



Mr Patrick de Cambourg
Chair
EFRAG Sustainability Reporting Board
35 Square de Meeûs
1000 Brussels

29th May 2024

Re: EFRAG Consultation on ESRS LSME Exposure Draft and on ESRS VSME Exposure Draft

Dear Patrick,

OIC is pleased to have the opportunity to provide its comments on ESRS LSME Exposure Draft and on ESRS VSME Exposure Draft.

OIC welcomes the development of a European sustainability reporting standard specifically designed for listed small and medium-sized entities (SMEs) to be applied on a mandatory basis in accordance with the CSRD (LSME) and the development for a voluntary standard for non-listed SMEs and micro-entities (VSME) as reported in the European Commission Communication SME Relief Package of September 2023.

ESRS LSME Exposure Draft

With regard to the LSME ED, although we appreciate the efforts made by EFRAG for the development of this standard, we doubt that the proposal meets the objective of proportionality. We acknowledge that the LSME ED represents a simplification compared to full ESRSs with a reduction of about 40% of datapoints (from 1,102 to 689). However, we observe that the remaining disclosure requirements are still excessively granular/burdensome compared to the administrative capacity of a small company. Indeed, we believe that LSME should focus rather on the small size of companies than on the mere fact that these are listed. This would better allow to identify the disclosure requirements that are really necessary. On the other hand, the costs of producing information, if too heavy, could become a deterrent to listing on regulated markets or even an incentive to delisting.

In order to take the size of companies into due account, we suggest EFRAG to consider the possibility of building the LSME standard leveraging on VSME. In this way, listed SMEs would be requested to comply with the VSME standard plus an additional module containing few additional information that market participants expect to find in the sustainability statement of a listed company. According to the provisions of the CSRD, all four modules will be subject to materiality assessment.



Furthermore, starting from VSME would be more consistent with the approach adopted by EFRAG in the ESRs for large companies with no differences between large listed and large non-listed undertakings.

Such an approach would also be more functional to another objective of the LSME standard, which, according to Art. 29 *ter* of the Directive 2013/34/EU as amended by the CSRD, should act as the “*value chain cap*”.

According to this provision, data requirements in the LSME ED represent the maximum information that large companies - that have to comply with their ESRs - can request from SMEs included in their value chain.

Considering that most SMEs in the value chain of large undertakings are non-listed, these companies will potentially receive a series of data requests from large undertakings.

If the disclosure requirements of LSME are set excessively higher than those for VSME, as currently proposed by EFRAG in the LSME ED, non-listed SMEs could risk not to meet the information requests within the value chain cap.

This is another reason for setting a LSME standard closer to the VSME in terms of disclosure requirements.

ESRS VSME Exposure Draft

We believe that the flexible approach envisaged by EFRAG in the VSME (building-block approach with three different modules) takes into due consideration that the ability of providing the information contained in the Standard can be highly differentiated within the wide range of non-listed SMEs. In particular, providing a minimum set of information (Basic module) is appropriate. Indeed, looking at our national context, 99 per cent of all companies are non-listed SMEs (just over one million), and micro-entities account for about 75 per cent.

However, we would like to point out the following aspects:

- considering that one of the objectives of the Standard is to contribute to satisfy data demand from users, we believe that their information needs should find adequate response in the standard. Only if functional to the information needs of users, VSME can turn out to be a valid tool to replace/significantly reduce their information requests. Thus, we consulted with Italian users to understand their information needs. We believe that the VSME standard should at least incorporate disclosure requirements necessary for users also to be compliant with European regulations. Please find the list of our proposed integrations in Appendix 1 and 2 of this letter. Finally, we believe it is important that EFRAG continues monitoring the evolution of European regulations, so that future amendments will be timely reflected in the Standard.
- in terms of applicability of disclosure requirements in VSME, given the results of exchange of views with stakeholders, outreach events (like that “SMEs voluntary sustainability reporting: EFRAG Exposure Draft and Data Demands from Financial Sector and Large Undertakings”, organised by OIC, EFRAG, Assonime and Luiss University on 10 May 2024”), and other surveys (for example that carried out by Open-es Alliance), the following elements emerged:

