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## VSME ED APPROVAL

### Cover Note

#### Objective

1. The objective of this session for SRB is to approve the draft VSME Exposure Draft (VSME ED or the ED) to be issued for public consultation, subject to further editorial changes.
2. Due to its ‘users-focused perspective’, some of the aspects of this standard are particularly difficult to assess ex ante, i.e. before an extensive consultation with the users (lenders, investors, corporate clients). Key examples are the approach to materiality, treatment of subsidiaries as business relationships, etc.

#### Background

3. The content of the ED has been built as a result of the following meetings, as well of the internal survey with SR TEG and SRB members run during the summer:
  - a. TEG meetings: 10 (17 Nov. 2022, 19 Jan. 2023, 21 June 2023, 13 July 2023, 5 Sept. 2023, 20 Sept. 2023, 29 Sept. 2023, 2 Oct 2023, 26 Oct. 2023, 8 Nov. 2023)
  - b. SRB meetings: 6 (14 Dec. 2022, 7 Feb. 2023, 28 June 2023, 13 Sept. 2023, 22 Sept. 2023, 24 Oct. 2023)



## Approval at SR TEG on November 8 2023 (Unapproved SoD)

4. The [Draft] VSME ESRS ED was approved at SR TEG on November 8 2023 and the text of the unapproved SoD of the session is provided below. Agenda paper 03-03 – [Draft] VSME ESRS ED Markup version from 8 November 2023 includes the changes agreed by SR TEG in the approval session (see paragraph 5 below).
5. **Changes to the content of the ED agreed in the meeting:**
  - SR TEG members agreed with EFRAG Secretariat proposal to **delete Disclosure BP 5** “Sector EU Paris Aligned Benchmarks”
  - Concerning the **entity specific dimension** (par 12), SR TEG members agree with the EFRAG Secretariat proposal
  - On the reference to **Scope 3** that was added as example of entity-specific (i.e. sector-specific) in Basic Module, SR TEG agreed to move it to the Business Partners Module
  - **On due diligence (par 59a)**, SR TEG members agreed to delete the word “sustainability” and put “due diligence” in square brackets, waiting for the finalization of the CSDDD when the brackets will be eliminated
  - **On the inclusion of S2-S4**, the EFRAG Secretariat presented a proposal of addition:
    - in para. 25 (Basic Module – Para. 25: *In case the undertaking has PAT it has to disclose them. This may include the practices in relation to climate change, ...workers in value chain, affected communities and end users*);
    - in para. 61 (Narrative, PAT Module - ) add an entire paragraph dedicated to these 3 topics, to be covered in terms of PAT when they are material.
  - For two members the inclusion of both paragraphs was a red flag. Another member disagreed, however clarified that this disagreement will not trigger the dissent on the entire standard. The SR TEG member also suggested to put “affected communities” in par 61 as a third point instead of second. It was agreed to include the two additions, as a compromise to get consensus, but with para. 61 being a ‘may’, i.e. voluntary.
  - **On B7 point (c)**, SR TEG agreed with the Secretariat proposal to replace “description” with “total annual generation of waste” and to uniformize it in the other points of the paragraph. One SR TEG member will engage with Secretariat in order to fix it editorially in order to clarify the distinction between hazardous and non hazardous waste.
  - **On par 5** (reference to apply voluntarily ESRS for large undertakings), SR TEG discussed whether the reference should be made to Set 1 or to LSME. In case of Set 1 this would be perceived as excessive, while in case of LSME this would only be on an individual perspective. It was agreed to eliminate the reference to applying voluntarily ESRS.



- **On paragraph 52 (financial opportunities)**, SR TEG agreed with Secretariat proposal (separate paragraph as voluntary only disclosures for opportunities).
  - **On consolidated approach (par 24)**, SR TEG agreed to express an explicit preference for the VSME approach to be prepared on a consolidated basis (*“If the undertaking is a parent company, it is recommended to prepare the sustainability report on a consolidated basis, including the information of its subsidiaries.”*)
  - SR TEG members also agreed to explicitly require the list of material sustainability matters in both the BP Module and the Narrative-PAT module to ensure consistency between the two.
- 6. Other editorial comments on VSME ESRS ED during the meeting**
- One SR TEG member suggested to rework on editorial simplification of VSME after the public consultation.
  - Two SR TEG members agreed to engage with EFRAG Secretariat to clarify B 3 par 26 (not clear how to add up fossil fuels with electricity) and par 27 (clarify between market or location based scope 2 emissions).
  - One SR TEG member had two editorial remarks. The first one being on B 1 (par 23) which could be written in 2 sentences instead of having a big paragraph. The second one on paragraph 9, use the past tense (has had, has affected) instead of present tense whilst not losing the forward looking aspect.
- 7. Suggestions for the consultation**
- SR TEG members supported the idea to have a distinction according to the size of the company when asking questions in the consultation concerning the datapoints in the Business Partners Module.
  - SR TEG agreed to ask in the questions for consultation i) thresholds of coverage of VSME compared to their questionnaires, ii) what additional datapoints banks/corporates need that are not present in the Business Partners Module, iii) whether these additional datapoints are sector specific.
  - As the inclusion of S2, 3, 4 is not supported by the questionnaires that EFRAG Secretariat has seen so far, a specific question on these three topics will be included.
  - As the preference for the consolidated approach may be go beyond the current obligations in terms of financial reporting for some of the entities in scope, questions will be included on the consolidated perspective (e.g. option to prepare it on an individual basis, include only the key subsidiaries, subsidiary exemption, etc.)
- 8. SR TEG Approval**
- The SR TEG approved the ED on a consensus basis, subject to the changes described above.



