

Executive Summary

- Eurosif welcomes this consultation on the VSME Exposure Draft. High-quality, comparable, and reliable corporate sustainability-related disclosures are a cornerstone of the EU sustainable finance framework.
- Sustainability-related disclosures are essential for accelerating the transition to a sustainable economy. The European Commission estimates that an additional €700 billion in investments is needed annually to meet the EU's climate targets¹. A significant portion of these investments will have to be leveraged by the private sector. SMEs represent 99% of all businesses in the EU, constitute more than half of the EU's GDP and employ about 100 million people, hence they have a very important role to play.
- Disclosing quality, comparable, and reliable sustainability information is useful for companies to improve their reputation, better manage risks and attract further capital. These disclosure standards can help non-listed SMEs access financing from banks, private equity, venture capital and impact investors in particular.
- Voluntary standards have the potential to reduce the burden for companies as otherwise they would be receiving different questions from investors and in particular banks to fill in, each time requesting different information. A voluntary SME standard will hopefully make these questionnaires redundant if it includes the information business partners need.
- While we are calling for the standard for listed SMEs to be kept as aligned as possible to the sector agnostic standards for large companies to ensure comparability and investor protection, we fully agree that real corner-shop SMEs need much simpler and bespoke standards. These voluntary standards need to balance the information needs of investors – for example for compliance with other EU regulations – with the capacity of non-listed SMEs to execute detailed reporting to be successful. At the same time, to the extent possible, we suggest VSME follows the structure of the ESRS Set I and in particular the LSME standard. This would increase the usability of the reports by ensuring information is easily comparable, machine readable and accessible.
- We believe this would also be also beneficial to the reporting companies for several reasons. Firstly, as companies grow and moving on the funding escalator, it would be easier for them to adjust to the LSME standard and then to a standard for large companies. Secondly, some well-intentioned simplifications, resulting in some information not being disclosed, could lead to the opposite result when investors or other business partners continue to send bespoke questionnaires if the information they need is not included in the sustainability reports prepared in line with LSME ESRS. Finally, there seem to be some open questions around the

¹https://finance.ec.europa.eu/document/download/ff44591e-9d83-4027-a079-f3fe23bbaf41_en?filename=240129-sf-platform-report-market-practices-compendium-report_en.pdf

interaction between standards. For example, when an SME which is part of a group still wishes to report as a standalone business, eventually the investor would need to work with two different standards. Also, significant differences between the standards, especially in the structure, could create challenges regarding machine readability and how it would work in the European Single Access Point (ESAP).

- VSME standards should include all SFDR, climate benchmarks and Pillar 3 indicators (so EU data) and ensure their coherence with the corresponding indicators that are included in ESRS Set I rather than adjusting their scope. This is the case of BP-7, BP-8 and BP-9 which address policies, processes and violations respectively that concern UN Guiding Principles and OECD Guidelines. In the VSME, the scope of these disclosures is limited to the own workforce, whereas in the SFDR they cover all material impacts. This should be addressed.

Responses to detailed questions

A) PART I: General Key Questions (CRITICAL)

a. Objective, simplifications and modules

Please refer to the text of VSME ED in Annex I and to the text of Basis for conclusions for VSME ED in Annex 2.

Q1. 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.

Eurosif welcomes this consultation on the voluntary standards for SMEs. High-quality, comparable, and reliable corporate sustainability-related disclosures are a cornerstone of the EU sustainable finance framework and are essential for accelerating the transition to a sustainable economy.

SMEs represent 99% of all business in the EU, constitute more than half of the EU's GDP and employ about 100 million people, hence they have a crucial role to play in contributing to this transition. Disclosing quality, comparable, and reliable sustainability information is useful for companies to improve their reputation and attract further capital. These disclosure standards can help non-listed SMEs access financing from banks, private equity, venture capital and impact investors in particular.

These voluntary standards have the potential to reduce the administrative burden for non-listed SMEs as otherwise they would be receiving different questionnaires, especially from banks, to fill in, each time requesting different information. A voluntary SME standard will hopefully eliminate the need for these questionnaires.

