

EFRAG Voluntary Sustainability Reporting Standard for non-listed SMEs (VSME)

Cover Letter

December 2024



Mrs Maria Luís Albuquerque

European Commissioner for Financial Services, Financial Stability
and Capital Markets Union
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17 December 2024

Dear Commissioner Albuquerque,

Subject: EFRAG’s technical advice to the European Commission regarding the Voluntary Sustainability Reporting Standard for non-listed SMEs (‘the VSME’).

It is my great pleasure to deliver to you today, as technical advice to the European Commission, the Voluntary Sustainability Reporting Standard for non-listed SMEs (‘the VSME’). The EFRAG Sustainability Reporting Board (EFRAG SRB), which I have the pleasure of chairing, finished its work on this Standard in November. The voting on the VSME took place on November 13 2024. The VSME is a deliverable for the European Commission’s SME Relief Package (September 2023), tasking EFRAG with developing a simple and standardised framework for non-listed SMEs to report on ESG issues, creating better opportunities to obtain green financing and thus facilitating the transition to a sustainable economy. In the context of the European Commission Presidency’s statements with respect to burden reduction and an omnibus initiative on certain pieces of legislation, including the CSRD, we asked the European Commission representatives who participate in our board meetings as observers to confirm whether the delivery of this technical advice, which was initially planned to happen before the end of this year, was still appropriate. They kindly confirmed that this was the case in a public session of the EFRAG SRB held on December 12 2024.

It is important to mention that a fundamental aspect of this Standard is its market acceptance both from the users’ side (i.e. acceptance by business partners to replace their multiple questionnaires and use instead the VSME to gather sustainability data from SMEs) and the preparers’ side (i.e. SMEs accepting the VSME as a reporting tool to start their sustainability journey and monitor sustainability performance while also responding to growing requests of sustainability data from business partners). Hence the VSME has been designed through extensive outreaches and engagement with all parties. However, we firmly believe that to further increase the market acceptance of this Standard, the European Commission and the Member States need to accompany the VSME with the development of free-of-charge tools and platforms for the SMEs. This would also allow for the reaching of the full ambition of the VSME set out by the European Commission’s SME Relief Package.

From 22 January 2024 to 21 May 2024, EFRAG conducted a public consultation on the Exposure Draft of the VSME (‘the VSME ED’). We are particularly pleased by the level of interest that this initiative has triggered in all the steps of our due process. During this public consultation, we received significant input from a wide range of stakeholders via the online survey, field tests and comment letters. Preparers and users have expressed support for the VSME as a simplified reporting tool that is a credible replacement for a substantial portion of current business partners questionnaires (i.e. banks and large companies, heads of supply chains). On this basis, we are confident that the VSME offers satisfactory coverage of most recurring data demands.

Stakeholders also suggested some recommendations for additional simplifications that have been taken on board by the EFRAG Sustainability Reporting Technical Expert Group (EFRAG SR TEG) and the EFRAG SRB. These simplifications are described in the Basis for Conclusions submitted along with the Standard itself.

Please allow me to briefly share below what I believe are the main takeaways of our due process, together with the main features of VSME.

Online platform and digital tools

A recurring message from both preparers and users is that the VSME should ideally be available as an online reporting template. As highlighted by the Cost-Benefit Analysis (CBA), the availability of a repository (inspired by existing platforms) where SMEs can populate online templates and where banks and other counterparties (large corporates in supply chains) can have access to the data would help to fully realise the expected benefits. The business counterpart questionnaires would be replaced by downloading the necessary data from this online platform. We encourage the European Commission and Member States to develop such platforms. EFRAG may contribute to playing a coordination role to ensure consistency in the implementation of the VSME. In addition, stakeholders requested the development of digital tools such as online calculators (e.g. GHG calculators) and databases (e.g. geolocation-based databases) as these would greatly simplify the usability of the VSME, especially if they can be freely available and recognised at the EU level so as to provide a common reference basis. EFRAG may play a role in mapping existing tools.

Think small first: removal of the materiality concept from the Standard

In the VSME, the materiality analysis is replaced with the ‘if applicable’ principle. This allows us to guide SMEs by pre-defining circumstances that trigger disclosure while remaining consistent with the sustainability issues across ESG topics identified in the ESRS (European Sustainability Reporting Standards). The request to remove the concept of materiality emerged in the public consultation since it was considered too complex by SME preparers while users (particularly banks and investors) questioned the reliability of the possible results of the materiality analysis. As such, they indicated a general preference for replacing it with the ‘if applicable’ approach that would be more adapted to the capabilities and expectations of SMEs. This was corroborated by the CBA’s preliminary results that identified materiality analysis as an important cost driver for SMEs. On this basis, EFRAG SR TEG and the EFRAG SRB agreed to remove the materiality analysis from the VSME and replace it with the ‘if applicable’ principle.