- The following 23 SR TEG members supported the issuance of the standard: Chiara Mio (in written), Sigurt Vitols, Maria Mora (in written), Alexandra van Selm, Thomas Schmotz (in written), Belen Varela, Carlota de Paula Coelho, Christoph Toepfer, Philip Diaz, Anne Claire Ducrocq, Eric Duvaud, Giulia Genuardi, Johan Dahl, Julian Muller, Katerina Katsouli, Klaus Hufschlag, Luc Hendrickx, Luca Bonaccorsi, Piotr Biernaki, Sandra Adler, Signe Andreasen Lysgaard, Piermario Barzaghi, Chiara del Prete.
- In particular, Luc Hendrickx expressed disagreement on the inclusion of the following disclosures:
  - Convictions and fines
  - Definition of accidents in B 9
  - Diversity of the board members
  - He also expressed reservations on the usefulness and benefits of the Business Partner module.
- Despite these dissent or reservation on specific points he supported to issue the ED in its current version as a basis for the consultation.

## Reminder of Key methodological decisions taken in preparing VSME ED

9. **General approach:** The draft ESRS VSME ED has been developed as a standalone document to provide a simple reporting guidance for SMEs that are outside the scope of CSRD. The aim is to allow them to: i) start their sustainability journey, ii) monitor their sustainability performance with few indicators and iii) replace the multitude of questionnaires from lenders, investors and corporate clients.
10. **CSRD Scope:** EFRAG's work on a voluntary standard for non-listed micro, small and medium companies (VSME) is outside the mandate in the CSRD. The CSRD provides however certain indications for non-listed small and medium companies.
  - a. Art 29b4 indicates that LSME will set a reference for large undertakings that are within the scope of the CSRD regarding the level of sustainability information that they could reasonably request from SME suppliers and clients in their value chains (value chain cap). Accordingly, VSME does not have a legal role in setting the cap, despite the fact that in practice the vast majority of undertakings in the value chain of large undertakings are non-listed SMEs not in scope of LSME.
  - b. Recital 21 indicates that small and medium-sized undertakings that are not listed on a regulated market in the Union should also have the possibility of choosing to use the simplified LSME on a voluntary basis. However, EFRAG was requested by several stakeholders to develop a separate standard that would consist of minimum voluntary disclosures adapted to the particularities and capacities of non-listed SMEs, micro and small enterprises because a standard originally conceived for listed SMEs would be too complex to apply for non-listed micro and small enterprises.



