
MINUTES

EFRAG / DRSC – Joint Public Discussion of ED-VSME and ED-LSME



Wednesday, 10 April 2024, 2-4pm



online event

Participants

Around **150 participants** from a wide variety of backgrounds (e.g. German SMEs, large companies, bank and insurance representatives, representatives of associations / interest groups, audit firms, consulting companies, academia and others) were informed about the concepts and content of the ED-LSME and ED-VSME and discussed these proposals with the following representatives of EFRAG and DRSC:

- Chiara **Del Prete** (EFRAG Sustainability Reporting TEG, Chair),
- Dr. Sebastian **Heintges** (EFRAG),
- Elisa **Bevilacqua** (EFRAG, SME-Team),
- Paolo **Mazzeo** (EFRAG, SME-Team, LSME),
- WP/StB Georg **Lanfermann** (DRSC, President) and
- Dr. Kati **Beiersdorf**, CPA (DRSC, Technical Director).

The slides presented by EFRAG and DRSC are available.

Main aspects of the discussion

The discussion evolved around various aspects. The main aspects addressed in the discussion were as follows:

(1) Value-Chain-Cap Function

Participants aimed at better understanding the value-chain-cap function of the ESRS for SMEs. EFRAG clarified that the function of the value-chain-cap is defined in the CSRD for the LSME, only. However, since the VSME is expected to be applied by a much larger number of (non-listed) SMEs EFRAG expects that the VSME will play an important role in effectively limiting the scope of sustainability information required from these SMEs, i.e. the VSME will

work as a cap effectively. For this to be the case it will be crucial that the VSME is widely accepted not only by preparers but also by users of SME sustainability information. The aim is to make the VSME the market standard. Companies will then be in a good position to address all requests with regard to sustainability information. Possible additional questions could address sector-specific aspects which are not covered in the sector-agnostic VSME.

(2) Support functions

Participants asked about possible support functions for micro entities that were interested in preparing sustainability information. For example, it was asked whether EFRAG would support the provision of sustainability data, e.g., by providing a platform on which preparers could publish their sustainability information for relevant stakeholders. EFRAG explained that it is outside the scope of EFRAG's work to provide a data platform for SME sustainability information. There will also be no requirements regarding XBRL reports for SMEs or other requirements regarding the provision of data. However, EFRAG is aware of online platforms that are currently being developed. Therefore, EFRAG assumes that there will be support mechanisms for SMEs to provide their sustainability information.

In relation to the question of support functions for SMEs and micro entities the ZDH (German Association of Skilled Crafts) explained that they developed an online-tool for the companies that participated in their ZDH-VSME-field-test-project. It proved to be a very helpful tool to collect the sustainability data.

(3) ED-VSME

A main portion of the discussion time was attributed to the ED-VSME. Participants from SME undertakings or associations confirmed the need for harmonized SME sustainability information requirements on the one side and the need for proportionate requirements on the other. It was further agreed that the VSME could be a suitable tool to address these needs. However, it was argued that the language of the ED-VSME was still too difficult to understand. In the online tool, mentioned above, a precise translation of the ED-VSME was used to evaluate how preparers would deal with the language and style of the ED-VSME. Preparers found it very difficult to understand what was asked of them. Participants therefore asked for simplifications in the language.

While participants agreed with the modular approach, most of the company representatives plan applying the Basic Module only. With respect to the Basic Module it was briefly discussed whether additional data points should be added to the Basic Module (one result of the field test was that there are certain aspects which users of sustainability information would find helpful in the Basic Module). Participants spoke out against this idea. EFRAG laid out the tentative view that it is unlikely that the Basic Module would be expanded as preparers would always have the chance to provide additional data from either PAT-Module or / and Business Partner Module. On the other hand, it is important to keep the Basic Module

as simple as possible. It was emphasized that preparers were free to “cherry pick” from the other modules as they see fit for their specific purposes (according to VSME).

Furthermore, the materiality analysis was discussed in detail. Preparers find the materiality analysis the biggest obstacle in applying the PAT- and/or Business Partner Module as it is very time consuming and complex. In addition, in the view of participating companies, the VSME does not provide sufficient guidance, support for SMEs to conduct the materiality analysis. EFRAG responded that users will be asked to evaluate whether the materiality assessment is needed. This is part of the public consultation and of the field test process. Alternatively, all information will have to be provided – irrespective of the materiality or an “if applicable” approach could be chosen. This question will be evaluated during the due process.

(4) ED-LSME

A participant from a listed SME asked whether it would be possible to apply the LSME on a consolidated basis (and discharging the SME from the requirement to prepare a sustainability report on an individual basis). This would be very important for the listed SMEs. These are usually groups and therefore users of their company reports would expect information on a group level. EFRAG replied that, due to the CSRD, currently this is not an option. For listed SMEs to avoid preparing a sustainability report on an individual basis they would have to apply full ESRS for their consolidated sustainability report.

(5) Next steps / standard-setting process

EFRAG explained that it planned to finalize the work on the VSME and LSME until December 2024. At that time the LSME will be delivered to the European Commission for the official due process of passing the LSME as a Delegated Act (as laid out in the CSRD). For the voluntarily applicable VSME the further process by the EU Commission – after finalisation by EFRAG – is yet to be decided on.

(6) Other Questions

A participant asked about the basis on which the VSME was developed. EFRAG explained that 12 questionnaires of large organisations (whose members represent several hundred companies in total) were evaluated for developing the VSME.
