaining the reasoning that leads to determine whether a topic is material. Annex B to be simplified. Provide a table for relevant material matters per sector.
- The paragraphs are to be simplified. For the impact materiality to be clarified whether only direct relationships (to suppliers) are addressed, overall avoid unintended differences to ESRS Set 1.

Accountants/Auditors:

- Materiality should be applicable only for the PAT Module.
- Materiality definition/language is too complex.
- Consistency with set 1
- Several categories of “Other” participants mention that Paragraph 51 should be reformulated as it includes a self-referencing definition.
- In the category “if other specify “the majority of respondents did not agree with the principles of materiality as illustrated in the box below.

Feedback received from associations representing preparers and users that responded under the category Other (if other please specify):

Preparers: European and national SME associations regard materiality as a very difficult point for individual SMEs, despite it being aligned with ESRS. For this reason, they suggest deleting materiality datapoints or in alternative propose to replace them with an "if applicable" approach or a predefined list. The materiality assessment for PAT and BP modules is overly complex for SMEs, involving significant effort with unclear benefits, suggesting a need for a universally adopted flexible "if applicable" approach.

Users: European banking associations also request to delete materiality datapoints. Many mention some suggestions to improve the definitions and in particular on paragraph 51 that contains a self-referencing definition. A need for guidance and examples is also highlighted. Many mention that there is still room for simplification.

Question 21

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?

- a) **For all respondents:** Yes/No/Please explain your answer.
- b) **For users only:** Is the list of material matters essential for you? Yes/No/Please explain your answer.

149. In Question 21 Part 2, 248 out of 311 (80%) respondents answered the question.

Key Insights and Suggestions - Aggregate:

150. Most of the preparers and a majority of users and of respondents in the category other agreed with the approach that 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. However, the majority of European and national associations representing preparers and users (in "others") disagreed. Across the board comments indicated various concerns, the most recurring comments across the different respondents were the following:

- The text is considered too complex although the general concept is validated by majority Preparers, Users and Others.
- The need to provide guidance, examples, templates, tools to help SMEs.
- The fact that the material process is useful but heavy for SMEs, thus suggestion to use sector-guidance instead or simple materiality.
- Some improvements are suggested to make the text more consistent/easier to read.

Key Insights and Suggestions – by respondent type:

151. Some Preparer, User, and other respondents mention that the list of material matters is connected to the concept of risk management and helps understand whether correct risk management initiatives have been enacted.
152. Respondents across all categories mention that SMEs may not be familiar with determining the material matters are to be reported. A guide, chart, digital tool or interactive portal would be useful. Comprehensive assistance will be needed.
153. PREPARER respondents had the following concerns and suggestions:
 - The list of sustainability matters helps avoid greenwashing and increase the reliability of the data.
 - The difference between the materiality analysis required for the Narrative PAT Module and the Business Partners module is not clear.
 - The cost linked to the materiality analysis in PAT module and list of sustainability matters is high.
 - Lack of clear alignment between Annex B and the content of the VSME ED. This may cause uncertainty on how the results of the materiality analysis will influence their reporting disclosures, particularly for the ones not associated to metrics in VSME.
154. USER respondents had the following concerns and suggestions:
 - Users' banks agreed, but two European banking association did not agree with the approach and did not consider the list of material matters essential. They considered that the exercise entails the need to have more dedicated resources and more mature processes than the average situation of an SME; Some asked to simplify Annex B, list of sustainability matters.
 - Large undertakings users suggested sector-specific guidance and potentially a materiality template
 - Business/Sector International/European or national organization respondents had the following comments:
 - Disclosures N 1 to N 5 in the Narrative-PAT Module can enhance undertakings' awareness and monitoring of sustainability issues by requiring a structured narrative on their sustainability strategy and actions.
 - Some respondents suggest it would be logical to place the Basic Module with BP Module before the Narrative PAT Module as it may facilitate the completion of the Narrative-PAT Module.
 - In paragraph 72 the terms 'relevant', 'material' and 'applicable' are used interchangeably. To avoid confusion, they suggest considering only using 'material'.
 - Focusing disclosure efforts on material matters ensures that the information provided is meaningful and actionable, guiding our investment decisions more effectively.
 - Some suggest to only use materiality for the Business Partner module.
155. OTHER respondents had the following concerns and suggestions:

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- Standard setters commented that conducting a formal materiality analysis process should not be obligatory in line with the proportionality principle, as SMEs may directly refer to the indicative table of material topics by sector.
- NGO respondents commented on the following:
 - Approved the approach of requiring an assessment of material matters for the Narrative-PAT and BP modules but recommend that EFRAG reviews the various paragraphs pertaining to materiality across the modules to ensure consistency of explanation and terminology.
 - Instead of focusing the materiality approach, the VSME standard could focus on enhanced sectoral guidance for non-listed SMEs.
- Respondents from Unions commented that it is not realistic to expect a materiality analysis even for SMEs that have a PATs in place.
- Other respondents were split, with associations representing preparers and users in disagreement. They offered the following comments:
 - It is not clear if absence of a PAT will make reports less accepted by lenders, investors or large corporate clients and clarity here is critical.
 - They note that the PAT module is not considered very attractive by many SMEs. On the one hand, this is due to the materiality assessment, and on the other hand, it is considered very time-consuming due to the narrative disclosures.
 - For many SMEs, the module is not necessary unless they are trying to obtain access to transition financing. However, the module has not yet been sufficiently thought through for this purpose. It is advisable to postpone the entire module until the issue of transition financing has been better addressed.
 - For SMEs, conducting a materiality analysis demands substantial time and most likely requires consulting support.
 - The materiality analysis overburdens SMEs.
 - Adopting the international standard with a focus on simple materiality may be a more feasible approach.
 - Appendix B could be document more intuitive, and thus modify the text so that each item contained within Appendix B would find more correspondence in the explanations articulated in the various Metrics contained in the Basic template or indicate directly to which item it refers by reporting the page number or title of the principle.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Consider that materiality is complex/difficult to implement.

Users: the PAT module is not considered attractive by SMEs and not necessary. Advise to postpone until transition financing well addressed.

Question 22

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/No/Please explain your answer)

156. In **Question 22 of Part 2, 247 out of 311 (79%)** respondents answered the question.

Key Insights and Suggestions - Aggregate:

157. Most of the respondents agreed, in the category “other” a majority agreed with the “if applicable” approach in BP module, except for BP 5,7, 8, 9, 10, if they are material to the undertaking's business and organisation. The most recurring comments across the different respondent categories were:

- Support the “if applicable” approach that usefully replaces materiality.
- Materiality is very demanding for SMEs.
- There is a need to clarify the difference between the following: “material”, “if applicable”, “if relevant”.

Key Insights and Suggestions – by respondent type:

158. PREPARER respondents had the following concerns and suggestions:

- Some preparers indicate that:
 - This approach makes disclosures easier and helps alleviate the reporting burden. It helps focus on the relevant topics.
 - To be clarified that if applicable to be provided if the fact exists.
 - Some disclosures are already legally required in some EU countries.

159. USER respondents had the following concerns and suggestions:

- Some Users consider that BP module may place an excessive burden on micro and small undertakings.
- Some User, Preparer, and other respondents commented that the "report only if applicable" approach strikes a balance between ensuring transparency and accountability while minimizing administrative burden for SMEs. It encourages SMEs to report relevant information without imposing unnecessary reporting requirements, ultimately supporting the goal of sustainability reporting to inform decision-making and stakeholder engagement.
- Some banks (very few answered this questions) agreed but asked to better clarify the difference between “applicability” and “relevance”.

160. OTHER respondents had the following concerns and suggestions:

- One national business organisation indicated that while omission provided in VSME (not applicable, sensitive information, not material) was supported, they would prefer one principle only (i.e. comply or explain).
- Some academic institutions and others indicate that in each question when it is possible layout should be based on YES/NO questions.
- Standard Setters recommend exercising careful attention to the terminology employed to ensure harmonisation and consistency between “if applicable”, “where relevant” or “where material” in the text of VSME.
- Some Union representatives expressed a concern that all KPIs from the BP module will be requested by the larger players and thereby become mandatory.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: associations at European and national level, suggest using “if applicable” for all data points in BP module, including BP5, 7, 8 and 9, it shall replace materiality as materiality is too complex to implement.

Users: the PAT module is not considered attractive by SMEs and not necessary. Support and ask to clarify better “if applicable” in the formulation of each datapoint.

Both categories point out the need to clarify the difference between “material”, “relevant”, “applicable”.

Question 23

Question 23: 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?

- a) Yes, reporting for financial opportunities should be optional.
- b) No, reporting for financial opportunities is not needed for non-listed SMEs (focus on negative impacts only).

Please explain your answer.

161. In Question 23 of Part 2, 246 out of 309 (80%) respondents answered the question.

Key Insights and Suggestions - Aggregate:

162. Most respondents, both preparers and users, agreed that reporting on financial opportunities should be included only on an optional basis. In the category “others” a majority agreed. Recurring arguments were:
163. Including financial opportunities may help the undertaking manage risk, build awareness and resilience, and identify new financial options.
164. To avoid a disproportionate burden on SMEs, such reporting should remain optional.
165. Banks and investors all agree that it is an added value and are in favour of the optionality.

Key Insights and Suggestions – by respondent type:

166. PREPARER respondents had the following concerns and suggestions:

- Preparers commented that reporting financial opportunities may help the business, but should be optional, because it could add an administrative burden and increase the need of specific skills. Some mentioned that users may ask for it, and it could enhance their financial prospects.
- Preparers expressed concern about the administrative burden for those with lower revenues, the fact that financial opportunities are difficult to address for SMEs, and the possibility of greenwashing and providing non-valuable information.