- c. Recital 22 says that Member States should be free to assess the impact of their national transposition measures on small and medium-sized undertakings, to ensure that they are not disproportionately affected, with specific attention to be given to micro-undertakings and to avoiding an unnecessary administrative burden. Member States should consider introducing measures to support small and medium-sized undertakings in applying the sustainability reporting standards.
11. **EFRAG SR TEG, SRB, SME EWG, VSME and LSME communities** confirmed that EFRAG’s work on VSME derives from the market need for a point of reference to be used by counterparties in the upstream value chain of SMEs and by lenders, when they define their data requests from non-listed SMEs and to support non-listed SME in the start of their sustainability journey.
12. **Building Block and methodology:** The VSME proposal was discussed by SR TEG, SRB, EWG and VSME and LSME communities on the basis of the document put forward by former [EFRAG PTF cluster 8](#) that was considered a valuable basis. The key recommendation to EFRAG secretariat was to ensure overall conceptual coherence with the ESRS Set 1 and LSME ESRS ED, while achieving the appropriate proportionality and focus on the users’ needs (we refer to the coherence with ESRS Set 1 and LSME ESRS as ‘building block approach’). Hence, the building block approach was conceptually integrated in the design of the draft LSME ESRS and the VSME ED as part of the methodology established in January and February 2023. The components of this building block can be summarized as follows:
  - a. VSME divided in three modules: Basic Module, Narrative-PAT module (additional), Business Partners module (additional)
  - b. LSME: All VSME modules + other EU SF datapoints (e.g. Table 2 of SFDR) + additional datapoints due to the minimum content of LSME dictated by the CSRD (and adjustments due to the consolidated view in VSME vs individual view in LSME)
  - c. ESRS Set 1 (EC DA June 2023).
13. **Terminology:** The coherence between VSME and LSME has not impaired the ability to achieve a more simplified language, in particular in the Basic Module. Where relevant the Appendix A Defined Terms of VSME LSME ED has been enriched by additional explanations to bridge the language between VSME and the rest of ESRS literature. When appropriate, explanations on the meaning of a term have been included in the main body of VSME or in the Guidance to the Basic Module.
14. The building block approach was also incorporated in the outcome of SRB meeting of 27 January 2023, that established to:
  - a. start with LSME;
  - b. keep LSME proportionate- but within the remit of the CSRD constraints;
  - c. once LSME basis is stabilized, consider VSME (incl. the current draft) from a consistency and additional proportionality perspective;
  - d. potentially consider merging LSME and VSME if appears relevant;



- e. the overall purpose is to make available a standard for the two populations (listed and non-listed SME) in the same timeframe.
15. **VSME Structure:** Following the SRB meeting on 13 September 2023, a 3 module approach was adopted:
- a. **Basic module:** it is the entry level for non-listed SMEs and has a highly simplified language. Ideally the company should be able to produce it without the help of a consultant. No materiality assessment required as all the datapoints are to be reported. This module is the target approach for micro-SMEs.
  - b. **Narrative- Policies, Actions and Targets (PAT) Module:** includes the definition of financial and impact materiality and requires to perform materiality analysis in order to disclose which of the sustainability matters listed in AR 16 of ESRS 1 are material to the undertaking. This will allow users to also understand for which material matters the undertaking does not have PAT in place. This module leverages on the definitions used in Set 1 ESRS, that are designed to result in balanced and reliable depiction of what the company is doing to address sustainability matters, avoiding greenwashing. At the same time this module only requires to report the PAT that the company has in place and no info is required when they have no PAT in place for a material matter (in addition to the list of material matters themselves). This module is expected to be used by companies that have already started their journey on sustainability and have PAT to describe.
  - c. **Business Partners Module:** it includes the metrics that are required to financial market participants (SFDR PAI – only Table 1 - , pillar 3, benchmark regulation) for the EU Sustainable Finance plus other metrics relevant for business counterparts. It requires to perform a materiality analysis in order to disclose only the material KPIs. Same approach as in ESRS Set 1 for disclosing ‘not material for the undertaking’ for EU datapoints. SMEs will use this module only when they have requests to do so from banks or corporates. The company is expected to apply this module when it receives requests from its banks or corporates; these metrics are expected to be the data needed for banks and corporates to manage their sustainability profile for aspects that arise from the business relationship with clients (banks) and suppliers (corporates). The assumption (to be tested in the consultation) is that the EU SF datapoints are able to satisfy the data needs of banks or corporates.
16. **Consolidated perspective:** VSME ED requires to disclose whether the report is prepared under a consolidated or individual basis (as reminder LSME is on individual basis only due to CSRD provisions), with a recommendation to use consolidated approach when the undertaking is a parent has subsidiaries
17. **Entity Specific information:** The VSME ED does not require entity specific information. However, it states that *depending on the activity of the undertaking, the inclusion of additional information (metrics and/or narrative disclosures) not covered in this Standard is*



*appropriate, in order to disclose about issues that are common in the undertaking's sector, as this supports the preparation of relevant, faithful, comparable, understandable and verifiable information.*

