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VSME v3 Cover Note

Objective

1. The objective of this session for SR Board is to discuss the voluntary reporting standard for non-listed SMEs ([Draft] VSME ESRS v3 - Agenda paper 04-02).
2. The draft has been revised following the internal consultation in the summer and a number of workshops with users. **This is the last SRB discussion before SRB approval** (planned for 29 November 2023). EFRAG SRB members are invited to present at this meeting their remaining comments on substance and potential red flags that could affect the approval of the draft.
3. **Remaining editorial comments are welcome by 3 November 2023** (in written to the Secretariat).
4. **Please note that due to constraints in the SR TEG agenda the papers for this session have not yet been discussed by the SR TEG. They will be discussed on the 26 November 2023.**

VSME overview of changes since the version dated 24 July 2023

5. EFRAG Secretariat has updated the VSME content based on the internal consultation feedback (SR TEG and SRB comments) and the decisions taken on VSME in 20 and 29 September and 2 October 2 SR TEG meetings and 13 September SRB meeting. Please note that these implemented changes are highlighted in **green** in agenda paper 04-02. A brief overview is provided below (further details available in [SR TEG 17 October, Agenda Paper 07.04](#)).



<p>Simplified Language on Cross-cutting requirements</p>	<ul style="list-style-type: none"> - Further simplification of the language of the VSME in V3 to minimize reporting efforts and abate/eliminate if possible external consulting costs to the undertakings. - Editorial sessions have been held. - Detailed comments from banking representatives and SMEs representatives in SRB have been included to ensure all possible language simplifications without compromising the clarity of the defined term and consistency with Set 1 ESRS. - The EFRAG Secretariat considers that departing from the language in the relevant regulation of the SF module is not appropriate. Hence the Sustainable Finance module has achieved only a minimum level of simplification - VSME v3 also clarifies how the three modules (Basic, Narrative and Sustainable Finance/Business Partner) can be combined and specifies for which materiality applies.
<p>Materiality</p>	<ul style="list-style-type: none"> - EFARG secretariat has simplified to maximum extent the paragraph on materiality. SR TEG agreed on: <ul style="list-style-type: none"> o The need to capture both financial and impact materiality (double materiality approach); Sticking to “<i>potential impacts</i>” o deleting examples on both impact and financial materiality (that had been added by secretariat to facilitate SMEs) on the ground that confusion may arise if focus only on few examples. o On Stakeholders: agreement to stick with Set 1 definition with some simplification.
<p>Environment</p>	<ul style="list-style-type: none"> - SRT agreed to: <ul style="list-style-type: none"> o have guidance on how to calculate metrics, especially for the Environmental DRs. o add per each metric, if applicable or if you have an industrial or manufacturing process, as guidance. o Change the title of Disclosure B 3 to “<i>Energy and greenhouse gas emissions</i>”. o have a separate DR for water (Disclosure B 6)
<p>Social</p>	<ul style="list-style-type: none"> - SR TEG agreed - On Disclosure B 8 ,have the number of employees by gender and by country (par 33) - On Disclosure B 10 : <ul style="list-style-type: none"> o Adequate wage (par 35a) o A threshold of 150 employees for gender pay gap o collective bargaining coverage (par 35c) - On placement issued for trainees (apprenticeships), datapoint in the SF Module and test it in outreaches
<p>Business Conduct</p>	<ul style="list-style-type: none"> - On Disclosure B 11, SRT agreed to keep the number of convictions and fines (par 36).



6. A compilation of the SR TEG and SRB comments is available as part of the EFRAG SRB agenda papers for the 13 September 2023 ([see agenda paper 04-05](#)) and the detailed log of comments is available in the SRB folder for this meeting (private document).

VSME topics for discussion in SR TEG of 17 October

7. The topics for discussion in SR TEG session of 17 October are presented in the table below. Please note that these are highlighted in **yellow** in agenda paper 04-02 ([Draft] VSME ESRS v3). Those topics for discussion emerged in the editorial meetings that the secretariat has held with some SR TEG members as agreed at SR TEG on 2nd October. Other proposals emerged from exchanges in ongoing outreach events. To note that those topics are reported for information since the *SR TEG could not discuss VSME on 17 October as planned*. Hence decisions are pending on the below topics for discussions. The last SR TEG discussion on VSME is being rescheduled to allow for SR TEG approval of VSME as technical recommendation to SRB on 8 November.