167. USER respondents had the following concerns and suggestions:

- Users commented that undertaking should identify financial opportunities, which may be helpful to the business. However, reporting them should be optional especially since it can translate into competitive advantages but also increase the undertaking's burden.
- Some users worried that identifying financial opportunities adds complexity to the reporting exercise, which can discourage SMEs. They felt the report should stay compact and short.
- European association of banks supported the inclusion of financial opportunities as optional as the current focus on negative impacts only may discourage SMEs uptake. On the other hand, some national association did not support as it may over complexify.
- Half of large corporates disagreed and indicated that it makes the reporting process longer and more complex, it could make it less likely for SMEs to engage with it.

168. OTHER respondents that disagreed had the following comments:

- Respondents from the Other category had the following reasons for agreeing:
 - Reporting positive financial opportunities may be helpful to the business but should remain as optional for when the organization is ready.
 - Disclosing financial opportunities is attractive to investors.
- Reporting on financial opportunities could lead to the disclosure of sensitive information
- Would add to the administrative burden.
- The risk of greenwashing is higher.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Agreeing comments: Reporting for financial opportunities should be optional and voluntary, allowing SMEs to choose if they want to report such information. Disagreeing comments: some criticize a lack of space for positive information in the questionnaire. The CSRD's focus on negative impacts does not align with SMEs' voluntary standards. SMEs should have the discretion to disclose based on their capacities and time constraints, as they are not within the CSRD scope. The focus on negative impacts and the exclusion of financial opportunities for SMEs is regrettable.

Users: Agreeing comments: reporting on financial opportunities allows SMEs to include SDGs and other opportunities, crucial as many SMEs enter the market due to ESG-related innovations. It is an opportunity for SMEs, to leverage reporting, demonstrating the economic and social benefits of certain practices.

Question 24

Question 24: 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?

Please include your feedback in the table below: Principles for the preparation of the sustainability report (Narrative-PAT Module, Business Partners Module)

- a) Time horizons (paragraph 40 in VSME ED)
- b) Coherence and linkages with disclosures in financial statements ((paragraph 41 in VSME ED)

169. In **Question 24 of Part 2, 239 out of 310 (77%) respondents answered 24(a)**, and **234 out of 314 (75%) answered 24(b)**.

Key Insights and Suggestions - Aggregate:

170. **24(a)** Most respondents in the category “preparers” and “users” agreed. In the category “other” a majority agreed. Comments across all respondent types included the following:

- The time horizons can help support and guide the undertaking, specifically with standardized reporting and aligning objectives
- Respondents mentioned that the timeframes should be aligned with financial statement reporting, while risk factors, auditor opinions, etc. relate to the next 12 months.
- Administrative burden and overcomplicated processes were mentioned as SMEs (particularly micro and small) will find it difficult to adopt a 5-year, long-term time horizon, given the volatile, uncertain and complex environment.

171. **24(b)** Most respondents in the category “preparers” and “users” agreed. In the category “other” a majority agreed. Comments across all respondent types included the following:

- Information needs to be truthful, objective, and clear. Linking the disclosures in financial statements should avoid duplicating information.
- Coherence in reporting improves comparability in line with stakeholders’ needs.
- This is challenging, complicated, an administrative burden, and seems more appropriate for listed firms. Guidance is strongly needed for the principle (b).
- Time horizons should be reconsidered because it seems very complicated for SMEs to switch to a long-term horizon way of thinking. More flexibility is requested in regard to time horizons, specifically medium and long-term.

Key Insights and Suggestions – by respondent type:

172. **24(a)** comments by respondent type:

173. PREPARER respondents had the following comments and suggestions:

- Creates an administrative burden and overcomplicated for SMEs to adopt a 5-year, long-term time horizon.
- Three different time horizons are excessive; SMEs should be able to select their time horizon.

174. USER respondents had the following comments and suggestions:

- Different time-horizons allow to have a coherent and complete report, but some flexibility would be appreciated in the time-horizons principle.
 - Bank respondents stated that they are more comfortable with the short- and medium-term horizons and had concerns that SMEs are not ready and do not have the staff for longer time horizon.
 - Large corporates agreed, however one respondent called for more flexibility on time horizons.
175. OTHER respondents had the following comments and suggestions:
- The principle is aligned with ESRS, and it is reasonable for SMEs to adopt it.
 - Although respondents agreed to this principle, more guidance and examples would be needed for time horizons disclosures (for which information time horizons need to be distinguished).
 - The time horizons are too complicated, abstract and an administrative burden
 - The sustainability report is prepared for a one-year period and should only apply to the short-term; this is consistent with financial reports.
176. **24 (b)** comments by respondent type:
177. PREPARER respondents had the following comments on 24(b):
- More guidance is needed to highlight these linkages. This would help SMEs to better integrate sustainability and financial reporting and enhance the quality of the disclosures.
178. USER respondents had the following comments on 24(b):
- Cross-references facilitate a coherent and complete report.
 - SME enterprises are not ready and do not have the staff for this purpose.
179. OTHER respondents made the following comments:
- It is essential and coherent to establish links to the financial disclosures, it improves clarity for investors.
 - More guidance needed on linkages to financial statements and on “other regulatory reports”.
 - Some said it is too complicated and an administrative burden.
 - The term “coherence” was not defined and therefore requires additional guidance.
 - Some commented that few SMEs will be able to make the financial/sustainability link.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

(a) Time horizons:

Preparers: Disagreeing comments: §41: The time horizon for the assessment, currently suggested to be up to five years, is too long for SMEs and should be reduced to a maximum of 1-3 years. Para 39: This paragraph can be skipped as it simply repeats the title of the section.

Users: Agreeing comments: Information on the short-, medium-, and long-term is vital as long-term reporting incentivizes sustainable business decisions, short- and medium-term goals help investors understand achievable steps, one large undertakings association agrees with the approach but suggests consolidating medium and long term. Disagreeing comments: the long-term time horizon will be difficult for many SMEs to apply, overburdening their resources, and the suggested five-year assessment period should be reduced to 1-3 years.

(b) Coherence and Linkages with disclosures in financial statements:

Preparers: Agreeing comments: Para 41: Preferable to write "financial statements and/or other regulatory reports," explain what is meant by "other regulatory reports," and provide robust guidance on presenting information to link with financial statements. Disagreeing comments: h; clarification is required for §41 concerning "financial statements and/or other regulatory reports" and §41.b requirements, alongside the necessity for robust guidance, templates, and cross-references tailored to SMEs.

Users: Agreeing comments: It is essential that linkage with financial statements remains a "may" principle, encouraging coherence for clarity to investors and the integration of sustainability measures into business.

No specific disagreeing comments were provided.

Question 25

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.

- PREPARER = Feasible/ Difficult to prepare/ Already disclosed under other reporting schemes or regulations
- USER = This disclosure is essential/not necessary
- OTHER RESPONDENTS: Do you have comments on this disclosure?

180. In **Question 25 of Part 2**, on average, **81% of preparers and 72% of users** answered the question.

Key Insights (aggregate):

181. While a majority of preparers agreed that the 5 disclosures are feasible, and a majority of Users agreed that these 5 disclosures are essential, European associations representing both preparers and users in the category "others" indicated the opposite.

182. In particular, some European banking associations indicated that PAT module is not as useful as the other modules, it could be kept as optional, and they considered that disclosures N1 to N4 are not needed. In addition, they provided suggestions for reformulation and merge with Basic Module.

183. Lastly, business associations representing large undertaking users indicated that N2 and N3 are not needed.

Key insights (by type of respondent):

184. **PREPARER** respondents had the following concerns and suggestions for each disclosure:

- **N1:** Majority of individual SMEs finds it feasible. This is the only disclosure of this module supported by European and national SME associations. Two national SME associations suggest replacing it with a list of actions implemented or to be implemented, another national SME association suggests replacing it with labels or qualifications obtained (i.e. ISO).
- **N2:** European and national SME associations request to delete the disclosure as they find it too complex. Majority of individual SMEs finds it feasible, however, only for those that have already PAT in place (a minority). In addition, most preparers found the disclosure to be time consuming and asked for additional guidance. In fact, some preparer respondents mentioned that external support is needed in order to complete this disclosure. Few respondents mentioned also that impact descriptions should be qualitative and conditional.
- **N3:** Feasible for majority of individual SMEs. However, it is worth mentioning that some respondents that selected feasible, in the comment mentioned that this disclosure is a resource intensive process and that expert guidance, or external consultants may be required, at least for the first time. Moreover, all SME associations (European and national) request to delete the disclosure. An additional suggestion was to merge N2 and N3 into one and turn it into Y/N questions. Lastly, a recurring comment was related to the simplification of language within the disclosure as it was difficult to understand the policies applicable under this disclosure and to have sufficient human resources to monitor the implementation/progress of the policies and actions. Very few respondents remarked that they were facilitated because they had ISO14001 certification.
- **N4:** Majority of individual SMEs in support. Split views between European and national SME associations. Some ask to delete the disclosure; others state that it is feasible. A majority of preparers requested further guidance for stakeholder identification. Few respondents suggested to simplify customer identification based on activity. Challenges include limited resources, accurate stakeholder identification, effective communication, managing divergent expectations, and continuous adaptation to stakeholders' needs to ensure a meaningful and sustainable impact.
- **N5:** Majority of individual SMEs perceive the module as feasible. However, national and European SME associations ask to delete the disclosure. Suggestion to simplify the paragraph to require disclosures stating whether the undertaking appointed responsibilities in relation to sustainability matters and adapt the vocabulary for SMEs, mentioning Board, DEO, CFO, ESG director. Some respondents mentioned that being an SME, the governance structure is less complex, making it easier to identify the different governance bodies and their responsibilities in relation to sustainability matters. A few respondents mentioned that they were facilitated because they had defined organizational chart. As for the other disclosures in the Narrative-PAT Module, most preparers requested for additional guidance is needed (similar to the Basic and BP Modules) to clarify the expectations. Lastly, some respondents argue that the term "governance" is often not well-understood or applicable to SME company structures, where responsibilities typically fall under the managing director's duties.