18. **Language in the Business Partner Module:** The EFRAG Secretariat considered that departing from the language in the relevant Sustainable Finance regulation of the Business Partner module would be less appropriate, as the relevant KPIs have already technical standards issued by ESAs that define them. Hence the module has achieved only a minimum level of simplification. EFRAG Secretariat made an effort to achieve a balance between simplification and the language used in Set 1 for this module. This approach was supported by SR TEG and SRB. Moreover, the stakeholders outreaches indicated that certain datapoints could be withdrawn, such as energy intensity and GHG intensity. SR TEG also agreed to add specific questions in the consultation on each datapoint in BP Module to assess which ones could be further deleted and/or which ones are missing from the business partners perspective.
19. **Scope 3:** Scope 3 GHG emissions and taxonomy disclosures were considered too complex and premature in the initial SR TEG and SRB discussions and in the outreaches, as at this stage adapted tools for SMEs are not yet available. However, in the SRB meeting of 24 September the SRB discussed the red flags of SRB members. One of the changes proposed was to include a reference in the standard similar to the one for the entity specific. As dedicated question will be included in the consultation to cover this point.
20. **Materiality:** Concerning materiality, SR TEG agreed on asking questions in the consultation for the Narrative- PAT module and the Business Partners Module. In particular:
- a. Can PAT be prepared without materiality assessment? – i.e. report only what you have? This would result in not disclosing the list of material matters. Is this appropriate?
  - b. Does the Standard achieve the maximum possible proportionality in terms of embedding the 'if applicable' logic?
21. **Guidance for Basic Module and for Business Partner module:** As requested by SR TEG and from what emerged in outreach meetings, guidance on both modules EFRAG Secretariat, following the latest ST TEG meetings, tried to further simplify where possible.

## Users' perspective of this standard

22. In the [EC Q&A accompanying the adoption of the Delegated Acts ESRS in July 2023](#), it is specified that *EFRAG is developing simpler, voluntary standards for use by non-listed SMEs. These voluntary standards should enable non-listed SMEs to respond to requests for sustainability information in an efficient and proportionate manner, and so facilitate their participation in the transition to a sustainable economy.*



23. The [EC SME Relief Package of September 2023](#) refers to **VSME as a measure to support SMEs in accessing sustainable finance**. In Par. 4 - it is mentioned that the *Commission will ensure that SMEs have a simple and standardized framework to report on ESG issues [.....], and ensuring the rapid delivery of voluntary standards for non-listed SMEs*.
24. Reflecting the above, the logic followed in the standard setting has been to give priority to the identification of a proportionate set of indicators that would be a credible replacement for at least a substantial component of the questionnaires that are currently used by lenders, investors and corporate clients. The societal angle of standard setting, i.e. providing a complete picture of the ESG impacts that would inform stakeholders other than lenders, investors and corporate clients in keeping the SME accountable for its impacts is not the focus of this standard. **This will be a key question in the consultation.**

## To what extent can VSME replace existing ESG banks and supply chain questionnaires?

25. EFRAG Secretariat analysed 12 real life examples of ESG questionnaires which included 2 national central banks, 4 national federations, 1 national credit information provider, 1 national bank, 1 rating agency and 3 mixed banks and supply chain (international initiatives) questionnaires.
26. These questionnaires cover around 26,000 SMEs and are part of initiatives that comprise approximately 700 banks and 450 companies in the value chain. Please note that some of these questionnaires are international initiatives, thus have an international scope.
27. EFRAG Secretariat also analysed a questionnaire from one ESG rating agency that is used by more than 100,000 companies.
28. On this basis, EFRAG secretariat has identified the recurrences of DRs in VSME ED in the existing questionnaires (**see Appendix 1- List of VSME Datapoints found in analysed questionnaires** for details).
29. On top of the desk research, and gap analysis, a series of outreach meetings have been held to define to what extent VSME may replace those questionnaires:
- a. First VSME Community Workshop (31 January 2023)
  - b. Discussion Vienna Initiative (10 February 2023)
  - c. Second discussion with Vienna Initiative (14 March 2023)
  - d. Vienna Initiative Questionnaires Gap Analysis (30 August 2023)
  - e. First Bank Workshop on VSME (1 September 2023)
  - f. First SMEunited meeting (4 September 2023)
  - g. Second VSME Community Workshop (7 September 2023)