Q2. 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.

While we fully agree that corner-shop SMEs need much simpler standards, we believe that at least in terms of the general structure, the VSME should closer follow the structure of ESRS Set 1 and LSME in particular. This would improve comparability and usability of the standard. Also, it would be easier for growing companies to later switch into the LSME or even ESRS Set 1.

To that end, we would recommend EFRAG organise the modules as follows:

- 1) The basic module should include general disclosure requirements (corresponding to the ESRS 2 in sector-agnostic ESRS) on how to report on sustainability matters and their management by policies, actions and targets, including an explanation on how to conduct and report on materiality assessment. SMEs that do not have policies, actions and targets could simply state so.
- 2) The second module should include a basic set of E, S and G metrics, i.e. select, standardised quantitative KPIs based on topical standards.

Instead of Module 3, both module 1 and module 2 should include additional, clearly delimited disclosures stemming from SFDR/Benchmark Regulation/Pillar 3 disclosure requirements. SMEs may choose to report these additional disclosures or clearly indicate they have chosen not to. Please note that some of the SFDR-related disclosures have a character of 'policies' and others of 'metrics'.

Q3. 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?

Yes/No/Please explain your answer.

If answer is NO, please indicate the relevant disclosure.

We agree with the decision to not require a materiality analysis for this module given the efforts and costs associated with it for non-listed SMEs. The voluntary standards need to balance the information

needs of investors – for example for compliance with other EU regulations – with the capacity of non-listed SMEs to execute detailed reporting to be successful.

However, VSME standards should ensure coherence with the SFDR indicators that are included in the draft rather than adjusting their scope. This is the case of BP-7, BP-8 and BP-9 which address policies, process and violations respectively, that concern UN Guiding Principles and OECD Guidelines. In the VSME, the scope of these disclosures are limited to the own workforce, whereas in the SFDR they cover all material impacts.

Q4. 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?

Yes/No/Please explain your answer.

While we fully agree that corner-shop SMEs need much simpler standards, we believe that at least in terms of the general structure, the VSME should be more closely aligned with the structure of ESRS Set I and LSME in particular. This would improve comparability and usability of the standard. Also, it would be easier for growing companies to later switch into the LSME or even ESRS Set I.

To that end, we would recommend EFRAG organise the modules as follows:

- 1) The basic module should include general disclosure requirements (corresponding to the ESRS 2 in sector-agnostic ESRS) on how to report on sustainability matters and their management by policies, actions and targets, including an explanation on how to conduct and report on materiality assessment. SMEs that do not have policies, actions and targets could simply state so.
- 2) The second module should include a basic set of E, S and G metrics, i.e. select, standardised quantitative KPIs based on topical standards.

Instead of Module 3, both module 1 and module 2 should include additional, clearly delimited disclosures stemming from SFDR/Benchmark Regulation/Pillar 3 disclosure requirements. SMEs may choose to report these additional disclosures or clearly indicate they have chosen not to. Please note that some of the SFDR-related disclosures have a character of 'policies' and others of 'metrics'.

To ensure that the disclosed policies, actions and targets are relevant from a sustainability standpoint and in line with the goals of the ESRS, it is very important that the policies, targets and actions correspond to the sustainability issues that have been identified as material (corresponding to universal metrics in the basic set of E, S and G metrics selected from the sector-agnostic ESRS as well as any specific impacts, risks and opportunities identified by the SME) and that SMEs are given enough clear guidance to produce high-quality disclosures rather than greenwashing or standardised texts from consultancies.

Q5. 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 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?

Yes/No/Please explain your answer.

Information financial institutions are required to report under legislation such as the SFDR, Pillar 3 and Solvency II, is essential for investors. However, as explained in the response to the former questions, we would suggest an approach which in terms of the structure is closer to the ESRS Set 1.

While disclosures necessary for compliance with SFDR, climate benchmarks and Pillar III are essential for financial institutions, they could be included in modules 1 and 2, while clearly highlighted. This way, they would be also disclosed in appropriate context.