185. **USER** respondents had the following concerns and suggestions for each disclosure:

- **N1:** European and national banking associations consider N1 not needed. One respondent asked to move this disclosure to the BM. One to replace it with closed questions through the utilisation of an online tool. Two respondents suggested that the description of main business relationships should stay at a category level. Large undertaking had split views on the relevance with few respondents that suggested to have SMEs detail the sustainability actions they have already taken and future plans they might have.
- **N2:** Majority stated that it overburdens SMEs. Policies and guidelines are not a solution, they are perceived as impractical. European and most national banking association consider N2 not necessary. Small majority of individual banks and some investors considers it essential. However, a simplified description of material matters that could be based on sectors is needed, as current assessments is complex and needs more resources and guidance for SMEs. One respondent advocated for the use of an online reporting tool which can allow SMEs to choose material topics, else it would be too burdensome to require. Lastly, business associations representing user large companies consider N2 not needed.
- **N3:** Three European banking associations believe that this disclosure is not as beneficial as quantitative disclosures in the other modules. Few user respondents suggested N3 could be simplified and integrated in B2 in Basic Module. Suggestion by a European banking association to add existing insurance policies that the SME may have in place to mitigate potential physical risks. To note that business associations representing user large companies indicated N2 and N3 as not needed.
- **N4:** Majority of users majority state that it's not relevant. In general, users mentioned that the VSME standard should avoid open-ended questions as otherwise it will not allow users to compare and analyse the data in a standardized and consistent manner. One respondent highlighted that SMEs are likely to address key stakeholders N4 and material matters N2 without a separate process, as such it was suggested to consolidate both. For large undertakings, there were split views on essentiality. Those saying that it should not be required state that this is because it would disclose sensitive information.
- **N5:** Majority of users perceived the disclosure as relevant. However, few respondents mentioned that few SMEs might have a governance body in place, as such they suggested moving it to B2.

186. **OTHER** respondents had the following concerns and suggestions for each disclosure:

- **N1**
 - NGOs stated that this disclosure is clear and support it. In particular, few respondents mentioned that these disclosures enrich the reporting landscape with a deeper understanding of the undertaking's mission and values.
 - Standard setters had no specific comments. Only one Standard Setter advocated for greater simplification on business relationships.
 - Some accountants mentioned that it should be optional. One respondent suggests an "if applicable" approach. Suggestion to add NACE codes.

- **N2**
 - NGOs supported this disclosure as it would enable undertakings to showcase the material sustainability matters pertaining to their positive impact objectives, which connect to their PAT in place. One NGO suggested providing an explanation of the list of sustainability matters.
 - Standard Setters commented this disclosure as difficult and complex to put in practice. One standard setter proposed an editorial modification in order to simplify the disclosure.
 - Accountants suggested SMEs to provide a “roadmap” of if and when they plan to address material matters for which they are currently not disclosing. Others state that for medium-sized SMEs this may be feasible, however is not the case with smaller companies. One accountant association suggested to use the term “severe negative impacts” instead of materiality.
- **N3**
 - NGOs deemed this disclosure essential, however, they suggested to provide additional guidance. For example, the process of "due diligence" should be more specific and include the phases and actions. Suggestion to add a voluntary disclosure tailored to SMEs already implementing measures to manage their positive, besides potential negative impacts.
 - Standard Setters: More guidance is needed on what to expect regarding the value chain. Positive impact should be included. Additional suggestion to consolidate qualitative info on human rights (BP11, 7 and 8). Requires general simplification and guidance.
 - Accountants: some ask SMEs to provide a “roadmap” of if and when they plan to address material matters for which they are currently not disclosing. Others state that for medium-sized SMEs this may be feasible, however is not the case with smaller and micro companies. In general, accounting associations mentioned that very few non-listed SMEs are likely to have PAT on which to report.
- **N4**
 - NGOs deemed this disclosure clear and important.
 - One Standard Setters suggested to merge N4 into N2 while another standard setter advocated for additional guidance on how to set up a stakeholder dialogue.
 - Accountants provided only very few comments. One respondent suggested to add the creation of a code of conduct specific to stakeholder engagement. Another suggested to add frequency of engagement, and distinction between internal and external stakeholders.
- **N5**
 - NGOs supported this disclosure but required additional guidance for specific reporting on roles and responsibilities and management decisions regarding sustainable model (e.g. training, incentives).

- Only few standard setters commented this disclosure. One suggested to minimise references to other standards like SFDR and include more guidance. Another Standard Setter suggested to rephrase the disclosure in the following way: “The undertaking shall describe whether it has established a governance structure or appoints responsible individual(s) (e.g. CEO, CFO, ESG office, Board) for overseeing sustainability matter, and if so, provide a brief description. If applicable this description shall cover roles and responsibilities of the highest governance body or of the responsible individual(s) and may include remuneration policies related to the achievement of sustainability objectives.”

Question 26

Question 26: FOR PREPARERS ONLY: If you anticipate that you will apply the Narrative-PAT module, have you implemented policies, actions and targets (PAT) and/or climate transition plans due to requests of counterparties in the value chain?

187. In **Question 26 of Part 2, 83 out of 126 (66%)** respondents answered the question.

Key Insights and Suggestions - Aggregate:

- 188. A slight majority disagrees with this question. There is an overall split view.
- 189. Around half of respondents do not anticipate using the PAT module deriving from value chain counterparties' requests.
- 190. Some stated that they do it voluntarily (without any requests from value chain).
- 191. Those not applying or envisioning to apply the Narrative-PAT module state that they will only apply the BPM on top of the BM. Therefore, they will not implement PATs.
- 192. Others stated that they may implement the Narrative-PAT but not cover all aspects.
- 193. The majority of small undertakings and some medium preparers have started to work on implementation of PAT and transitions plans but intend to do so voluntarily.
- 194. One respondent suggests considering actions and targets separated from written policies. The assumption is that actions and targets are often set in SMEs as well, but written policies and processes are less often found in SMEs.
- 195. Templates would help SMEs in their report.

Question 27

Question 27: FOR USERS ONLY: Are there any datapoint(s) missing from this module that you consider as essential to meet your information needs?

196. In Question 27 of Part 2, 28 out of 39 (72 %) users answered the question.

Key Insights and Suggestions - Aggregate:

- 197. The majority disagrees with the need to add further datapoints.
- 198. Those agreeing with the need to include additional data points mentioned the following ones:
 - Datapoints on climate risk localisation, type of asset, strategic importance and existing climate mitigation plan should be added as well as additional datapoint related to specific

needs, sectors and company sizes. Additionally, they mentioned that all KPIs should be monitored and audited. An implementation phase for these points may be needed.

Question 28

Question 28: 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?

199. In **Question 28 of Part 2, 207 out of 311 (67%)** respondents answered the question.

Key Insights and Suggestions - Aggregate:

200. Answers were evenly split between overall respondents.
201. Preparers and Users agreed, while Others did not.
202. The question presented challenges for many respondents as knowledge of other standards was a prerequisite. One third of respondents did not reply to this question. Many respondents said they do not have the knowledge and/or experience to answer this question.
203. There was a high degree of variation within the groups of respondents (Preparers, Users and Other respondents).
204. A recurring comment is that VSME is easier and less complex than EMAS or other standards. Respondents emphasised the importance of simplicity and not aligning it to complicated standards (as this would make VSME more complex).
205. Some respondents suggested aligning with “SME Climate Hub” or “Science Based Targets” as those were developed specifically for SMEs.
206. Respondents who agreed cited the benefit of avoiding multiple data requests and support a general trend to greater alignment of the various sustainability reporting mechanisms.

Key Insights and Suggestions – by respondent type:

207. PREPARER respondents had the following comments and suggestions:
 - The majority of Preparers agreed that there is potential to align with other reporting schemes. There is a general expectation that alignment to EMAS and other standards will be considered.
 - Some preparers agreed despite being familiar with EMAS.
 - However, many expressed concerns that other standards are too complicated or not relevant and are concerned about creating additional layers.
208. USER respondents had the following comments and suggestions:
 - The majority of Users agreed that there is potential to align with other reporting schemes. There is a general expectation that alignment to EMAS and other standards will be considered.

- However, many expressed concerns that other standards are too complicated or not relevant and are concerned that any additional reference to other standards make the implementation more complex.
- Some state that referring to EMAS should be possible and those that are EMAS certified should be able to report accordingly.
- Financial institutions would like a better alignment with the banking guidelines.

209. OTHER respondents had the following comments and suggestions:

- The majority disagreed with this alignment.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Environmental Metrics as well as Policies, Actions and Targets should be completely aligned between the two schemas (VSME ED and EMAS), becoming equivalent and interchangeable, and even aligning with GRI, IFRS, CDP.