- h. CSR Europe Meeting (5 October 2023)
  - i. Business Europe Meeting (13 October 2023)
  - j. Second SMEunited meeting (20 October 2023)
  - k. Second Bank Workshop on VSME (23 October 2023).
30. In the outreaches, the three modules of VSME have been recognized by business partners as relevant. While large corporates expressed a preference for the Narrative-PAT Module, banks highlighted how the Business Partners module would be more useful to meet their information needs (the Narrative Module would result in a too complex exercise of consolidation of qualitative information from a huge amount of SME clients considered to be of limited use).
31. Additionally, the outreaches allowed to identify datapoints in the Business Partners module that may be removed (i.e GHG scope 3 emissions GHG and energy intensity or exclusions form benchmark alignment). Some stakeholders on the other hand indicated the need of additional data point, such as taxonomy eligibility and alignment. However, due to the complexity of this disclosures for SMEs and due to the lack of existing adapted simplified tools or methodology for them to disclosure the SR TEG confirmed in the methodological approach to keep this disclosure out of VSME (currently the EU Sustainable Finance Platform is investigating an adapted methodology for SMEs).
32. On the specific question if VSME- and in particular the Business Partner Module - can replace existing business partners questionnaires, **EFRAG secretariat did not receive an exhausting answer** (sector specific dimension, contractual or ad-hoc needs will remain). **A final answer on this is expected from the outcome of the public consultation.**
33. For this reason, one of the key questions to address to lenders/investors/corporate clients in the consultation will be: would you be able and willing to replace a substantial part of your questionnaires with the content of VSME? [ using estimated ranges, less than 20%; from 20 to 50%; between 50% and 80%; more than 80%.]
34. SR TEG also requested to ask the relevance per each datapoint of the Business Partner Module (will it hamper lending/supply chain condition): is it a must or a good to have? And /or if any datapoint that currently is in their questionnaires should be added.
35. Extensive Field tests will also be organized to explore this dimension.
36. **Assuming that the VSME can replace a substantial part of existing ESG data request** from banks or large companies towards SMEs, this will mean that VSME will relief SMEs by avoiding them to deal with a multitude of different questionnaires (as it is the case **now**) **and by setting de facto a limitation to the current multiple ESG data requests.**



## Overview of the changes to VSME ESRS ED after the SRB decisions of 24 of October 2023

37. A brief overview of the decisions taken at SR Board during the meeting of 24 October 2023 at is provided in the table below.

38. The analysis of the EFRAG SRB and SR TEG comments received during the internal written consultation is available in the agenda papers for the SRB on 13 September 2023 (as background).

SRB Decisions on 24 October	Implemented in VSME ESRS ED
<b>Entity specific:</b> agree not to have a ‘shall’, however complete omission would risk to lead to irrelevant disclosure.	Addressed with the inclusion of the <u>entity specific</u> dimension <b>not as a shall</b> (Par 11).
<b>Location of Sustainability report</b> one member raised as a red flag: ‘may’ instead of ‘shall’. Need to be flexible on alternative locations, due to national aspects including auditing requirements of management report.	Addressed in paragraph 13: <i>“The undertaking <b>may</b> present its sustainability report in a separate section of the management report (...). Otherwise, the undertaking may present its sustainability report in a different document.”</i>
<b>Basic Module</b>	
<b>B-7 replace circular economy datapoints</b> (descriptive) with metrical ones (i.e. type of waste) to focus more on specific indicators rather than descriptions; ensure “construction sector” is covered.	Addressed with the rephrasing of B 7.
<b>B-11, the item of corruption and fines.</b> 2 SRB members considered that the standard cannot be defended without this datapoint.	Addressed. This disclosure has been kept.
2 member thought that <b>ESRS S2/3/4</b> should not be completely excluded from the standard [ <b>red flag</b> for them]	Addressed. S2-S4 have been included in B2 in the Basic Module and in N3 paragraph 61 of the Narrative-PAT Module.
Mention in the standard that depending on activities and organization, <b>Scope 3</b> may be a relevant information to be covered.	Addressed with a specific introduction in the Business Partners Module guidance of Scope 3 language.
Clarify the ‘ <b>if applicable</b> ’ approach in Basic Module	Please refer to the <b>section below “The applicability concept in VSME Basic Module”</b> and <b>Appendix 2 – List of DRs in Basic Module that contain “if applicable approach”</b> (for details) to see how this comment has been addressed.

SRB Decisions on 24 October	Implemented in VSME ESRS ED
<b>Narrative-PAT Module</b>	
Rename the PAT module to be ‘narrative’	Addressed, now it is called Narrative-Policies, Actions and Targets (PAT) Module.
<b>Due diligence</b> (red flag for 2 members): include language that alludes to minimum safeguards without mentioning explicitly due diligence.	Addressed in par 58 (a) with the explicit reference in parenthesis to due diligence.
Distinguish between “affected stakeholders” and “other stakeholders” in <b>N 4</b>	Addressed.
<b>Gender diversity ratio</b> in governance bodies (N 5) to be kept.	This disclosure was kept but moved from the Basic Module to the Business Partners Module.
Suggestion to provide a definition of governance (N 5)	Addressed, a definition of governance was added in Appendix A Defined Terms.
<b>Business Partners Module</b>	
Change name to business partners module.	Addressed.
For GHG emission intensity: for scope 1 and 2, the emission intensity should be based on physical production (also in line with Pillar 3 requirements) rather than on revenues.	The Disclosure on GHG emission intensity (based on revenues) has been deleted as outcome of outreach meetings. The GHG emission intensity based on production is not included as it would represent a deviation from Set1 in VSME, not in line with minimum content. To be addressed in the consultation on Business Partner module.