Topic to Discuss/Inform	Explanation
“Undertaking” to replace “SME” (inform)	There are different legal definitions of SMEs in Member States.
Narrative-Policies, Actions and Targets Module instead of just PAT Module (inform)	From outreach events as well as by TEG members it emerged that the acronym PAT is not immediate to understand and thus should not be used alone.
Paragraph 2: Reference to Article 3 of Directive 2013/34/EU (inform)	Add explicitly thresholds for defining SMEs in Accounting Directive to ensure consistency (national thresholds and definitions may differ).
Paragraph 8: entity specific disclosure (discuss)	To discuss the adoption or deletion (Basic Module no materiality).
Disclosure B 2: Practices for transitioning towards a more sustainable economy (discuss)	Following outreach, in order to give the opportunity to small and medium sized undertakings to disclose practices, this disclosure has been inserted.
Paragraph 42 (Impact Materiality) (discuss)	Content to be discussed concerning examples in the definition of scale, scope, and irremediable character of the impact.
Sustainable Finance Module (discuss)	To achieve consistency with Set 1 and achieve limited simplification, this module has been revised since last version.



Guidance on Metrics (discuss)	As agreed in SRT, Secretariat prepared guidance for calculations on Environmental metrics (social is in progress)
Defined Terms	Defined Terms were added and question on including guidance

Additional topics from outreaches- Value chain sensitive datapoints in VSME

8. During the outreaches on VSME the question emerged on how to deal with potential data request that large undertaking (applying set1 ESRS) may address to SMEs in their value chain for the purpose of reporting on the DRs in set1 ESRS that have a value chain dimension. Hence for SMEs that are not in the scope of LSME (not listed SMEs) it may be important to be able to fulfill this potential data request via VSME.
9. EFRAG secretariat has analysed the issue in the Issue Paper in Annex (agenda paper 04-04)
10. The issue was not discussed with SR TEG due to postponement of the session of 17 October. EFRAG secretariat welcomes preliminary feedback from SRB.

VSME Outreaches overview

11. A series of workshop have been held and will be held by EFRAG secretariat to answer the question of whether VSME and SF/Business Partner module can replace existing questionnaires that SMEs receive from counterparts (lenders or large undertakings) to collect ESG data.
 - a. On the 5th of October EFRAG Secretariat held a workshop with CSR Europe and on 12 October one with Business Europe (in both participants were large companies or national associations)
 - b. The key takeaways are:
 - i. General support for both the Basic Module and Narrative-PAT Module (suggestions discussed).
 - ii. Concerning the SF Module, the majority of responding participants agreed that these datapoints would be useful to meet their information needs (when interacting with SMEs as suppliers) and confirmed that the data asked in this module are also useful to cover supply chain questionnaires.
 - iii. The meeting was not conclusive as to whether the corporates would be ready to ‘abandon’ their questionnaires in order to adopt a data model aligned with VSME. In particular, specific sector integrations may be needed. EFRAG Secretariat expects more input in the coming



few weeks from corporates on this point and understands that there is an element of sector-specificity that cannot be tackled by VSME. The question on how many additional datapoints would be required by corporates as a top-up (less than 20%? More than 20% and less than 50%? More than 50%) is a key question to raise in the consultation.

12. Workshop with banks on 1st September and follow-up on 23 September
 - a. Language simplification implemented
 - b. SF datapoints: will be tested in details in second workshop. During the first workshop support was expressed as *"these datapoints are necessary for the financial sector to fulfil its role of financing a more sustainable economy. (...) => "recommendation to EFRAG to provide the reasons why it might be interesting for companies to follow this approach" [implemented in draft and to elaborate further in basis for conclusions].*

13. Further outreach meetings are scheduled as follows:
 - a. 20 October 2023 with SME United
 - b. 23 October 2023 with Banks
 - c. 27 October SMEs EWG meeting.

Questions for EFRAG SR Board

With reference to Agenda Paper 04- 02 – [Draft] VSME ESRS V3:

1. Do you have comments on the substance of VSME (approach, methodology, individual datapoints) that could affect your approval of the standard? Please explain.
2. Do you agree to include in the SF module the missing value chain datapoints (as described in Agenda Paper 04-04 - Issue Paper- Proposal for additional Datapoints in Sustainable Finance Module related to value chain)? Do you agree that an additional question is included in the consultation on VSME ED (when approved) regarding those value chain cap datapoints?

Agenda Papers

1. In addition to this cover note, agenda papers for this session are:
 - a. Agenda paper 04-02 – [Draft] VSME ESRS V3;
 - b. Agenda paper 04-03 – [Draft] VSME ESRS V3- markup from the version used in the internal survey on 24 July 2023;



- c. Agenda paper 04-04 – Issue Paper – Proposal for additional Datapoints in Sustainable Finance module related to value chain;
- d. Agenda paper 04-05 – Comment log VSME V1.1 SR TEG and SRB feedback (PAPER AVAILABLE TO THE EFRAG SRB MEMBERS AND OBSERVERS ONLY IN THE SHAREFILE)

