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VSME orientations at disclosure requirement level to respond to the feedback of the public consultation and field test

Cover Note

Objective

- 1 The objective of this paper is to get EFRAG SR TEG approval on the changes to be implemented in the ED for its finalization, based on the results of the field test and public consultation. To facilitate the discussion, the EFRAG Secretariat has prepared suggested orientations presented in this paper.
- 2 For this purpose, **Agenda Paper 05-02** presents to EFRAG SR TEG the results of the field test and public consultation of the VSME ED at disclosure requirement level in order to get EFRAG SR TEG approval on the changes to be implemented in the ED for its finalization.
- 3 To note that the strategic direction paper discussed with EFRAG SRB on the 10 July 2024 meeting is provided as a background reading (agenda paper 05-08). This paper focuses on the general/strategic aspects of the ED, i.e. the architecture, the modular approach, the basis for preparation and materiality, a focus on the narrative module, the approach to sectors, the value chain cap, the general reactions of the respondents to each of the three modules.

Background

- 4 The VSME ED was subject to public consultation feedback for 4 months (January 22nd – May 21st).
- 5 In parallel, a field test was conducted for 3 months ending on April 21st. In addition, EFRAG Secretariat conducted 10 workshops with field test participants in order to validate the feedback received from the field test survey.
- 6 Moreover, a Cost-Benefit Analysis (CBA) is being conducted, with the support of an external consultant. The analysis includes identification of potential drivers to increase market uptake and reach full benefits. That depends on its acceptance by users, as well as on its complexity and the propensity of prepares to adopt it. The key intermediate findings of the CBA are described below. A full report will be produced on the basis of the final VSME, i.e. incorporating in the costs the further streamlining and in the benefits the results of the adjustments suggested in the public consultation. The intermediate findings are important as additional input for the strategic directions.

Overview of public consultation responses and disclaimer on the use of statistics

- 7 The VSME ED public consultation questionnaire consisted of 42 questions divided in 3 parts:
- (a) Part 1: General Key questions (7 questions)
 - (b) Part 2: Detailed questions on principles and datapoints in the 3 modules (33 questions)
 - (c) Part 3: Value Chain Cap (2 questions)
- 8 Important to note that certain questions were directed only to preparers and certain only to users.
- 9 A total of 311¹ responses (including respondents that participated to the field test) were provided to the public consultation through the online survey. In addition, EFRAG Secretariat received 26 Comment Letters (directly uploaded through online) and 22 Comment Letters outside the online survey (2 of which were not published for confidentiality purposes). Comment letters outside the online survey were mainly from associations and authorities, i.e. covering the views of multiple stakeholders and not of individual respondents. The existence of this important feedback outside the online survey, where there is not a clear data model for AGREE/DISAGREE per each question, results in the impossibility to conduct a reliable and complete statistical analysis of the AGREE/DISAGREE responses. In addition, as explained in the papers for this session, in several instances the qualitative comments provided by respondents in the online survey do contradicts the AGREE/DISAGREE response that they provide on the same question.
- 10 As a result, for a complete understanding of the feedback, it is essential to consider jointly Agenda Papers 05-03 (key finds of the responses to the public consultation to the online survey) and Agenda Paper 05-06 (key points of the comment letters outside the online survey). **A consolidated view of the two sources is provided in agenda paper 05-02.**

Overview of field test responses

- 11 The VSME Field Test Questionnaire consisted of 16 questions divided in 4 parts:
- (a) Part 1: Preparation of Basic Module (5 questions)
 - (b) Part 2: Principles of Materiality applicable in Narrative-PAT and Business Partners (BP) Module (1 question)
 - (c) Part 3: Preparation of Narrative-PAT Module (5 questions)
 - (d) Part 4: Preparation of Business Partners Module (5 questions).
- 12 Important to note that certain questions were directed only to preparers and certain only to users. In addition, from the preparer's perspective, the participation to the field test has been in two different forms:
- (a) Option A: Actual preparation of (or part of) the disclosures in VSME ED, respond to the Field Test Questionnaire and participation to workshops and/or interviews with EFRAG Secretariat.

¹ Duplicate responses were not considered for analysis.

- (b) Option B: Preparation (such as assessment of the challenges and benefits deriving from the disclosures in VSME, supported by the Field Test Questionnaire) and participation to workshops and/or interviews with EFRAG Secretariat.
- 13 A total of 164² responses were provided to the field test through the online survey.
- 14 Agenda paper 05-07 summarises the findings concerning the field test. Please note that this file has been shared by email with SR TEG members on Friday 28 June in order to avoid an excessive number of pages to be read for the same meeting and allow for preparation.

CBA preliminary analysis on VSME

- 15 The CBA analysis shows general support for VSME in particular for the Basic Module (BM) and the “if applicable” approach. The fact that certain disclosures that are optional or “if applicable” in the BM result as applicable to few preparers (B2, B4, B5 & B11) increases feasibility and reduces costs.
- 16 The Narrative-PAT module stands out from the CBA analysis as difficult to prepare due to the materiality analysis. This is due to materiality. The CBA indicates that materiality analysis is not seen as proportionate for preparers nor relevant for banks. This also applies to the materiality principles present in the Business Partner Module (PBM), that only concerns 4 disclosures, the rest being under “if applicable”.
- 17 Considering the voluntary nature of VSME, incentives for its application are essential. To deploy the full benefits (and achieve the maximisation of cost-benefit profile) it would be necessary to implement an access point (similar to the ESAP) either nationally or at European level, that would work as a “platform”, i.e. SMEs would populate online templates and their standardised data would be visible by actual and potential business counterparties.

Question for EFRAG SR TEG

- 1) Do SR TEG members agree with the Secretariat initial orientation as set out in agenda paper 05-02 VSME technical orientations at disclosure requirement level to discuss with SR TEG?

Next steps

- 18 The EFRAG Secretariat will start implementing the EFRAG SR TEG technical orientations during summer, compatibly with the holiday period.
- 19 Approval at SR TEG is planned for 7 October, approval at SRB is planned for 28 and 11 November.
- 20 Deadline to deliver to the EC is 20 December 2024. Basis for conclusions will be completed in January.

Agenda Papers

- 21 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 05-02 – VSME Technical orientations at disclosure requirement level

² Duplicate responses were not considered for analysis.

VSME Orientations at disclosure requirement level – Cover Note

- (b) Agenda paper 05-03 – Executive summary of feedback from online survey
- (c) Agenda paper 05-04 – Detailed feedback from online survey (for background reading only - not essential for this session)
- (d) Agenda paper 05-05 – Detailed feedback from comment letters (outside online survey)
- (e) Agenda paper 05-06 – Executive summary of feedback from comment letters (outside online survey)
- (f) Agenda paper 05-07 – VSME ED field test - Key findings
- (g) Agenda paper 05-08 – VSME strategic orientations to discuss with SRB (background reading – not essential for this session).
- (h) Agenda paper 05-09 – Additional datapoints that banks have suggested to include (background reading – not essential for this session).