## The “Applicability” concept in VSME Basic Module

39. A clear outcome from the pre consultation outreach with stakeholders in the EFRAG SME EWG, VSME community, events with banks, SMEs and large companies was that materiality analysis would be too complex for micro undertakings.
40. For this reason, in the Basic Module, that is the target disclosure module for micro undertakings, the concept of materiality has been removed and replaced with the concept of “if applicable”.



41. This concept is to guide micro and SMEs in assessing and filtering whether the disclosure requirement applies to their circumstances or not. In general, no disclosure is expected to be provided 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 provision related to that datapoint in the standard.
42. Furthermore, in the application guidance, examples are used as a way of additional steering in assessing the circumstances that trigger disclosures.
43. The table in **Appendix 2 – List of DRs in Basic Module that contain “if applicable approach”** illustrates the list of Disclosure Requirements (DRs) in the Basic Module that contain the concept “if applicable” and those that are considered “always to be reported on” (no judgment for the micro or SME ) when using the Basic Module, as incorporating an ‘if applicable’ condition was not technically possible.

## Proposed questions for consultation already emerged in SR TEG (for information)

44. SR TEG agreed to propose specific questions in the consultation on VSME as follows (to note that the list also includes the outcome of the SR TEG approval session already reported in SoD 8 November above in paragraph 7):
  - a. Each datapoint in BP Module, to assess which ones could be further deleted and/or which ones are missing from the business partners perspective. SR TEG members agreed to have a distinction according to the size of the company when asking questions in the consultation concerning the datapoints in the Business Partners Module. In addition, SR TEG agreed to ask in the questions for consultation i) thresholds of coverage of VSME compared to their questionnaires, ii) what additional datapoints banks/corporates need that are not present in the Business Partners Module.
  - b. Whether we should also extend the subsidiary exemption.
  - c. Disclosure B 2 “Practices for transitioning toward a more circular economy”.
  - d. Disclosure B 11 “Convictions and fines for corruption and bribery”.
  - e. The approach on sectors in VSME ESRS.
  - f. Materiality as both SR TEG and SR Board agreed on asking questions in the consultation for the Narrative- PAT module and the Business Partners Module. In particular:
    - i. Can PAT be prepared without materiality assessment? – i.e. report only what you have? This would result in not disclosing the list of material matters. Is this appropriate?
    - ii. Does the Standard achieve the maximum possible proportionality in terms of embedding the ‘if applicable’ logic?
  - g. The inclusion of S2-S4 in N 3 “Management of Material Sustainability Matters”.



- h. The inclusion of a financial opportunities on a voluntary basis.
  - i. Scope 3 language (added as an entity specific consideration in the Business Partners Module).
  - j. Disclosure BP 2 “Responsibilities in relation to sustainability matters” concerning the board gender diversity ratio.
  - k. Disclosure BP 10 “Work Life Balance” and BP 11 on “Number of Apprenticeships”
  - l. Potential sub-modules for the Business Partners Module that may increase flexibility (i.e. “climate sub-module” or “due diligence sub-module” or “lenders” or “corporates”)
45. EFRAG Secretariat, following a remark by one SR TEG member, would like also to ask SR Board whether it considers that the guidance on both the Basic Module Metrics and on the Business Partners Module has to be reviewed on a periodical basis? If yes, how frequent the review should be? Should this be part of the PIR of VSME (assuming that this would also apply to VSME)?

## Approval of draft VSME ESRS ED in this SR Board meeting

46. The Secretariat will ask the questions listed below, as they focus on the key changes made to the document since the last TEG and Board discussions.
47. **Remaining editorial comments, if any, are welcome** by the EFRAG Secretariat **by the 6 December 2023**.
48. The EFRAG Secretariat is currently preparing the Basis for Conclusions which will accompany the ED. They will be sent for written input to both SR TEG and SRB (no formal approval is needed) in December.
49. As per article 36 of EFRAG Internal Rules<sup>1</sup>, for final endorsement advice and technical advice on EU Sustainability Reporting Standards to the European Commission:
- i. In case of sustainability reporting standard setting, if after returning the advice to the EFRAG Reporting TEG, no consensus can be reached in the EFRAG Reporting Board within the timeframe requested by the European Commission, the endorsement advice or the technical advice on EU Sustainability Reporting Standards is submitted to the European Commission. And it includes the advice of the qualified majority (i.e., two-thirds (2/3)) of the voting EFRAG Reporting Board members present or represented and dissenting opinions.

