

VSME ESRS ED Comparison between Business Partners Module and ESRS SET 1 Definitions

Objective

The objective of this paper is to provide a comparison between the wording of the datapoints related to Sustainable Finance (SFDR Table 1, Pillar 3 and Benchmark) in VSME Exposure Draft (ED)- Business Partner Module and the one of ESRS set1 (EC Delegated Act July 2023). The table below shows that few simplifications have been implemented in VSME ED Business Partner Module. The simplification applied are in line with the methodology of VSME as illustrated in the column "Explanation".

Context

While SFDR, Pillar 3 and Benchmark datapoints have been included in Set 1 in order to put in place the data infrastructure needed for financial market participants to comply with their own reporting obligations, they have been retained by EFRAG in VSME ED in the Business Partners Module, as they represent a reasonably limited number of commonly understood and widely used disclosures. In particular, from the outreaches conducted head of the finalization of the ED for consultation, EFRAG understood that while SFDR indicators have been designed to provide information to investors when they buy securities, they are considered a good basis also in order to provide information needed by banks in granting a loan, as well as by corporate clients that manage and report about their sustainability issues in the supply chain. This approach will be tested in practice during the consultation.

SFDR, Pillar 3 and Benchmark datapoints are used in VSME as the 'backbone' of the Business Partners module, however as they do not serve strictly speaking the need of investors (differently from their role in Set 1 ESRS), some simplifications have been implemented, as described in this table.

Comparison of datapoints in VSME and in Set 1

VSME ESRS ED Business Partners Module definition	ESRS SET 1(EC Delegated Acts July 2023) Definition	Explanation
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<p>Disclosure BP 1 – Revenues from certain sectors (SFDR Table 1)</p> <p>The SME shall include where applicable, a statement indicating, together with the related revenues, that the undertaking is active in:</p> <ul style="list-style-type: none"> i. fossil fuel (coal, oil and gas) sector (i.e., it derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and the Council¹⁷), including a disaggregation of revenues derived from coal, from oil and from gas; and/or 	<p>ESRS 2 par 40:</p> <p>Where applicable, a statement indicating, together with the related revenues, that the undertaking is active in:</p> <ul style="list-style-type: none"> i. the fossil fuel (coal, oil and gas) sector, (i.e., it derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and the Council¹⁷), including a disaggregation of revenues derived from coal, from oil and from gas, as well as the revenues derived from Taxonomy-aligned economic activities related to fossil gas as required under Article 8(7)(a) of Commission Delegated Regulation 2021/217818; 	<p>The Taxonomy part of this Disclosure was explicitly excluded in the methodological approach from the Sustainable Finance (SF) Module of VSME.</p>
<p>Disclosure BP 2 – Responsibilities in relation to sustainability matters (SFDR Table 1 and Benchmark)</p> <ul style="list-style-type: none"> ii. The SME shall describe: <ul style="list-style-type: none"> (a) if there is a governance body, the related gender diversity ratio. 	<p>GOV 1 par 21. The undertaking shall disclose the following information about the composition and diversity of the members of the undertaking’s administrative, management and supervisory bodies:</p> <p>(d) percentage by gender and other aspects of diversity that the undertaking considers. The board's gender diversity shall be calculated as an average ratio of female to male board members.</p>	<p>Simplification in line with VSME approach.</p>
<p>Disclosure BP 3 – GHG emissions reduction target (Benchmark)</p> <p>If the SME has set GHG emission reduction targets, it shall provide its GHG emission reduction targets for (i) scope 1 emissions; (ii) scope 2 emissions.</p>	<p>E1 PAR 34 (b): GHG emission reduction targets shall be disclosed for Scope 1, 2, and 3 GHG emissions, either separately or combined. The undertaking shall specify, in case of combined GHG emission reduction targets, which GHG emission Scopes (1, 2 and/or 3) are covered by the target, the share related to each</p>	<p>The part of this datapoint that in ESRS Delegated Act July 2023 for large undertakings also includes Scope 3 GHG emission reduction targets has been deleted in line with</p>

	<p>respective GHG emission Scope and which GHGs are covered. The undertaking shall explain how the consistency of these targets with its GHG inventory boundaries is ensured (as required by Disclosure Requirement E1-6). The GHG emission reduction targets shall be gross targets, meaning that the undertaking shall not include GHG removals, carbon credits or avoided emissions as a means of achieving the GHG emission reduction targets;</p>	<p>the simplification applied to VSME as part of its methodology.</p>
<p>Disclosure BP 4 – Transition plan for climate change mitigation (Benchmark)</p> <p>If applicable, the SME shall provide information about its transition plan for climate mitigation with an explanation of how GHG emission reduction targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement.</p>	<p>E1 par 14: 14. The undertaking shall disclose its transition plan for climate change mitigation. 16. The information required by paragraph 14 shall include: by reference to GHG emission reduction targets (as required by Disclosure Requirement E1-4), an explanation of how the undertaking’s targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement;</p>	<p>SAME DEFINITION AS SET 1</p>
<p>Disclosure BP 5 – Sector EU Paris Aligned Benchmarks (EBA Pillar 3 and Benchmark)</p> <p>If applicable, the SME shall include a disclosure on whether or not the SME is excluded from the EU Paris-aligned Benchmarks.</p>	<p>E1 par. 16 g: 16. The information required by paragraph 14 shall include: g) a disclosure on whether or not the undertaking is excluded from the EU Paris-aligned Benchmarks;</p>	<p>SAME DEFINITION AS SET 1</p>
<p>Disclosure BP 6 – Physical Risks from climate change (EBA Pillar 3 and Benchmark)</p> <p>If applicable, the SME disclose the anticipated financial effects that physical risks from climate change may have on</p>	<p>E1 par. 64 (a), 66 and 67 c): 64. The undertaking shall disclose its: (a) anticipated financial effects from material physical risks; (b) anticipated financial effects from material transition risks;</p>	<p>The part of this datapoint that in ESRS Delegated Act July 2023 for large undertakings also includes anticipated financial effects has been deleted in line with the simplification</p>