Users: There is a great potential for alignment between VSME and EMAS also for cost effective reasons, but also to other standards like Eco Lighthouse certificate. Materiality analysis is key for an EMS system, and aligning EMAS and VSME will simplify reporting without compromising the sustainability outcome.

Question 29

Question 29: 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)”? [Part 1]

FOR PREPARERS ONLY: Is this disclosure feasible? Yes/No/Please explain your answer. [Part 2]

Part 1

210. In **Question 29.1 (first part of question)** of Part 2, **236 out of 311 (76%)** respondents answered the question.

Key Insights and Suggestions - aggregate:

211. A majority of respondents agreed that scope 3 should be included as entity specific component in the BPM, despite the challenges involved.

212. A very small majority of respondents from the ‘Other’ category disagreed with the inclusion of the scope 3 in the BPM.

213. Respondents commented that it can foster greater transparency and accountability of SMEs’ full climate impact and offer opportunities to reduce emissions by adopting more sustainable practices.

214. Scope 3 is essential for SMEs to disclose - to meet market demands (as increasingly required by investors/larger corporations).
215. Some found Scope 3 emissions complex to calculate and report for SMEs, with high administrative burdens and costs, potentially affecting their competitiveness.
216. Many respondents cite the need for the following:
 - Additional guidance, calculation tools, and simplified methodologies to help SMEs estimate scope 3 emissions - to reduce the reporting burden on SMEs.
 - Make Scope 3 reporting optional (based on criteria) due to the complexity and resource demands.

Key Insights and Suggestions – by respondent type:

217. PREPARER respondents had the following comments and suggestions:
 - Some micro and small preparers said there is difficulty in calculating for SMEs (including time requirements), and it is difficult to know where to stop the value chain.
 - The majority of SMEs stated that Scope 3 will be crucial for many SMEs and requested for additional guidance/ digital tools.
 - It would be helpful to provide guidance + tool on thresholds/criteria for including scope 3 emissions as voluntary/optional based on materiality.
 - Most European or national organisations disagreed with the inclusion of scope 3 in the VSME.
218. USER respondents had the following comments and suggestions:
 - Banks/ investors and large undertakings agree with the inclusion of scope 3 emissions. Those that disagreed stated that the value provided would be unreliable for banks to use.
 - Additional guidance needed and will improve participation and the information provided.
 - Some disagreeing SMEs as business partners find difficulty in calculations (too complex for SMEs); feel greater granularity would be needed for correct analysis.
 - Voluntary/ optional reporting would alleviate pressure on SMEs, while helping those that want to report understand value chain impacts.
 - Allow the use of proxy emission factors and industry averages to enable SMEs to report scope 3.
 - Include additional disclosure on the order of magnitude of scope 3 emissions under B3.
 - Create a free comprehensive EU database to ease data collection and provide estimates.
219. OTHER respondents had the lowest level of support and had the following comments and suggestions:
 - NGOs
 - Majority considers scope 3 as essential, it cannot be excluded.

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- Request additional guidance. Suggested guidance to focus on one or two significant categories of emission based on the SME's specific business model; while another was to develop sector-specific guidance to facilitate reporting.
- A few advocated to include scope 3 emissions in B3.
- The most critical points were related to the accuracy of the scope 3 values provided.
- Standard Setters
 - Scope 3 is crucial for the VSME ED.
 - Request additional guidance and to allow for estimation based on available data with clear explanations to be possible. Additionally, request to develop more user-friendly tools for the SMEs. Finally, clarify that scope 3 emissions remain voluntary + clarify wording.
 - Split view on what to do with the entity-specific reference, some suggest deleting it others to keep.
- Accountants
 - Majority agrees and states that scope 3 is crucial, especially in specific sectors. Some asked to have a phased-in approach for scope 3 emissions by sector. A few advocated to include scope 3 emissions in B3.
 - Some stated that scope three is irrelevant as companies already capture these emissions through their own scope 3 calculations.
 - Difficulty of this datapoint perceived, especially given the low level of expertise on this matter for SMEs.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Some preparer organizations as well as an organization representing users said determining data on scope 3 emissions is generally very time-consuming and this information is often not accessible to SMEs. Allowing the use of industry averages or permitting estimates would provide a practical solution for SMEs.

Preparers: An SME preparer organization argued scope 3 emissions would not be feasible for SMEs at all. Another said that it is relevant for SMEs aiming for net-zero, but resource constraints and limited influence over their value chain, would make it difficult to get accurate figures. They suggested detailed requirements like those in paragraphs 69, 70, and 71 are too complex and burdensome for SMEs and should be simplified or excluded. One organization mentioned it would be expensive for SMEs and force them to hire consultants, and would go against the burden reduction goal of the VSME ED. A few organizations representing preparers requested references to various tools, standards, and protocols to assist SMEs.

Users: One business association user said although scope 3 emissions are relevant information from a medium-term perspective, it is additional to B3 metric, and requires expertise, so may be too burdensome for SMEs. An organization representing users said the placement in the ED might be confusing since it appears in the BPM, but with instructions to report the data under the BM together with Scope 1 and 2. Another organization representing users said that this disclosure can help close a data gap and allow SMEs with ambitious policies to show their efforts and attract capital from sustainable investors.

Part 2

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).

FOR PREPARERS ONLY: Is this disclosure feasible? (Yes/No/Please explain your answer) [Part 2]

220. In **Question 29.2 (second part of question)** of **Part 2, 91 out of 126 (72%)** Preparers answered the question.

Key Insights and Suggestions:

221. Preparer respondents were evenly split in their response to Question 29 part 2, and had the following comments:

- Many acknowledge that scope 3 emission disclosure is complex and challenging, but also believe it is feasible with the right tools and guidance.
- The calculation is difficult due to the complexity of information, data, and regulations; lack of transparency within supply chains (due to legal issues or power imbalances), and high costs for setting up independent data collection structures.
- Some already have relevant data, although improving accuracy is a challenge.
- Though the direct value of scope 3 disclosure is perceived as low by some, its educational impact is significant, helping SMEs understand and manage their overall emissions better.
- Some respondents found it not applicable due to their limited outsourcing, and not well-suited due to limited resources and capacity, and would disproportionately burden them.
- Micro-preparers said it would require external expertise/consulting as SMEs don't have the right staff and tools to do calculations themselves, and the upstream value chain is likely unable to provide the necessary information for calculation.
- Preparers said the disclosure is feasible after doing the DMA.

222. Among the suggestions offered were the following:

- Allow the use of proxies and estimates.
- Clear and accessible guidance and support tailored to SMEs (e.g. sector-specific guidance, value-chain guidance, interactive free tools for data collection and calculation)
- A phased/gradual implementation (similar to that allowed by CDP, for example), where initial requirements are less demanding, allowing SMEs to build capacity over time.
- Making scope 3 disclosure optional for SMEs.

Question 30

Question 30: 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).

- IF PREPARER: Feasible/Difficult to prepare/ Already prepared for other purposes.
- IF USER:
 - This disclosure is essential/Not necessary.
 - If present in questionnaires, specify to which category of SME (micro, small, medium) the question is asked?
 - If present in questionnaires, is this asked only for certain sectors? If yes, which ones?

223. In **Question 30 of Part 2, 127 of 165 (77%)** respondents answered the question.

Key Insights and Suggestions - aggregate:

224. Most of the preparers indicated that BP1, BP2, BP10 and BP11 are feasible. BP5, BP6 and BP 8 are perceived as slightly more complex and are considered feasible only by a majority of preparers. On BP3, BP4 and BP7 there are split views with half considering it feasible and the other half difficult.
225. On the user side, BP1, BP2, BP3, BP4, BP5 and BP8 are considered essential by **most**. BP6, BP7, BP8 and BP10 are considered essential by a **majority**, while BP11 is considered not necessary.
226. Respondents highlighted challenges related to limited (human) resources and financial difficulties for these disclosures.
227. While some respondents found calculations feasible, several respondents requested more guidance/instructions or calculation tools to help them simplify the process, this is especially important for the more difficult disclosures.
228. A few respondents found the relevance of some of the disclosures for environmental protection or risk, unclear.

Key Insights and Suggestions – by respondent type:

229. PREPARER respondents had the following additional comments and suggestions:
- General request to make the whole module be reported on an if applicable basis.
 - Additionally, general guidance and examples are requested by preparers.
 - BP1
 - Some suggest moving BP1 to the BM in the form of “if applicable”.
 - BP3, BP4, BP5 & BP7
 - Most difficult disclosures of the module due to challenges related to data availability/ collection (e.g. value chain tracking & ease of collection) as well as difficulty in calculation (including time requirements). BP3’s scope 3 emissions remain the largest

challenge for preparers. There is a need for external support due to the complexity of many of the disclosures.

- Request to make BP6 specific to certain sectors.
- BP7
 - Some preparers suggest moving this disclosure in the BM module.
 - Some preparers found BP7 difficult to report as it could be costly (consultants) or time-consuming to align to internationally recognised instruments.
- BP7, BP8 & BP9
 - Suggestion to limit these disclosures to one set of guidelines.
- BP9
 - Some suggest merging BP9 with BP7.
- BP2, BP6, BP10
 - Few preparers stated that they already disclose these datapoints for other purposes.