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<sup>1</sup> <https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FEFRAG%2520Internal%2520Rules%2520-%2520Approved%2520by%2520the%2520GA%252028%2520April%25202022-%2520.pdf>



- ii. The EFRAG Reporting Board members who disagree with the qualified majority view expressed in a final endorsement advice or technical advice on EU Sustainability Reporting Standards are obliged to have the reasons for their dissent recorded and explained in the advice or an addendum thereto. The name(s) of the dissenting EFRAG Reporting Board member(s) are mentioned.
- iii. If in exceptional cases, no qualified majority can be found the EFRAG Reporting Board Chair can present his/her conclusions based on an indicative vote whereby the majority view would be presented as the position and with an indication of the dissenting views held.
- iv. Dissenting views should relate to important elements of the final endorsement advice or technical advice on EU Sustainability Reporting Standards and not to secondary elements. Accordingly, only views that are so important that a dissenting member cannot accept the endorsement advice or technical advice on EU Sustainability Reporting Standards as a whole or a substantial part of the advice are included in the final endorsement advice or the final technical advice on EU Sustainability Reporting 32 Standards. Dissenting views are to be justified by indicating concisely and clearly the specific matters on which a member disagrees.

#### Questions for EFRAG SR Board

With reference to Agenda Paper 03-02– [Draft] VSME ESRS ED:

**Do you approve to recommend to issue VSME ESRS ED for public consultation?**

## Agenda Papers

1. In addition to this cover note, agenda papers for this session are:
  - a. Agenda paper 03-02 – [Draft] VSME ESRS ED;
  - b. Agenda paper 03-03 – [Draft] VSME ESRS ED Markup version from 8 November 2023 (markup of the changes agreed in the SR TEG approval)
  - c. Agenda paper 03-04 – [Draft] VSME ESRS ED Markup version from 24 October 2023 (markup of the changes arising from both the SRB discussion on 24 October and SR TEG 8 November).



**Appendix 1- List of VSME Datapoints found in analysed questionnaires**

Datapoint in VSME ESRS ED	Number of questionnaires in which it is asked
<b>Basic Module</b>	
Disclosure B 3 – Energy and greenhouse gas emissions	12
Disclosure B 4 – Pollution of air, water and soil	7
Disclosure B 5 – Biodiversity	4
Disclosure B 6 – Water	9
Disclosure B 7 – Resource use, circular economy and waste management	9
Disclosure B 8 – Workforce – General Characteristics	8
Disclosure B 9 – Workforce – Health and safety	3
Disclosure B 10 – Workforce – Remuneration, collective bargaining, and training Point (b) percentage gap in pay between its female and male employees	7
Disclosure B 11 – Convictions and fines for corruption and bribery	4
<b>Narrative-PAT Module</b>	
Disclosure N 3 - Management of material sustainability matters Par 60. Actions taken in the reporting period to improve its energy efficiency and to reduce its greenhouse gas emissions	7
Disclosure N 3 - Management of material sustainability matters	3



Par 61. Policies, actions and targets in relation to (i) workers in the value chain; and/or (ii) consumers and end users; and/or (iii) affected communities	
Disclosure N 3 - Management of material sustainability matters Par 62. Actions taken to address breaches in procedures and standards of anticorruption and anti bribery.	8
Disclosure N 5 – Governance: responsibilities in relation to sustainability matters	7
<b>Business Partners Module</b>	
Disclosure BP 1 – Revenues from certain sectors	5
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Disclosure BP 6 – Hazardous waste and radioactive waste ratio	4
Disclosure BP 7: Alignment with internationally recognized instruments	6
Disclosure BP 8: Processes to monitor compliance and mechanisms to address violations	5
Disclosure BP 9 – Violations of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles	3
Disclosure BP 10 – Work-life balance	1
Disclosure BP 11 – Number of apprentices	3





