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EFRAG SR TEG and SRB internal survey

on [Draft] VSME ESRS V1.1 (continuation of feedback discussion on VSME – focus on Social and Business conduct)

Cover Note

Objective

1. The purpose of this session is to continue the discussion with the SR TEG on the VSME ESRS v1.1 written feedback after the internal consultation period, especially **focusing on Section 5 (Social) and Section 6 (Business Conduct)** which were not covered in the previous SR TEG meeting. Please refer to paper 02-03 for an overview of the topics to discuss in SR TEG for Social and Business Conduct (page 10 – 17).

Reminder of the Process

2. EFRAG Secretariat launched a complete set of documents that were addressed to the SR TEG and SR Board. The SR TEG was asked to provide detailed line-by-line feedback on the draft VSME v1.1. The SR Board was asked to fill a VSME questionnaire and was provided the opportunity to add detailed comments where appropriate.



3. The internal consultation started in the last week of July and finalised during the third week of August. EFRAG secretariat has analysed the line-by-line comments on the draft VSME v.1.1 received from SR TEG and from some SRB members. EFRAG Secretariat has also analysed the SRB replies to the on-line questionnaires on draft VSME v.1.1.

Proposed modular approach on VSME as presented in SR Board 22 September

4. EFRAG Secretariat presented a proposal for the modular approach for VSME in the SRB 22 September, designed to address the issues arisen from SR TEG/SRB questionnaire and the outreach with banks and others (language and materiality). This module is split in three separate modules (see annex 1):
 - a. **Basic Module:** entry-level for non-listed SMEs and target for micro-undertakings in a highly simplified language. This module is composed of [8] DRs all of which are required (no omissions) but, whenever it is appropriate it is clarified “if applicable”.
 - b. **PAT Module (Policies Actions and Targets):** this additional module is made for those Small and Medium sized undertakings that have already Policies, Actions and/or Targets in place and can report. This module is also in a simplified language (including a simplified language for materiality). List of material matters comes out of AR 16. This module requires narrative information on Policies and Actions in place and, if applicable, Targets.
 - c. **SF Module (Sustainable Finance):** this additional module is made for those small and medium sized undertakings which are required to face questionnaires by banks (to serve the lenders and investors / FMP needs). In this module there are Table 1 SFDR, Pillar 3 and Benchmark regulation datapoints. Same approach as in Set 1 (“not material for the undertaking”).
5. Terminology / Consistency with ESRS: in VSME explanations for the Defined Terms will be provided, in a simplified language
6. Building block: reconciliation of the Basic Module with LSME and ESRS Set 1.

Selected Comments to discuss with SR TEG

7. A summarised version of the detailed feedback is included as support documents to the meeting on 29 September in Agenda Paper 02-03 for VSME. EFRAG secretariat suggests that SR TEG discussions focus on the comments of Section 5 and Section 6 in VSME that have been classified as pending, either because i) there are conflicting views, ii) they are new proposals compared to draft text in VSME or iii) further clarification is needed.



VSME

8. Overview of the number of comments received in relation to VSME:

VSME	
Total number of comments in VSME¹	224
Total number of selected comments to discuss at SR TEG in VSME	14
Total number of selected comments to inform SR TEG in VSME	19

9. The SR TEG and SRB proposals for the continuation of discussion on VSME are accompanied by the Secretariat's analysis. They concern: i) gender pay gap, ii) breakdown by region, iii) gender breakdown for the subcategories of employees, iv) working days lost due to different reasons, v) incidents of corruption and bribery and vi) number of convictions. Six discussion points related to the social and business conduct metrics.

10. Moreover, the Secretariat suggests to discuss the outcome of the SRB questionnaire on the proposed social metrics on collective bargaining and adequate wages; and the additional metric on placements for trainees for VSME only . The complete overview of the SRB questionnaires results is provided in Agenda paper 02-04 – VSME V1.1 SRB Survey results The topics proposed for discussion are highlighted in yellow in this document.

11. Recent VSME outreach events and meetings with i) SME United and organisation members, ii) Vienna Initiative on SMEs and iii) banking associations and their members. Main outcome of those meetings are related to:

- a. simplifying the language on VSME (in line with former ex-PTF Cluster 8 proposal) vs sticking with Set language and wording, at least for the EU law module (step 3 on building blocks)
- b. review the approach to materiality on VSME

¹ The comments that Secretariat is not sharing in this SR TEG meeting were included in the draft proposal or not included based on previous discussions at SR TEG meetings, the decision tree and the approach taken. This number of comments also includes a small number of detailed comments from the SRB.

Tentative Timetable for LSME and VSME

12. This timetable below was presented at SRB meeting 28 of June 2023 and at SR TEG at 13 of July in the context of launching the internal feedback period on LSME and VSME. **This timetable is subject to change and the effective consultation may start later than what is foreseen here, depending on the effective time needed for SR TEG and SRB to agree on the draft for consultation.**
13. In addition to the scheduled meetings, the SR TEG meeting on 12 September (additional meetings 18 September for LSME and 20 September for VSME discussions) and the SRB meeting on 13 September have been planned to discuss the written feedback received during the internal consultation.



September				October				November				December				
Week starting																
4	11	18	25	2	9	16	23	30	6	13	20	27	4	11	18	25
Secretariat working (and holidays) and update for the final DA			SRB latest comments on LSME and VSME	4 October: SRT LSME and VSME Approval (17 fall back)	Secretariat LSME + VSME review		24 October: SRB final Approval		Editorial and linguistic review				LSME ED + VSME ED out for consultation			
5 September: SRT closed session Vienna initiative (banks questionnaire)		22 September: SRB discussion for drafting LSME and VSME (based on 12 and 13)	27 September: Final draft LSME and VSME (upload)		17 October: Final ED LSME and VSME (upload) + fall back SRT approval											
12 September: SRT discussion written feedback																
13 September: SRB discussion written feedback																

Agenda Papers

14. In addition to this cover note, agenda papers for SR TEG members in this session are:

- a. Agenda paper 02-02 – VSME V1.1 Comment log SR TEG and SRB feedback (available in the Sharefile folder for SR TEG [here](#))



- b. Agenda paper 02-03 – VSME V1.1 SR TEG and SRB Summary of detailed comments

Questions to SR TEG

VSME

1. Comments for discussion: please provide your view on the selected comments for discussion (see Agenda Paper 02-03 – VSME V1.1 SR TEG and SRB Summary of detailed comments)
2. Comments for information: please provide your comments on the selected comments for information, if any (see Agenda Paper 02-03 – VSME V1.1 SR TEG and SRB Summary of detailed comments).



Proposed modular approach as presented in SRB 22 September

VSME – proposed modular approach



MODULE – BASIC

Entry level for non listed SMEs

Target for micro-undertakings

Highly simplified language

[8] metrics DRs

- Simplification: all required (no omissions) BUT whenever it is appropriate the language is 'IF APPLICABLE'

MODULE – PAT

Small and Medium undertakings that have already PAT in place and to report

Simplified language (including for materiality)

List of material matters (out of AR 16)

Narrative info on Policies and Actions in place and, if applicable, Targets

Terminology / consistency with ESRS

Explain the 'Defined Terms' in simplified language

Building block

Reconciliation of the MODULE-BASIC with LSME and ESRS Set 1

MODULE – SF

When SME are required to face questionnaires by banks

Sustainable Finance datapoints

- Table 1 SFDR, Pillar 3, Benchmark regulation
- Same approach as in Set 1 ('not material for the undertaking')

Currently under investigation:

- Questionnaires developed by large corporates to manage their supply chain
- Sector specific modules