230. USER respondents had the following additional comments:

- Most users deem BP1 to BP5 and BP8 to be essential, the majority of users deem BP6, BP7, BP9 and BP10 to be essential. BP10 is considered essential by a small majority. BP11 is considered irrelevant by the majority.
- BP1 to BP6 are essential for the banks as they are required by the EBA ESG disclosures (Pillar 3 and EBA/CP/2024/02) on managing ESG risks. Banks also indicate that BP10 and BP11 are not needed.
- Most large corporates considered BP3, BP4 and BP7 essential, while BP1, BP2, BP8 and BP9 by a majority. On BP5 and BP10 there were split views, while BP11 was considered not needed by the majority.

231. USER respondents had the following suggestions:

- Align language/terminologies with SFDR (e.g. for BP1).
- BP2 – some suggest moving disclosure to the BM. Require two indicators on gender diversity and add ‘share of independent members in the supervisory body’.
- BP3 – suggestion to merge with BP4, limit disclosure to high climate impact sectors, explicitly (mandatorily) requiring scope 3 emissions reporting, and specifying details like target year, value, some asked to add removals and avoided emissions from the emissions reduction targets.
- BP4 - clarify alignment with Paris Agreement and include external validation of targets. Suggestion to merge with BP3. Banks in particular asked to add question if SME has transition plan and an explanation of it, they are planning to have TP. Suggest including guidelines and specify actions and associated resources.
- BP5 - include specific details on identifying climate-related hazards, assessing vulnerabilities, and disclosing adaptation actions. One national banking association suggest replacing with: - geolocation of individual local units – NACE codes and turnover for

individual local units if different plus presence of insurance coverage for physical risk events with specific indication of: i) start date and expiry date, ii) type of risk (earthquake, floods, landslides, floods/inundations, other natural risks linked to the climate), iii) amount insured, iv) any deductible. One European banking association suggests simplifying requirements 79 (e) carrying value EPC.

- BP7 - title should mention human rights for better clarity.
- BP8 - add references to value chain and specify monitoring processes for compliance with international guidelines. Should not refer to OECD guidelines but national or other framework closer to SMEs.
- BP9 - cover both own workforce and value chain if material, and disclose topics related to any violations.
- BP10 – not useful for nearly a majority – not an SFDR datapoint.
- BP11 – disclosure unnecessary/ not needed – could be removed. Not an SFDR datapoint.

232. OTHER respondents had the following comments and suggestions:

- General comments
 - NGOs – perceive this module as essential
- BP1
 - Standard Setters
 - Wording/criteria of BP1 should be consistent with other disclosures or provisions (SFDR, EN-ISO). Clarify some data point definitions.
 - Include other influential sectors
- BP2: NGOs:
 - BP2 is important, however the current disclosure is insufficient.
- BP3
 - NGOs
 - Move BP3 to B3 to increase clarity within the standard.
 - Standard Setters
 - Merge BP3 with BP4.
 - Accountants
 - Most found it feasible, however online tools (approximation tools) should be provided to SMEs.
- BP4
 - NGOs
 - Make SMEs explain why they do not have a transition plan (if this is the case).
 - Standard Setters

- A national standard setter suggested adding sector-specific GHG emission intensity ratios defined in EFRAG's guidance, aiding SMEs in setting relevant targets. They suggest specifying carbon intensity ratios based on production units for high climate impact sectors to enhance sector-specific disclosures.
- BP5
 - Standard Setters
 - Some said existing disclosure requirements are not well defined - qualitative data points and need further clarification.
- BP6
 - NGOs
 - Data feasible and easy to collect.
 - Standard Setters
 - Data feasible and easy to collect. "Hazardous waste" should be better defined.
 - Accountants
 - Data feasible and easy to collect.
- BP7
 - NGOs
 - BP7 & BP8, extend the scope of BP7 to include considerations additional to the "own workforce".
 - Standard Setters
 - Some suggest cross-references should be deleted, and specific disclosure requirements extracted from these instruments and included in the VSME to make it accessible and user-friendly.
 - Accountants
 - Some suggest cross-references should be deleted, and specific disclosure requirements extracted from these instruments and included in the VSME to make it accessible and user-friendly.
- BP8 & BP9
 - Standard Setters
 - Some standard setters stated that understanding international instruments/guidelines is difficult for SMEs, and inapplicable to SMEs as they are not MNCs. SMEs should be directly provided with the information required to be disclosed.
 - Accountants
 - Some standard setters stated that understanding international instruments/guidelines is difficult for SMEs, and inapplicable to SMEs as they

are not MNCs. SMEs should be directly provided with the information required to be disclosed.

- BP10
 - Standard Setters
 - Some believed that the metrics were irrelevant and the entitlement to family benefits difficult to determine.
 - Accountants
 - Not relevant to some, the BP only addresses a small part of what should be included in a work-life balance analysis.
- BP11
 - NGOs, Standard Setters, Accountants
 - Not deemed essential

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: For **BP2**, some national and European SME associations as well as organisations representing users highlighted that governance roles are often filled based on family ties in family-run SMEs rather than gender diversity, making this indicator less relevant.

BP3) A European SME association argued assessment of scopes 1, 2, and 3 is costly and requires SMEs to receive external support, so should only be included for preparers seeking green financing, and Paragraph 76 of VSME ED should allow disclosing reduction targets in percentages/absolute number for clarity and easy use.

BP5) A European SME association requested clarifying that this datapoint is narrative and does not require specific data. SMEs do not always have data to share on physical risks, nor the knowledge that they are at risk. While they agree with the usefulness of this disclosure for many SMEs, for others, business organizations will have to work on awareness raising of such risks. Preparers should be required to narratively disclose information they have, and it will be the role of the users to assess the risks (e.g. banks).

BP8) A European body representing SMPs suggests limiting BP8 disclosure to processes to monitor compliance and mechanisms to address violations with one internationally recognized set of guidelines or standards. Alternatively, this disclosure could be replaced with a simple, objective metric that is easily achievable with the information that most non-listed SMEs have access to.

BP10) A European body representing SMPs suggests that while work-life balance is an important matter, this disclosure fails to capture a large element of the issue. More datapoints related to remote working, employee turnover and staff satisfaction surveys should be included.

Users:

BP1) For some BPs, an organisation representing users said the definition of some data points should be clarified to ensure that the data is relevant to the target users of VSME sustainability information.

BP2) An organization representing users highlighted that governance roles are often filled based on family ties in family-run SMEs rather than gender diversity, making this indicator less relevant for them. Also, as this data point is derived from the SFDR and primarily intended for investors or banks, its applicability to SMEs, which usually do not focus on the capital market, is questionable.

BP7) A business association user's feedback: "The international instruments referred to in BP 7- BP 9 are complex texts that SMEs may have difficulties understanding and managing. A simplified reference to a due diligence process would be preferable (e.g. for BP 7: possible reference to a Code of Conduct or to international guidelines being applied/referred to by the company)."

BP11) For BP11, an organisation representing users highlighted that the disclosure may not be widely relevant, but rather sector specific.

Question 31

FOR USERS ONLY: Disclosures in this module are reported if applicable, with the exception of BP 5, 7, 8, 9, 10 that are omitted when considered not material.

Do you agree with this approach?

233. In **Question 31 of Part 2, 13 out of 39 (33%)** Users answered the question.

Key Insights and Suggestions:

234. A majority of User respondents disagreed with the current approach.

235. Disagreeing User respondents offered a variety of comments: some said that the materiality analysis should not be required and should be removed fully for the SMEs, while others argued that all the disclosures should be based on materiality only (opposing views).

236. Some recurring criticisms were:

- The approach is confusing.
- For BP5, physical risk disclosure can be highly complex for SMEs who may need advisory services to perform such risk analysis.
- BPs 7, 8 & 9 are different from SME reality, and risk discouraging SMEs from disclosing necessary IROs relevant to their business partners.

237. USER respondents had the following suggestions:

- A few bank/investor users suggested it would be easier for SMEs to have a single rule: in the BP module, information should only be based on materiality.
- A bank suggested that SMEs should compile all KPIs; if the KPI is considered not applicable or not material they specify it as “not applicable (NA)” or “non-material (NM)”.
- On the other hand, some users and banking associations suggested that materiality analysis for potentially omitting BPs 5, 7, 8, 9, and 10 should be removed, and “if applicable” should be the rule in the whole BP module.

Question 32

Question 32: 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?

238. In **Question 32 of Part 2, 194 out of 311 (62%)** respondents answered the question.

Key Insights and Suggestions - aggregate:

239. A majority of respondents disagree with the question, indicating that the current disclosures (BP7, BP8, BP9) are suitable to cover the objectives mentioned on human rights.

240. Agreeing respondents highlighted the preference for referencing existing national regulations or standards, which SMEs are already mandated to comply with, as more practical and effective to

ensure compliance and transparency regarding human rights commitments – e.g. national labour laws, broader frameworks like OECD guidelines, UN Guiding Principles on Business and Human Rights, etc.

241. Disagreeing respondents mainly felt not well-positioned to answer, or unaware of suitable alternatives. Additionally certain respondents are in favour of the current harmonisation with SFDR.
242. Some found the BPs comprehensive but potentially overwhelming for SMEs due to their complexity. They are designed with MNCs in mind and may not be practical/relevant for SMEs.
243. Some favour harmonization with SFDR to support the development of reporting practices across different regulatory contexts and promote consistency, and comparability with established standards instead of introducing new disclosures.
244. Respondents had the following suggestions:
 - Create alternatives more aligned with SME capacities and operational realities, with clearer metrics and guidelines that are easier for SMEs to understand and implement.
 - e.g. SMEs-specific tools and certifications (such as UNGC participation) as structured frameworks for assessing and reporting human rights-related practices.
 - Include summaries for international texts unfamiliar to SMEs (as the language of these questions is often confusing); so, SMEs can understand and disclose under national laws and regulations.
 - Integrate supply chain management–related disclosures directly into the VSME ED to streamline reporting and focus on issues across the supply chain (e.g. like child labour).