The inclusion of Scope 3 GHG emissions and the guidance provided to SMEs is very valuable for investors. Eurosif's [report](#) on the use of climate-related data by investors shows that this is among the data points that is the most difficult to access. However, Scope 3 emissions belong to the category of metrics. Currently, the disclosure requirements for metrics in VSME are in module 1, whilst information on Scope 3 emissions are in module 3, which however refers SMEs back to module 1. This creates unnecessary complexity. A disclosure requirement on Scope 3 emissions can be added directly in the metrics module with the instruction that this disclosure requirement should be applied when material.

Q6. 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

NA

Q7. 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]

1. Undertakings applying VSME ED should apply on a voluntary basis existing reporting practices, without specific EFRAG guidance.
2. Undertakings applying VSME ED should apply on a voluntary basis the content of the future Sector ESRS for large undertakings.
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.

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.

Please note that your answer will be complemented by question 13 on the additional dimension of reporting including sectors.

Please provide your comments, if any.

Option 3 seems appropriate to strike the right balance between the need for coherence and comparability and a simplified approach for SMEs. In case of LSME we advocate for listed SMEs using sectorial standards for large companies on a voluntary basis. B) PART 2: Detailed questions on principles and datapoints

(ADDITIONAL, to complement part I)

- a. Principles for preparation

Please refer to the text of VSME ED in Annex I.

Q8. Do you agree with the proposed Principles for the preparation of the sustainability report in VSME ED?

Principles for the preparation of the sustainability report (Basic Module, Narrative-PAT Module, Business Partners Module)			
	Agree	Disagree	Comment
a) Complying with this Standard (paragraphs 9 and 10 in VSME ED)	x		Focus on the “negative” impacts may prevent SMEs from sharing information on positive impacts on a voluntary basis.
b) Preparation on a consolidated basis (paragraph 12 in VSME ED)	x		
c) Timing and location of the Sustainability Report (paragraphs 13, 14 and 15 in VSME ED)	x		
d) Classified and sensitive information, and information on intellectual property, know-how or results of innovation (paragraph 16 in VSME ED)	x		

[PER EACH ‘DISAGREE’: please explain your reasoning

Q9. Additional question on Complying with this Standard. 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 SELECTION POSSIBLE]

IF PREPARER:	Basic Module	Basic Module + Narrative Module	Basic Module + Business Partners Module	All Modules	3	Rationale for your answer
Specify which approach(es) you would consider when applying VSME ED						

[MULTIPLE SELECTION ALLOWED]

IF USER:	Basic Module	Basic Module + Narrative Module	Basic Module + Business Partners Module	All Modules	3	Rationale for your answer
Specify which approach(es) you deem most appropriate to cover the information needs you require						

For investors, the disclosures in the Business Partners Module are very valuable. However, forward-looking indicators like targets and transition plans are also essential for investment decisions, which is why all three modules might be necessary in most cases.

Q10. 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?

Yes/No/Please explain your answer.

Yes, if it is proportional and the data quality is adequate.

Q11. 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?

Yes/No/Please explain your answer.

Q12. 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?

Yes/No/Please explain your answer.

This would indeed be useful information for users.

b. Basic Module

Q13. 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).

With reference to the proposed disclosure requirements, please include your answer in the table below:

VSME ED	IF USER: This disclosure is essential/Not necessary	Optional Comments.
Disclosure B 1 – Basis for Preparation	Essential	
Disclosure B 2 – Practices for transitioning towards a more sustainable economy	Essential	

B 3 – Energy and greenhouse gas emissions	Essential – required under SFDR, Benchmark Regulation, Taxonomy (all essential)
B 4 – Pollution of air, water and soil	Essential – required under SFDR
B 5 – Biodiversity	Essential- required under SFDR
B 6 – Water	Essential if relevant to the sector
B 7 – Resource use, circular economy, and waste management	Essential if relevant to the sector
B 8 – Workforce – General characteristics	Essential
B 9 – Workforce - Health and Safety	Essential – required under SFDR and Benchmark Regulation
B 10 – Workforce – Remuneration, collective bargaining, and training	Essential – required under SFDR
B 11² – Workers in the value chain, affected communities, consumers and end-users	Essential
B 12 – Convictions and fines for corruption and bribery	Essential - Required under Benchmark Regulation

Q14. FOR USERS ONLY: Is there any datapoint(s) missing from this module that you consider as essential to meet your information needs?