**Appendix 2 – List of DRs in Basic Module that contain “if applicable approach”**

BASIC MODULE	CONTENT (Certain part of the text that was explanatory and not datapoints have been excluded to shorten the text)	If applicable to filter the reporting/ Always to be reported on
Disclosure B 1 – Basis for Preparation	<p><b>The undertaking shall disclose:</b></p> <ul style="list-style-type: none"> <li>- Which of the following options it has selected in the preparation of its sustainability report (...)</li> <li>- Whether the sustainability report has been prepared on a consolidated (...) or individual basis (..)</li> <li>- The list of subsidiaries covered in the consolidated sustainability report</li> </ul>	Always to be reported on
Disclosure B 2 – Practices for transitioning towards a more sustainable economy	<p><b>The undertaking may briefly describe</b> specific practices for transitioning towards a more sustainable economy, in case it has them in place. This may include (...)</p>	If applicable to filter the reporting for undertakings that do not have formalized PAT but still want to disclose the practices they have in place
B 3 – Energy and greenhouse gas emissions	<p><b>The undertaking shall disclose</b> its total energy consumption in MWh, with a breakdown between:</p> <ul style="list-style-type: none"> <li>- fossil fuels;</li> <li>- and electricity, as expressed in utility billings (with the breakdown between renewable and non-renewable sources, if available).</li> </ul> <p><b>The undertaking shall disclose</b> its estimated gross greenhouse gas (GHG) emissions in tons of CO2 equivalents (tCO2eq), including:</p> <ul style="list-style-type: none"> <li>- the Scope 1 GHG emissions in tCO2-eq (from owned or controlled sources);</li> <li>- the location based Scope 2 emissions in tCO2-eq (generation of purchased energy).</li> </ul>	Always to be reported on
B 4 – Pollution of air, water and soil	<p><b>If applicable,</b></p> <ul style="list-style-type: none"> <li>- the pollutants it emits in its own operations to air, water and soil that it is required to report by law to competent authorities (...) or that it already reports according to an Environmental Management System such as EMAS.</li> </ul>	If applicable to filter the reporting for an undertaking already required to report pollutants it emits either by law or by an Environmental Certification Scheme
B 5 – Biodiversity	<p><b>If applicable</b> <b>The undertaking shall disclose,</b></p>	If applicable to filter the reporting for undertaking exposed to biodiversity sensitive areas and/or land-use



	<ul style="list-style-type: none"> <li>- the number and area (in hectares) of sites that it owns, that it has leased or that it manages, that are located in or near biodiversity sensitive areas.</li> </ul> <p><b>The undertaking may disclose:</b></p> <ul style="list-style-type: none"> <li>- metrics related to land use change such as total use of land; total sealed area; total nature oriented area on site; and total nature oriented area off site</li> </ul>	
<b>B 6 – Water</b>	<p><b>The undertaking shall disclose:</b></p> <ul style="list-style-type: none"> <li>- total water withdrawal</li> </ul>	Always to be reported on
	<p><b>If applicable,</b></p> <ul style="list-style-type: none"> <li>- water consumption (calculated as the difference between its water withdrawal and water discharge from its production processes)</li> </ul>	If applicable to filter the reporting for undertakings that consume water in a production process
<b>B 7 – Resource use, circular economy, and waste management</b>	<p><b>If the undertaking operates, manufacturing, construction and/or packaging processes:</b></p> <ul style="list-style-type: none"> <li>- The recycled content in the products</li> <li>- Rates of recyclable content</li> </ul>	The “applicability” is narrowed down to identify pre-defined sectors in which the undertaking operates that trigger disclosure. “if the undertaking operates manufacturing, construction and/or packaging processes, (...) »
	<p><b>The disclosure shall include:</b></p> <ul style="list-style-type: none"> <li>- Total annual waste generation</li> <li>- Total annual waste diverted to recycle or reuse</li> </ul>	Always to be reported on
<b>B 8 – Workforce – General characteristics</b>	<p><b>The undertaking shall disclose</b> the total number of employees in full-time equivalents or head count broken down:</p> <ul style="list-style-type: none"> <li>- by type of employment contract: temporary and permanent;</li> <li>- by gender; and</li> </ul>	Always to be reported on
	<ul style="list-style-type: none"> <li>- <b>if applicable,</b> by country.</li> </ul>	If applicable to filter the reporting
<b>B 9 – Workforce - Health and Safety</b>	<p><b>The undertaking shall disclose:</b></p> <ul style="list-style-type: none"> <li>- number and rate of recordable work-related accidents</li> </ul>	Always to be reported on



	<ul style="list-style-type: none"> <li>- the number of fatalities (...)</li> </ul>	
<b>B 10 – Workforce – Remuneration, collective bargaining, and training</b>	<p><b>The undertaking shall disclose:</b></p> <ul style="list-style-type: none"> <li>- the relevant ratio of the entry level wage to the minimum wage</li> <li>- the percentage gap in pay between its female and male employees. (...)</li> <li>- the percentage of employees covered by collective bargaining agreements</li> <li>- the average number of training hours per employee and by gender (...)</li> </ul>	Always to be reported on
<b>B 11 – Convictions and fines for corruption and bribery</b>	<p><b>In case of convictions and fines in the reporting period,</b></p> <ul style="list-style-type: none"> <li>- the number of convictions and the amount of fines (...)</li> </ul>	The “applicability” is narrowed down to the following formulation: “In case of convictions and fines in the reporting period”