Key Insights and Suggestions – by respondent type:

245. PREPARER respondents had the following comments and suggestions:
 - Preparers overall disagree with the question, stating that they are not well positioned to answer or are not aware of alternative disclosures that could be used.
 - Those that agreed, referred to existing national regulations/ standards.
 - Referring to authoritative national regulations/standards can be an alternative for SMEs.
 - Some were concerned with the VSME’s complexity (jargon, abbreviations, difficult terminology, references to other standards/guidelines like OECD, UN Guiding principles, etc.) hindering concrete application.
 - Suggest connecting to public registers to automatically collect these data - would be more feasible and trustworthy. Additionally, provide lists of information to be provided.
 - Add industry-specific direct questions regarding disclosures.
246. USER respondents had the following comments and suggestions:
 - A majority of User respondents disagreed saying they were not aware of more suitable alternative disclosures.
 - Banks and investors had a split view. No disagreeing arguments were provided. Banks and banks associations that agreed with the need to use alternative datapoints, suggested to

replace it with multi-checkboxes of possible answers. Additionally, certain banking associations found this disclosure to be too complex suggesting further simplifications.

- Respondents that agreed favoured harmonization with SFDR and considered the frameworks mentioned under BPs 7,8 and 9 the most relevant human rights frameworks.
- Some users were concerned that the disclosures were too complex for SMEs.
- The topics should be simplified in the VSME to accommodate SMEs.
- Some Users requested calculation tools.
- Some suggested specific changes:
 - Replacing BP11 with disclosure on supply-chain management
 - Moving BP7 to basic module under HR policies-related disclosures
 - Ensuring BP8 & BP9 should cover both workforce and value chain.

247. OTHER respondents had the following comments and suggestions:

- NGOs:
 - Majority disagreed with the need to include alternative disclosures.
- Standard Setters:
 - Split views: Those in favour of adding additional datapoints suggested to merge BP7, BP8 and BP11 as SMEs usually cover human rights under a single policy, and then moving this disclosure to the narrative module.
 - Although there are other national regulations/standards and business partners' requirements, they highlight the complexity of adhering to international frameworks like the UN, OECD, and ILO, noting that SMEs are generally unfamiliar with these guidelines (while keeping BP9 in the BP module). They also argue against including SFDR PAI requirements for SMEs, as these are burdensome and not aimed at SMEs, which typically do not access capital markets.
 - Those that disagreed favour harmonization with SFDR as they believe SMEs lack the resources to gather data from extensive documents like the UN Guiding Principles and the OECD Guidelines.
- Accountants
 - Small majority of accountants disagreed with the need to add alternative disclosures covering BP7, BP8 and BP9's objectives.
 - Those that agreed highlighted additional relevant international and national laws and standards such as the UNGC. SMEs focus on enforcing these national laws and should also do it in the VSME report.
- OTHER respondents had the following suggestions:
 - Extract key elements from international guidelines and specify simple, objective, relevant metrics/information already available with SMEs.

- Align the VSME with the CSRD to ensure consistency in methodology, definitions, and terminology across EU regulations - include comprehensive and relevant points from ESRS if feasible.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: A few SME preparer organisations said that these datapoints are not feasible for preparers - they must be rephrased for SMEs to be able to disclose concrete policies in place, and users would have to link it with international human rights and environmental standards. A few organisation representing Users suggested that alternatively, an SME's own code of conduct could replace the requirements of BP 7, 8, and 9. An SME Preparer mentioned that SMEs operating only in certain EU countries are bound to human rights standards by law, and excessive reporting with lots of cross-references will discourage them while not adding any value for users.

A few organisations said SMEs may not have resources to collect information from long, complex, and often high-level documents such as the UN Guiding Principles, OECD Guidelines, etc. so suggest replacing these disclosures with simple, objective metrics that should be relatively easily achievable with the information that most SMEs will possess on their workforce, etc.

Users: An organisation representing Users suggested that alternatively, an SME's own code of conduct could replace the requirements of BP 7, 8, and 9.

Question 33

Question 33: 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”)?

248. In **Question 33 of Part 2, 222 out of 311 (71%)** respondents answered the question.

Key Insights and Suggestions - aggregate:

- 249. A majority of Preparers and Users supported dividing the BP module into sub-modules for banks, investors, and large corporates, while a majority of ‘Other’ respondents disagreed.
- 250. Banks (focusing on risk management), investors (on long-term growth), and corporates (on supply chain sustainability) have distinct information needs.
- 251. Aligning requirements through sub-modules will help SMEs provide targeted/relevant data, improve accuracy/utility of the information, support compliance, facilitate better decision-making for stakeholders, and encourage broader adoption of sustainability standards across different sectors.
- 252. Sub-modules would facilitate tailored disclosures and improve comparability of sustainability performance across entities.
- 253. Some respondents supported a one-size-fits-all approach to limit the complexity and burden on SMEs.
- 254. Suggestions included the following:
 - Maintain coherence of VSME modules with regulatory contexts and interest group information needs (by updating disclosures, adding modules if necessary) to encourage widespread adoption and simplify reporting processes.

- Ensure that any segmentation into sub-modules does not overly complicate reporting, or burden SMEs with varying standards.

Key Insights and Suggestions – by respondent type:

255. PREPARER respondents had the following comments and suggestions:

- Business / Sector international/ European or national organizations (as proxy for SMEs) as prepares were against the sub-modules proposal.
- Suggestions include:
 - Sector-specific segmentation to enhance data quality and relevance, especially for SMEs dealing with banks rather than investors.
 - Align disclosures with stakeholder needs, to avoid unnecessary content preparation.
 - Allow SMEs to selectively supplement the BM with specific disclosures from the PAT/BP modules to meet individual business partner needs (partial module application). Assist with selection of the relevant models for SME use.
 - Integrate sector-specific disclosures into BPM instead of creating sub-modules, sector-specific module split when SME sectoral standards are established.

256. USER respondents had the following suggestions:

- Make the first phase of the VSME minimalistic to not overburden SMEs; can be expanded in the future when reporting ability of SMEs evolve and User requirements become increasingly specific.
- Allow SMEs flexibility in responding to specific data points under the BP module such as SFDR-related requirements, based on the requesting entity (e.g., large corporates vs. banks).
- Move essential data points always required by banks from the BPM to the BM and tailor remaining disclosures to relevant stakeholders.

257. OTHER respondents had the following comments and suggestions:

- NGOs
 - Split views (50/50). Those agreeing, state that it would improve the quality of data and make it more coherent with the regulatory context. Those against that's that a one-size-fits-all approach is best for SMEs as it would avoid costs and resources.
- Standard Setters:
 - Standard Setters oppose this proposal to split into sub-modules. It would be premature at the current point in time.
- Accountants

- Majority disagrees with splitting it into sub-modules as it would avoid an unnecessary burden of SMEs.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: A few SME Preparer organisations said that different sub-modules would give clarity and be easier to use for SMEs, and they would not be overwhelmed by too many complex questions but only the ones applicable to them. A few organisations representing Preparers supported splitting the BP module to meet differing data requirements of banks, investors and large companies. An SME Preparer association said being able to focus on relevant data points will encourage SMEs to use the VSME. An SME Preparers organisation said it would be very beneficial to split, with as broad as possible common body, depending on the consultation outcome.

Users: two non-financial sector industry associations said it would make the standard more complex and is not needed if reporting entity SMEs can choose to incorporate specific BP's as per paragraphs 11 and 19 depending on specific reporting needs. Other users business associations said a modular approach reflects the heterogeneity of SMEs, and the BP module should be split up, as the data requirements of banks, investors, and large companies are very different. A need for sector-specific modules or standards is not seen; SMEs can include additional specific information if required.

Question 34

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?

258. In **Question 34 of Part 2, 232 out of 311 (75%)** respondents answered the question.

Key Insights and Suggestions - aggregate:

- 259. A majority of respondents from all categories disagreed with including the proposed datapoint on EU-taxonomy.
- 260. However, some respondents commented that adding datapoint and aligning definitions could prevent the creation of parallel questionnaires and facilitate requests from corporate clients needing to comply with EU Taxonomy.
- 261. Many commented that it would be too complex and difficult to understand the taxonomy for SMEs, and overly demanding given their limited resources.
- 262. Split views between standard setters.
- 263. Suggestions included the following:

- Include datapoint as 'optional/voluntary' to avoid overburdening SMEs while raising awareness, potentially improving data quality, enhancing market opportunities, and helping SMEs align with broader sustainability goals and EU Taxonomy regulations.
- Clear guidance and tools for calculation to help SMEs meet corporate clients/investors' requirements, streamlining supply chain processes, and enhancing transparency.
- Include EU Taxonomy-related questions for clarity over EU Taxonomy alignment analysis, access to sustainable finance.

Key Insights and Suggestions – by respondent type:

264. PREPARER respondents had the following comments and suggestions:

- Postpone inclusion of this data point until a user-friendly and economical tool becomes available – e.g. the 'proportionate tool' from the EU Platform on Sustainable Finance.
- Those that agreed with the suggestion felt this data point should be optional/voluntary, as SMEs may struggle to provide such information.
- Include as an optional disclosure if EFRAG sees substantial market demand.
- A standardised disclosure would prevent proliferation of parallel questionnaires and improve overall ESG data quality.
- Preparers overall disagree (small majority) with adding this datapoint.