Yes/No.

If Yes, please specify the datapoint(s) and provide a rationale for your answer.

Q15. 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?

Yes/No/Please explain your answer.

² This datapoint was not identified in any of the questionnaires analysed by EFRAG Secretariat but was inserted to keep consensus based on the recommendation by some EFRAG SRB members.

Q16. 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?

Yes/No/ Please explain your answer including references to the relevant legislation.

NA

Q17. 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

Q18. 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.

We believe the issue of human rights due diligence needs to be given more attention in the basic module. Currently, the focus seems to be on labour rights, but human rights considerations outside one's own workforce are also relevant to sustainability. It is required information under the Taxonomy: A Taxonomy-aligned activity must constitute a significant positive contribution and comply with DNSH criteria in the Taxonomy's technical screening criteria, while also being supported by minimum safeguards provided by sustainability due diligence processes based on OECD Guidelines and UN Guiding Principles. Apart from that, it is also a useful tool for companies to improve their impact and reach their ESG ambitions.

Q19. 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 or add suggestions.

Yes, but need to check

Well-formulated and clear guidance is an important factor for the success of these standards, since the challenges for SMEs – organisations that usually have less resources – depend on how clear the application these standards are for non-experts. We welcome inclusion of examples with instructions for calculations.

- a. Approach to materiality of matters and Principles for preparation (common to Narrative-PAT and Business Partners Modules)

Q20. 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? Please include your feedback in the table below:

VSME ED	Agree/Disagree	Comment
Impact materiality (paragraphs 46-50 in VSME ED)		
Financial materiality (paragraphs 51-55 in VSME ED)		
Stakeholders and their relevance to the materiality analysis process (paragraphs 56 and 57 in VSME ED)		

Q21. The VSME ED requires to perform 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 I 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 I) 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.

Q22. 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.

This approach would provide more flexibility to companies and lighten the burden to produce materiality assessment for metrics to be reported.

Q23. 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.

Q24. 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)		
	Agree	Disagree
a) Time horizons (paragraph 40 in VSME ED) b) Coherence and linkages with disclosures in financial statements ((paragraph 41 in VSME ED)	a) Information on the short-, medium and long-term is vital. Long-term reporting incentivises long-term thinking in business decisions, which is necessary for effective transitions to sustainability. Information on the short-and medium-term goals helps investors understand how the company succeeds in effectively breaking down goals into achievable steps.	

	b) We encourage coherence and linkages with financial statements because it improves clarity for investors and also contributes to companies treating their sustainability impacts and measures as central to their business.	
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[PER EACH 'DISAGREE': please explain your reasoning]

Please add your comments, if any.

d. Narrative-Policies, Actions and Targets (PAT) Module

Q25. 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. Please include your feedback in the table below:

VSME ED	USER = This disclosure is essential/Not necessary PREPARER= Feasible/ Difficult to prepare/ Already disclosed under other reporting schemes or regulations	OTHER RESPONDENTS: Do you have comments on this disclosure?
Disclosure N 1 – Strategy: business model and sustainability related initiatives	Essential	
Disclosure N 2 – Material sustainability matters	Essential	
Disclosure N 3 – Management of material sustainability matters	Essential	
Disclosure N 4 – Key stakeholders Disclosure N	Essential	
5 – Governance: responsibilities in relation to sustainability matters	Essential	

Q26. 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?

Yes /No/Please explain.

Q27. FOR USERS ONLY: Are there any datapoint(s) missing from this module that you consider as essential to meet your information needs?

Yes/No/Please specify the datapoint(s) and provide a rationale for your answer.

Q28. 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?

Yes/No/Please explain your answer.

e. Business Partners (BP) Module

Q29. 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)”?