Modularity and simplified language

Modularity and simplified language are two key dimensions of proportionality in the VSME meant to fit the needs of very different undertakings – from micro-undertakings (below 10 employees) to small and medium ones with up to 250 employees. To allow for the lowering of the entry barrier, the language of the Standard has been carefully simplified, while the modularity allows for flexibility and progression in the disclosures. The VSME is composed of an entry-level, Basic Module (11 disclosures) and a Comprehensive Module (9 disclosures), which aims at providing more comprehensive information to the business partners on top of what is already provided in the Basic Module. The original Narrative Module on Policies, Actions and Targets (Narrative-PAT Module) proposed in the Exposure Draft was deleted as considered too complex both by preparers and users due to the narrative elements that are difficult to compare and aggregate. Users considered a semi-narrative approach as preferable (e.g. moving to a checklist of YES/NO questions). EFRAG SR TEG and the EFRAG SRB acknowledged the feedback received on complexity and agreed to delete the Narrative-PAT Module while keeping a simplified version of the former disclosures on business model, practices, policies and future initiatives towards sustainability within the Basic and Comprehensive Modules of the VSME.

Confidentiality concerns

During the public consultation, certain SME associations of preparers raised concerns regarding confidentiality in the publication of the information, particularly in the publication of the VSME report. In order to tackle these concerns, EFRAG SR TEG and the EFRAG SRB clarified that the primary function of the report is to inform business counterparties (i.e. the main purpose is bilateral exchange of information), but the VSME will also support those that want to publish the report.

Additional remark on the inclusion of the streamlined EU Taxonomy for non-listed SMEs

Noting that the Platform on Sustainable Finance (PSF) is currently working to define a streamlined approach inspired in the EU Taxonomy for non-listed SMEs to foster access to sustainable finance and that at the date of finalisation of the VSME this work has not yet been concluded, the EFRAG SRB members decided not to include a placeholder for it in the VSME at this stage. However, the EFRAG SRB recommends that the European Commission consider the addition of a placeholder for it or follow another appropriate approach to fostering synergies with the VSME in the future, once the streamlined EU-taxonomy-inspired approach is finalised.

Following these decisions taken by EFRAG SR TEG and the EFRAG SRB, these changes were discussed with and confirmed by SMEs and banking associations during two separate ad hoc workshops in September 2024. The VSME was considered both as proportionate by SME associations and adequate by banking associations.

VSME Ecosystem

To reach the full benefits and foster market acceptance of the VSME, EFRAG envisages launching complementary initiatives under the so called ‘VSME Ecosystem’ as follows:

1. SME Forum: establishing and animating an SME Forum that would be composed of all relevant stakeholders (users, preparers, platforms, rating agencies, national standard setters, etc.) to promote and ensure market acceptance of the VSME. This includes promoting VSME-based initiatives and tools, including digital tools, educational material and translations;
2. mapping of VSME initiatives: these include mapping of relevant initiatives onto SME sustainability reporting and mapping of digital platforms and tools as well as public events organised to raise awareness about the mapping;
3. outreach events and training sessions possibly in different countries and with partners to raise awareness about the VSME Standard and the VSME guidance as well as related educational material;
4. survey on VSME acceptance to measure the use and acceptance of the VSME Standard with help of national standard setters and or authorities; and
5. VSME supporting guide: the list may include (i) templates of the VSME report and mockup disclosures; (ii) guidelines for and examples of actions/policies in relation to sustainability issues to be used as a dropdown menu for a future VSME online template; (iii) examples of climate change actions or transition plans for SMEs; and (iv) examples of impacts on workers in the value chain and affected communities for SMEs and others.

Concluding note

I believe that the VSME’s features and simplifications described above constitute an appropriate response to the public consultation as well as a balanced and fair reflection of the various perspectives considered by EFRAG SR TEG and the EFRAG SRB. I am confident that we have struck the right balance between meeting the needs of business counterparts and the creation of a standard that is simple and operable for SMEs.

I would like to reiterate that the success of this Standard relies upon its uptake by financial institutions and large undertakings as well as its use by SMEs. For this reason, I would like to stress the importance of ensuring that from an institutional perspective this Standard is accompanied by the needed ecosystem, including relevant tools, online platforms, capacity building and guidance. There is an important role to be played by EFRAG together with the European Commission, the Member States, the SMEs, large businesses and banking communities, the European banking authorities, national standard setters and various

institutions to encourage the uptake of the VSME as a reference set of ESG data to which the market commits.

I would like to thank my fellow EFRAG SRB members and observers. As a team we are pleased to have achieved this milestone in supporting SMEs in their sustainability journey.

My gratitude also goes to Sven Gentner and his team at DG FISMA for placing their trust in the EFRAG SRB and for supporting us during this entire process. Additionally, I would like to warmly thank the members and observers of EFRAG SR TEG and the members of the EFRAG Secretariat for their tireless support.

If you would like to discuss our advice further, please do not hesitate to contact either myself or Elisa Bevilacqua (EFRAG Senior Technical Manager).

With kind regards,

A handwritten signature in black ink that reads "Patrick de Cambourg". The signature is written in a cursive style with a long, sweeping tail on the letter 'g'.

Patrick de Cambourg (Chair of the EFRAG SRB)

A handwritten signature in black ink that reads "Chiara Del Prete". The signature is written in a cursive style with a small loop at the end of the last name.

Chiara Del Prete (Chair of the EFRAG SR TEG)

17 December 2024