265. USER respondents had the following comments and suggestions:

- Only large corporates need this information, and it is too burdensome for SMEs to include it in their reports (consensus that this datapoint would be too complex for SMEs).
- Suggestions included:
 - Keep disclosure voluntary- SMEs should only disclose data on emission reductions using specific solutions, without needing to compare them with alternatives.
 - Provide tools to facilitate the calculation, alleviate burden, and ensure smoother compliance.

266. OTHER respondents had the following comments and suggestions:

- Standard Setter
 - Split views with some arguing in favouring saying that this should be included as optional. Those against stated that the datapoint is not essential and too complex for SMEs.
- NGOs
 - A (small) majority disagreed, stating that the datapoint should only be included as voluntary/ optional. Those against stated that the datapoint is not essential to have for SME and the process for SMEs should be made as simple as possible.
- Accountants

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- The majority agreed. This datapoint should be made voluntary/ optional to avoid complexity for SMEs, but that the datapoint could provide useful information for banks.
- Those who disagreed with the inclusion of this additional datapoint, stated that it would be too complex for SMEs.
- It could improve data quality; however, a majority felt the ESG reporting process for SMEs should remain as simple as possible to avoid undue burdens/costs.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: An organisation representing Preparers said that Taxonomy is too complex, and the VSME already includes a lot of complex datapoints. A few SME Preparer organisations said it's premature to add this as it would be irrelevant for a majority of SMEs and is not a priority issue currently. They suggested including it as an additional datapoint at the end of the VSME clearly indicating that it only applies to the mentioned sectors and include an overview of relevant links and further resources. Another SME association suggests making it voluntary.

Users: An organisation representing Users said the Taxonomy is too complex for SMEs. A business association said the VSME ED should not include additional datapoints for EU-Taxonomy and keep the standard simple, and first gain more experience on the usability and impact of the EU taxonomy before guiding SMEs towards this instrument and related metrics. A bank association user said it would overburden SMEs' resources. However, a few organisations representing users asked for an SME-approach in the Taxonomy framework to align VSME-based sustainability reporting and ability for SMEs to voluntarily report Taxonomy-aligned info needed by large companies, and financial institutions (per SFDR/Pillar 3).

Question 35

Question 35: 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 VSME ED.

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

267. In **Question 35 of Part 2, 223 out of 311 (72%)** respondents answered the question.

Key Insights and Suggestions - aggregate:

268. A majority of respondents preparers and others and most of the users found the guidance useful in facilitating sustainability reporting for SMEs.
269. Some pointed out remaining concerns regarding language use, calculation complexity, need for clearer definitions, and alignment with external standards.
270. It could be made more accessible with language simplification and include more tools and examples. (e.g. in specific sectors or according to size sizes).
271. Suggestions included:
 - Sector-specific guidance to make the standards more relevant and easier to apply in different business contexts.
 - Create user-friendly easy-to-use tools that guide SMEs through the preparation of sustainability reports step-by-step.
 - Consolidate and streamline guidance avoiding duplicate requirements across BP and Narrative-PAT modules.

- Hyperlinks within the main guidance text for easier navigation and access.

Key Insights and Suggestions – by respondent type:

272. PREPARER respondents had the following suggestions:

- Ready-to-use reporting templates (e.g. for transition plans, financial planning) tailored for SMEs + avoid complex terminology.
- Collaboration with SMPs to promote the use of these tools and templates among SMEs.
- Include practical examples relevant to SMEs, particularly based on industry classifications (NACE codes).
- Additional guidance for specific disclosure BP 4, 5, and 7,8, 9 to address complexities and provide practical insights.

273. USER respondents had the following suggestions:

- Align calculation methodologies (such as 'gender diversity ratio' and waste reporting) with current regulatory recommendations for consistency.
- Implement a digitalized tool/interactive platform to help SMEs understand and comply with the VSME reporting requirements.
- Develop standardized reporting template tailored specifically for SMEs with step-by-step completion guide.

274. OTHER respondents had the following suggestions:

- Expand with more practical, concise, SME-tailored information.
- Enhance the guidance with interactive elements, e.g. hyperlinks for easier navigation, and comprehensive technical assistance.
- Simplify language and definitions to make the guidance more accessible.
- Integrate sector-specific guidance - an 'implementation guidance' outlining material sustainability issues per sector in a concise table format
- Update guidance based on practical implementation experience/feedback to refine and keep relevance.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: Two SME Preparer organisations said that SMEs find the guidance overly complex due to language and lack of clear explanations, and struggle with interpreting - concerns were raised about sections like paragraph 169, which redundantly repeat information from BP1, and paragraph 170, which adds complexity without providing additional value for SMEs. Another suggested in the future formulas could be integrated in platforms where SMEs can just insert their data. Links to long lists of legislation are not helpful for SMEs.

Users: No feedback received.

Question 36

Question 36: FOR USERS ONLY: Are there any datapoint(s) missing from this module that you consider as essential to meet your information needs?

275. In **Question 36** of **Part 2**, **28 out of 39 (72%)** Users answered the question.

Key Insights and Suggestions:

276. Overall users disagree on the need to include additional data points. However, banks and investors along with SME business partners indicated the need to include additional datapoints.

277. Users suggested a list of datapoints to be added, covering the disclosures BP3, BP8, BP9, BP4, BP5, as well as some general datapoints relating to all BPs.

278. The users that considered additional data points not needed said that datapoints are sufficiently extensive to cover their information needs. This may change with the evolution of regulations.

279. In addition to the suggestions included in the previous part of this report (under Q13, Q14, Q25, Q27, Q30 and Q36), respondents offered the following:

- Divide datapoints further as per the value chain for granularity in analysis - distinguishing data from a company's own operations, clients (downstream), and suppliers (upstream), as most impacts likely come from the value chain.
- National authorities asked to identify which VSME points are already covered by national regulations, for SMEs to know if they meet the disclosure already.
- Providing accessible data sources and documentation to ease reporting burden and support SMEs.

Question 37

Question 37: FOR USERS ONLY: Appendix C of VSME ED reflects the SFDR, Benchmark, Pillar 3 datapoints in VSME ED. This is to support particularly banks and investor to compare the data between SMEs and larger clients and to allow for aggregation.

Is Appendix C clear?

280. In **Question 37** of **Part 2**, **28 out of 39 (72%)** users (that responded to the questionnaire) answered the question. All 28 respondents agreed that Appendix C is clear.

Key Insights and Suggestions:

281. User respondents commented that the appendix is clear, helps reconcile the data points in VSME ED, provides traceability, and describes the data and information to be disclosed relatively simply.

282. Respondents had the following suggestions:

- For SFDR references, the name of the indicator, currently as a footnote, could be included in the table.
- In cases (if any) where the reference law does not mandate it, include a methodology for calculating the specific KPIs.

Question 38

Question 38: FOR USERS ONLY: Do you think that the ability of VSME ED to replace the existing ESG questionnaires or other ESG information requests can be further increased, if some datapoints were added to VSME ED?

283. In **Question 38 of Part 2, 30 out of 39 (77%)** user respondents answered the question.

Key Insights and Suggestions:

284. Overall, Users stated that if some datapoints were added to SM ED, the VSME ED could better replace existing questionnaires. However, banks and investor users indicated that this would not be the case as those additional data demands may be specific to the relationship with the SME and cannot be standardised.

285. One large undertaking highlighted that it would be premature to judge the type of data/metrics to be added as corporates are still preparing for the first full ESRS reporting period and sufficient insights are unavailable yet.

286. Additional reasons are summarised in the table below:

Main Reason for Disagreeing	Further explanation	Other Reason
Data demands that are specific to your relationship with the SME and cannot be standardized.	1. Sector-specific data is not suitable for a sector-agnostic VSME ED. 2. The Standard must contain all the KPIs that banks need to comply with their legal obligations or regulators' expectations but, the VSME cannot be exhaustive concerning other objectives (e.g. Risk management, lending, etc.).	1. There is little extra value in asking for more data if it cannot be considered for homogenous insights. 2. Banks, as well as other users, may need to investigate peculiar aspects of some groups of SMEs or of all SMEs with respect to further topics that cannot currently be foreseen. The goal is to make these cases residual, but they could occur. 3. Adding too much material and request of information may radically and negatively affect VSME. 4. Sector-specific data may need a specific further representation, and some supply chain questionnaires are very hard to comply with.
Other reasons	NA	1. The Business Partners Module is already very complex, and it does not make sense to increase the datapoints requested from an SME. 2. There is no need to add further data points for VSME ED to replace other existing ESG questionnaires or other requests for ESG information. 3. The current set of data points appear to be quite comprehensive with more insights and practice it may potentially be possible, that selected datapoints may need to be added.

Table 1: Criticisms/details of respondents for disagreeing

287. USER respondents presented the following suggestions:

- Incorporate sector-specific datapoints to improve relevance and applicability across different industries. Sector-specific modules within the VSME cater to the unique needs of different stakeholders. This will further streamline ESG reporting.
- Align VSME with international best practices and standards
- Implement user-friendly, free online reporting tools to simplify process for SMEs.

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- One investor-organization user highlighted potential synergies with the 'Invest Europe ESG' reporting template, advocating for sector-specific granularity and comprehensive data collection to address both fund-level and company-level requirements.
- One bank user suggested making VSME into an 'online fillable tool' for SMEs that generates standardised report for them.