Yes/No/Please explain your answer.

Yes, scope 3 GHG emissions is among the types of climate data that investors find the most difficult to access. We welcome these disclosures because they have the potential to help close this data gap. We also want to highlight that this allows SMEs with ambitious policies to show their efforts and attract capital from sustainable investors.

However, the placement in the ED might be confusing since it appears in the Business Partners module but with instructions to report the data under the Basic module together with Scope 1 and 2.

FOR PREPARERS ONLY: Is this disclosure feasible?

Yes/No/Please explain your answer.

Q30. 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 (BCI30. to BCI49). Please include your feedback in the table below:

VSME ED	IF USER: This disclosure is	IF USER: If present in questionnaires, specify to which	IF USER: If present in questionnaires, is	Comment (FOR ALL CATEGORIES OF RESPONDENTS)
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	essential /Not Necessary	category of SME (micro, small, medium) the question is asked	this asked only for certain sectors? If yes, which ones?	
Disclosure BP 1 – Revenues from certain sectors Disclosure	All essential			
BP 2 – Gender diversity ratio in governance body Disclosure	Essential			
BP 3 – GHG emissions reduction target	Essential			
Disclosure BP 4 – Transition plan for climate change mitigation	Essential			Transition plans, being forward-looking indicators, are particularly useful for investors. We welcome their inclusion here to incentivise their adoption by smaller, non-listed companies.
Disclosure BP 5 – Physical Risks from climate change Disclosure	Essential			
BP 6 – Hazardous waste and/or radioactive waste ratio Disclosure	Essential			

BP 7 – Alignment with internationally recognized instruments Disclosure	Essential if relevant			
BP 8 – Processes to monitor compliance and mechanisms to address violations	Essential			
Disclosure BP 9 – Violations of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles (including the principles and rights set out in the 8 fundamental conventions of the ILO Declaration and the International Bill of Human Rights) Disclosure	Essential			<p>These disclosures are essential because the Guidelines and Guiding principles constitute important minimum social safeguards.</p> <p>Furthermore, as explained above, we see an issue here regarding the reduced scope compared to the requirements in SFDR.</p>
BP 10 – Work-life balance	Not essential			
Disclosure BP 11 – Number of apprentices	Not essential			

Q31. 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?

Yes/No/Please explain your answer.

Q32. 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?

Yes/No/Please explain your answer including updated/proposed text.

Q33. 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”)?

Yes/No/Please explain your answer.

We are not convinced about the structure, but having such information summarised in a table or an annex could be helpful.

Q34. 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?

Yes/No/Please explain your answer.

We believe this could be useful. The EU Taxonomy is a central tool to assess alignment of economic activities with the EU’s sustainability objectives and gives information that is useful to many different business partners non-listed SMEs interact with. It is also being increasingly used by large companies.

Q35. 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?

Yes/No/Please explain your answer.

Q36. FOR USERS ONLY: Are there any datapoint(s) missing from this module that you consider as essential to meet your information needs?

Yes/No/Please specify the datapoint(s) and provide a rationale for your answer.

Q37. 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?

Yes/No/Please explain your answer.

We welcome the efforts to ensure comparability and aggregation between the LSME standards and the data points included in the ESRS Set I. The appendix is useful for that and understandable.

Q38. 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?

Yes/No.

IF YES: please explain your answer.

The current ED does not give enough guidance on how to report on complex issues like human rights due diligence for impacted groups besides the company's own workforce, which is necessary for companies that need to show compliance with the criteria of the EU Taxonomy. This involves significant positive contribution and DNSH criteria and minimum safeguards through sustainability due diligence based on UN Guiding Principles and OECD guidelines, not only in the form of labour rights, but also by respecting the rights of other stakeholder groups.

IF NO: Why do you think that the ability of VSME ED to replace the questionnaires cannot be increased?

[select one or more]

- Sector-specific data is not suitable for a sector-agnostic VSME ED
- Data demands that are specific to your relationship with the SME and cannot be standardized
 - o In this case: please explain your reasoning.
- Other reasons
 - o In this case: please explain.