- difficulties in performing materiality assessment: we are aware that the materiality assessment required for the Narrative (PAT) module and for the Business Partners module introduces a non-negligible level of complexity into the process necessary for reporting sustainability information which could initially slow down the adoption of the optional modules. Nonetheless, we support the approach proposed by EFRAG, because we consider that, when assessing material matters and material information to be disclosed, SMEs can be encouraged to thoroughly evaluate their sustainability performance and develop transition plans. A serious and documented commitment to ESG issues can increase financing capacity, creating a virtuous circle that brings benefits to companies and lenders/investors, ultimately to society as a whole. In our opinion, retaining a properly integrated set of disclosures that have to be provided in any case (Basic module) ensures an adequate minimum level of comparability;
- difficulties in calculating some quantitative indicators, in particular those related to environmental topics.

In conclusion, we observe that, on one hand, indicators should be suitable, i.e. not complex, for SMEs and, on the other hand, information needs of users should be satisfied. Therefore, the indicators proposed in Appendix 1 and 2 should be included in the VSME. Moreover, EFRAG should consider introducing, already in this VSME Standard, a guidance to calculate the indicators proposed in the Appendixes as well as additional indications and tools which allow SMEs to calculate the quantitative indicators already required in the VSME.

In case you wish to discuss these issues further, please do not hesitate to contact us.

Yours sincerely,

Michele Pizzo
President of Board of Directors



Appendix 1

This Appendix includes some additional information to the Basic module to cover user needs:

Additional indicator	Reasons for inclusion
In addition to B1 Basis for preparation: - Information on the adopted collective labour agreement	To obtain information on employees' protections arising from the specific collective labour agreement adopted
In addition to B3 <i>Energy and greenhouse gas emissions</i> : - Level of energy efficiency of the collateral (energy performance score in kWh/m ²)	Pillar 3
In addition to B7 <i>Resource use, circular economy and waste management</i> , to move from Business Partners module BP6 <i>Hazardous waste and radioactive waste ratio</i> : radioactive waste ratio	SFDR
In addition to B9 <i>Workforce – Health and Safety</i> - the number of days lost to work-related injuries and fatalities from work-related accidents, work-related ill health and fatalities from ill health - the number of incidents of discrimination leading to sanctions or final decision	SFDR
In addition to B11 <i>Workers in the value chain, affected communities, consumers and end-users</i> , to specify that the information may also be provided with regard to the positive impacts	To provide a comprehensive picture of the impacts

Appendix 2

As a first point, we suggest that if the undertaking omits the information prescribed by a datapoint, included in the Business Partners Module, that derives from other EU legislation listed in Appendix C of ESRS VSME ED, it should explicitly state that the information in question is “not material”.

Moreover, some additional information to the Business Partners module to cover user needs should be considered:

Additional indicator	Reasons for inclusion
<p>In addition to BP1 <i>Revenues from certain sectors</i>:</p> <p>the undertaking shall state whether or not it is excluded from the EU Paris-aligned Benchmarks in accordance with the exclusion criteria stated in Articles 12.1 (d) to (g) and 12.2 of Commission Delegated Regulation (EU) 2020/1818</p>	Pillar 3
<p>With regard to BP 3 <i>GHG emissions reduction target</i>, the following amendments are suggested (underlined in the text):</p> <p>If the undertaking has set GHG emission reduction targets, it shall provide its GHG emission reduction targets (<u>in absolute amount and specifying the target year</u>) for:</p> <p>(a) scope 1 emissions; and</p> <p>(b) scope 2 emissions.</p> <p>This disclosure includes Scope 3 emissions, only when they are disclosed under paragraph 71 above and the undertaking has set GHG emission reduction targets for Scope 3 emissions</p>	SFDR
<p>In replacement of BP5 <i>Physical Risks from climate change</i>, in order to simplify the information proposed, the following information is suggested to require:</p> <ul style="list-style-type: none"> -the location of single local units -NACE code of single local units (if different from NACE code of the undertaking) -net turnover for local unit or, if not available, employees for local unit -presence of insurance coverage against physical risk events with specific indication of i) start date and expiry date, ii) type of risk, iii) amount insured, iv) any deductible 	Pillar 3



With regard to the Taxonomy indicators, we believe that those indicators are important for users and invite EFRAG to consider their inclusion in the Business Partner Module on a voluntary basis

Taxonomy Regulation