<p>the company. In particular:</p> <p>i) the monetary amount and the percentage of the SME's total assets that can be subjected to material physical risks over the short, the medium and the long-term, before considering climate change adaptation actions disaggregated by acute and chronic physical risk;</p> <p>ii) the proportion of assets at material physical risk addressed by the climate change adaptation actions;</p> <p>iii) the location of the significant assets affected by material physical risks;</p> <p>iv) the monetary amount and proportion (percentage) of net revenue from its business activities at material physical risk over the short-, medium- and long-term;</p> <p>v) the breakdown of the SME's carrying value of its real estate assets, by energy efficiency classes.</p>	<p>66. The disclosure of anticipated financial effects from material physical risks required by paragraph 64 (a) shall include:</p> <p>(a) the monetary amount and proportion (percentage) of assets at material physical risk over the short-, medium- and long-term before considering climate change adaptation actions; with the monetary amounts of these assets disaggregated by acute and chronic physical risk;</p> <p>(b) the proportion of assets at material physical risk addressed by the climate change adaptation actions;</p> <p>(c) the location of significant assets at material physical risk; and</p> <p>(d) the monetary amount and proportion (percentage) of net revenue from its business activities at material physical risk over the short-, medium- and long-term.</p> <p>67. The disclosure of anticipated financial effects from material transition risks required by paragraph 64 (b) shall include:</p> <p>(c) a breakdown of the carrying value of the undertaking's real estate assets by energy efficiency classes;</p>	<p>applied to VSME as part of its methodology.</p>
<p>Disclosure BP 7 – Hazardous waste and radioactive waste ratio (SFDR Table 1)</p> <p>If applicable, the SME shall disclose the total amount of hazardous waste and radioactive waste generated (radioactive waste is defined in Article 3(7) of Council Directive 2011/70/Euratom).</p>	<p>E5 par 39:</p> <p>The undertaking shall also disclose the total amount of hazardous waste and radioactive waste generated by the undertaking, where radioactive waste is defined in Article 3(7) of Council Directive 2011/70/Euratom .</p>	<p>SAME DEFINITION AS SET 1</p>

<p>Disclosure BP 8: Alignment with internationally recognized instruments (Benchmark)</p> <p>The undertaking shall disclose whether its policies with regard to its own workforce are aligned with relevant internationally recognized instruments, including the UN Guiding Principles on Business and Human Rights.</p>	<p>S1, para 21: The undertaking shall disclose whether and how its policies with regard to its own workforce are aligned with relevant internationally recognised instruments, including the UN Guiding Principles on Business and Human Rights.</p>	<p>SAME DEFINITION AS SET 1 Missing “and how”</p>
<p>Disclosure BP 9: Processes to monitor compliance and mechanisms to address violations (SFDR Table 1)</p> <p>The undertaking shall disclose whether it has processes in place to monitor compliance with the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the International Bill of Human Rights and the eight fundamental conventions identified in the ILO Declaration or grievance/complaints handling mechanisms to address violations of the above standards.</p>	<p>S1, para 20: The undertaking shall describe its human rights policy commitments that are relevant to its own workforce, including those processes and mechanisms to monitor compliance with the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work and the OECD Guidelines for Multinational Enterprises.</p>	<p>SAME DEFINITION AS SET 1 !</p>
<p>Disclosure BP 10 – 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) (SFDR Table 1 and Benchmark)</p> <p>If applicable, the undertaking shall disclose whether there have been any violations of the UN Guiding Principles on Business and Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work or the OECD</p>	<p>S1 PAR 104 a) : The undertaking shall disclose the following information regarding identified cases of severe human rights incidents (e.g., forced labour, human trafficking or child labour): (a) the number of severe human rights incidents connected to the undertaking’s workforce in the reporting period, including an indication of how many of these are cases of non-respect of the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises. If no such incidents have occurred, the undertaking shall state this.</p>	<p>Aligned with SFDR PAI text</p>

<p>Guidelines for Multinational Enterprises during the reporting year.</p>		
<p>Disclosure BP 11 – Workforce – Work-life balance</p> <p>The SME shall disclose the percentage of employees: (i) entitled to take family-related leave, with a breakdown by gender; and (ii) that took family-related leave, with a breakdown by gender. Family-related leave includes maternity, paternity, parental, and carers’ leave.</p>	<p>Disclosure Requirement S1-15 – Work-life balance metrics</p> <p>91. The undertaking shall disclose the extent to which employees are entitled to and make use of family-related leave. 92. The objective of this Disclosure Requirement is to provide an understanding of the entitlement and actual practices amongst the employees to take family-related leave in a gender equitable manner, as it is one of the dimensions of work-life balance. 93. The disclosure required by paragraph 91 shall include: (a) the percentage of employees entitled to take family-related leave; and (b) the percentage of entitled employees that took family-related leave, and a breakdown by gender. 94. If all of the undertaking’s employees are entitled to family-related leave through social policy and/or collective bargaining agreements, it is sufficient to disclose this in order to meet the requirement of paragraph 93a.</p>	
<p>Disclosure BP 12 – Number of apprentices</p> <p>The SME shall disclose the number of apprentices in the reporting period.</p>	<p>This would be entity-specific for set 1. No standardised disclosure requirement in set 1.</p>	<p>This disclosure does not come from SFDR or Benchmark Regulation but VSMEs are an important provider of apprentices. Apprentices’ definition and regulation vary among EU Member States. The information required shall not affect their status pursuant to applicable law.</p>