Q39. Please provide any further comments not addressed in part 1 or 2 of the questionnaire here:

[Comment box]

Q40. If you want to provide additional comments in a document on aspects not covered in the questionnaire, please upload your file here.

The exec summary will be inserted.

C) Part 3: Value chain cap (Separate section on the value chain cap as determined by the ESRS LSME Non-listed SMEs receive data requests from large undertakings, including due to reporting obligations in the CSRD.

Jointly with the consultation on VSME ED to the consultation on this voluntary standard for non-listed SMEs, EFRAG is also consulting on the content of ESRS for listed SMEs (ESRS LSME ED). While ESRS cannot result in large undertakings having to request disclosures that are not included in ESRS LSME

ED (which sets the value chain cap from a legal perspective), the VSME ED is intended to play a key role in supporting SMEs, when they prepare the information needed by large undertakings for ESRS reporting, as well as for other obligations including for business purposes. Therefore, VSME ED includes simplified disclosures that generally correspond to the reasonable expectations of ESRS Set I preparers (i.e. large undertakings that prepare their sustainability statement under ESRS). As a consequence, non-listed SMEs that apply VSME ED will in general be able to meet the data requests defined for value chain in ESRS LSME ED, except for very specific cases. These cases correspond to disclosures which are included in ESRS LSME ED (therefore SMEs may receive data requests from large undertakings relating to these disclosures, either due to their ESRS reporting obligations or for other obligations and business purposes), but are not included in the VSME ED, due to their excessive complexity for non-listed SMEs in general. They are principally of a sectorial nature (GHG Removals, substances of concern/high concern, resource inflows), mainly needed for management or specific arrangement purposes. More information is provided on these disclosures in Annex 3 [link].

Please note that the questions on the value chain cap here are the same as in the LSME questionnaire in part A2 and if you respond to both questionnaires, you do not need to repeat your answers.

Q41. Do you agree with the approach taken by EFRAG on the Value Chain Cap?

Yes/No.

If Yes: Please explain your answer.

We agree with EFRAG’s conclusions because it promotes consistency between the approaches.

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 (For further details please refer to Annex 3 [link])

AREA OF DISCLOSURE	DISAGREE [ALLOW MULTIPLE SELECTION]	IF DISAGREE: EXPLAIN WHY REFERRING SPECIFICALLY TO CONTENT OF ANNEX 3
1. SBM-1,SBM-3, IRO-1: for both LSME and VSME EDs the conclusion is that no undue effect expected from ESRS reporting		
2. Policies, Actions and Targets (PAT): for both LSME and VSME EDs the conclusion is that no undue effect expected from ESRS reporting		
3. Climate Transition plan (Section 3 Actions – AR 6 and ARI I): for both LSME and VSME EDs the conclusion is that no undue effect expected from ESRS reporting		
4. GHG emissions (EI-2 GHG emissions – Scope 3): for both		

<p>LSME and VSME EDs the conclusion is that no undue effect expected from ESRS reporting</p>		
<p>5. GHG removal (E1-3 GHG removals): No undue effect on LSMEs expected from ESRS reporting. Additional information (not for ESRS reporting but for the implementation of possible specific arrangements) may be needed beyond VSME but is too specific to be covered by VSME ED.</p>		
<p>6. Substances of concern and substances of very high concern (E2-2 Substances of concern and substances of very high concern): No undue effect on LSMEs expected from ESRS reporting. Additional information (not for ESRS reporting but for the implementation of possible specific arrangements) may be needed beyond VSME but is too specific to be covered by VSME ED.</p>		
<p>7. Resource inflows (E5-I Resource inflows): for both LSME and VSME EDs the conclusion is that no undue effect expected from ESRS reporting</p>		
<p>8. Entity specific disclosures: For both EDs: Perspective 1: Possible trickle-down effect under specific arrangements to allow Set 1 preparers to cover material sector and/or to disclose entityspecific information including value chain. Perspective 2: not applicable, as the datapoint cannot be defined (due to entityspecific nature of the disclosure).</p>		

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