Question 39

Question 39: Please provide any further comments not addressed in part 1 or 2 of the questionnaire here:
[Comment box]

288. In **Question 39 of Part 2, 62 out of 311 (20%)** respondents provided additional comments.

Key Insights and Suggestions - aggregate:

289. Preparer and Other respondents had similar concerns, mostly regarding how the regulations might overburden the SMEs.
290. User respondents highlighted value chain concerns.
291. Some Preparer respondents said the proposed regulations will overburden SMEs, particularly micro-SMEs with minimal staff, as they are already struggling with existing regulatory demands.
292. The extensive reporting requirements associated with CSRD, ESRS, SFDR, and the PAT and BP modules are seen as excessive and complex, for SMEs with limited resources.
293. Need for practical examples, clear explanations, and a clear distinction between mandatory and voluntary reporting for SMEs.
294. Need for coherence with national standards and a focus on value chain concerns.
295. Additional suggestions included the following:
 - Streamline and make the VSME practical with clear definitions and sector-specific guidance to reduce the compliance burden on SMEs.
 - VSME should address the challenges SMEs face in collecting data across the value chain and ensure data protection to avoid disclosing sensitive information.
 - Clarify how VSME interacts with existing sustainability and quality standards, provide sector-specific guidance to improve usability and comprehensibility.
 - Guidance should be provided for businesses with limited control over their operations, such as franchises, and for purpose-driven businesses to report on their broader impact.

Key Insights and Suggestions – by respondent type:

296. Respondents from the PREPARER category had the following additional suggestions:
 - Address challenges in collecting value chain data for SMEs with limited bargaining power and ensure compliance with data protection rules.
 - Clarify how sector-specific standards will interact with the VSME and align with existing sustainability and quality standards (e.g., ISSO, EMAS).
297. Respondents from the USER category had the following additional suggestion:

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- Establish specific online platform for collecting and disseminating sustainability reporting data from unlisted SMEs, making it freely available to banks and other users to enhance accessibility and transparency.
- Collect ongoing feedback from SMEs on ESG data requests to refine requirements and consider allowing references to established standards like EcoVadis, along with providing sector-specific guidance.
- Relocate the guidance to the main body of the standard, placing each disclosure requirement immediately after its corresponding guidance to improve readability and practicality for SMEs with limited resources.
- The following specific changes were suggested by a national business association:
 - Shift from a value chain to an activity chain approach
 - Omit parity issues in small boards
 - Update financial thresholds for entity status
 - Clarify the definition of "basic salary"
 - Remove certain detailed training data requirements
 - Clarify the inclusion of apprentices or trainees
 - Refining the definition of "Worker in the value chain"

298. Respondents from the OTHER category had the following additional suggestion:

- Attention to overburden the SMEs: they find the current regulatory framework potentially too complex, time-consuming, and demanding.
 - This is particularly micro-SMEs with limited resources that could affect their growth, due to excessive bureaucracy, and even affect their survival.
- Some commenters including a few SME preparer organisations, and organisations representing preparers emphasise that current modules, (particularly PAT and BP), are overly complex and time and resources consuming. This is unnecessary and burdensome, especially for SMEs without dedicated compliance teams.
 - Other comments from business associations of preparers and users can be found in the box below.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: An SME association, as well as an organisation representing users highlighted that the PAT and BP modules are often seen as overly complex by many SMEs, particularly due to the required materiality assessment and the complexity of narrative disclosures. An SME association suggested to simplify the standards and provide clear definitions and sector-specific guidance to reduce the compliance burden on SMEs.

Users: An User association recommended postponing the implementation of complex modules like the PAT until they are better developed to serve all companies, including large ones, so this gradual approach would allow for a smoother transition and more effective adoption. **Users:** An association recommended postponing the implementation of complex modules like the PAT until they are better developed to serve all companies, including large ones, so this gradual approach would allow for a smoother transition and more effective adoption. Another User association emphasizes the importance of VSME standards including all relevant SFDR, climate benchmarks, and Pillar 3 indicators to ensure coherence with ESRS Set 1,

Question 40

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

299. For **Question 40** of **Part 2**, **43 of 311 (14%)** respondents provided additional attached comments.

Key Insights and Suggestions:

300. The comments received could broadly be classified into different types of arguments:
- Some comments related to simplification of the VSME BPM or asked for proportionality, considering the varying sizes and sectors of SMEs.
 - A second group were requests for more support: digital tools, detailed guidance, fillable guides and examples, etc.
 - Another was regarding the complexity of language, alignment and consistency, relevance and feasibility of data collection, sector-specific guidance, etc.

301. Specific comments grouped by topic are compiled below:

- Simplification and proportionality:
 - VSME should be simplified to ensure it is cost-effective for SMEs.
 - SMEs encounter complexity in gathering required data, i.e. value chain, energy consumption
 - The following suggestions were proposed:
 - Reduce materiality analysis requirements.
 - Provide clear, practical guidelines to facilitate easier compliance and reporting.
 - One national authority/organization advocated making VSME more accessible to SME needs, with clearer definitions, simplified language, and reduced requirements to mitigate legal and practical barriers.
- Request for support (digital tools, detailed guidance, fillable guides, examples):

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- Tools/guidance should help SMEs navigate the complexities, ensuring they can comply with market demands for sustainability reporting without being overwhelmed by administrative burdens.
- Suggestions included:
 - Simplify the standards, provide digital tools, and offer clear, practical instructions to make the process more accessible and manageable for SMEs with limited resources.
 - One European body representing SMPs Preparers called for comprehensive implementation support, including a Q&A, 'how-to' guides, and electronic tools to ease the transition for SMEs adopting the VSME.
- Complexity of language:
 - The current technical language and extensive use of abbreviations make the standards difficult to understand and implement.
 - The Narrative and Business Partner modules are considered overly complex for SMEs.
 - Suggestions included the following:
 - Revise the standards to use simpler language/ enhance clarity.
 - Focus primarily on the Basic Module.
 - Provide clear guidelines and practical examples.
 - Provide sector-specific guidance.
 - Develop a digital platform for data collection and sharing.
- Relevance and feasibility of data collection:
 - SMEs face challenges (human and financial resources) regarding data collection
 - Suggestions included the following:
 - Reduced requirements to mitigate legal and practical issues with data collection.
 - Sector-specific data requirements to help SMEs integrate relevant sustainability indicators without being overwhelmed by generic standards.
 - One national authority/standard setter argued for supplementation with additional data points to meet regulatory and financial sector needs effectively.

Feedback received from associations representing preparers and users that responded under the category Other (please specify):

Preparers: An SME Association called for reducing administrative burdens and ensuring the standards are cost-effective for SMEs, by simplifying the BM and making it the only required module, as well as providing clearer guidelines and practical examples. A few SME associations, advocate for more support and flexibility in the standards, and for clearer guidance on data collection and materiality analysis, as well as sector-specific assistance to reduce fragmentation. A national SME association recommends simplifying the VSME standards with clearer language, guidelines, and practical tools to help SMEs comply without external assistance. Additionally, they urge implementing regulatory safeguards to protect SMEs from indirect reporting burdens imposed by larger companies.

Users: A Users association supports voluntary standards to alleviate reporting burdens, while an industry association representing user suggests simplifying the Due Diligence Assessment process for SMEs. While it supports flexibility in reporting choices for SMEs, it stresses if SMEs opt for more detailed disclosure requirements, such as those from the BP module, they should fully comply with those standards, to enhance transparency and credibility in communication with financial stakeholders. Another User association supports including all relevant SFDR, climate benchmarks, and Pillar 3 indicators in VSME standards to ensure coherence with ESRS Set 1 for consistency and comparability. They also emphasize addressing scope differences between VSME and SFDR disclosures, especially regarding policies, processes, and violations, to ensure comprehensive reporting.

Part 3

Question 41

Q41. Do you agree with the approach taken by EFRAG on the Value Chain Cap? Yes/No.

If Yes: Please explain your answer.

If No: Are you willing to provide detailed feedback based on Annex 3?

If No: please explain your answer in brief.

If Yes: Select the areas of disclosure (from the table below) for which you disagree with EFRAG conclusion

Key Insights and Suggestions:

- 302. A majority of preparers and users agree with the current value chain cap.
- 303. However, national and European standard SME associations as well as a majority of Standard Setters disagree and ask for the VSME to be the value chain cap.

Key Insights and Suggestions – by respondent type:

- 304. PREPARER respondents had the following comments and suggestions:
 - The majority of SME respondents agreed with the current value chain cap. However, national and European SME associations disagree and ask for the value chain cap to be the VSME.
- 305. USER respondents had the following comments and suggestions:
 - The majority of bank/ investor respondents agree with the current value chain cap.
 - The majority of large undertaking respondents agree with the current value chain cap.
- 306. OTHER respondents had the following comments and suggestions:

- NGOs:
 - The majority of NGOs agree with the existing value chain cap.
- Standard Setters:
 - The majority of standard setters disagree with the current value chain cap stating that the value chain cap should be the VSME.

Question 42

Q42. Do you have any other comment on value chain?

Key Insights and Suggestions:

307. A significant number of comments were repeated from Q41.

308. Additional comments were:

- Some of respondents that requested the VSME to be the value chain cap, highlighted in this question that this would imply modifying the current CSRD law. These respondents suggested therefore to modify the value chain cap following the first post-implementation review of the CSRD.
- In addition to this, few requested for an additional legal requirement to limit BP requests to the VSME value chain cap (to occur with the amendment of the CSRD as proposed in the paragraph before).