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25<sup>th</sup> June 2024

## Joint letter from European SME organisations regarding the LSME

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We, the Austrian Economic Chambers (WKO), the Federation of Finnish Enterprises (Yrittäjät), the French Confederation of Small and Medium-Sized Enterprises (CPME), the German Confederation of Skilled Crafts and Small Businesses (ZDH), the Polish Association of Listed Companies (SEG), the Polish Craft Association (ZRP), the Royal Dutch Association of Small and Mediumsized Enterprises MKB-Nederland (MKB) and the Small and Medium-Sized Enterprises Denmark (SMVdk) would like to express our strong and firm objections to the current text of the LSME.

Collectively, our organizations represent more than 2.000.000 SMEs employing around 15.000.000 people all over Europe.

These companies, which make up the driving force of the European economy, are already profoundly affected by the downstream ramifications of the CSRD. To limit the resulting administrative burden, encourage their economic vitality and concrete ESG investments, these SMEs require a cap in the value chain that fits their current capabilities. As the primary authors of CSRD reports, it is imperative to take into account SMEs' abilities to report complex ESG data. The current text of the LSME does not fulfill this mission as feasible value chain cap for reporting by SMEs. Furthermore, listed SMEs are unanimously raising concerns that they will not be able to complete LSME reports, if the LSME is not significantly simplified.

### A document that is impractical for SMEs, yet that exceeds the needs of users

The current draft of the LSME still presents significant challenges that have the potential to seriously impact our members' operations. The document's length, technical language, and intricate structure make it very challenging, if not impossible for a non-versed reader such as heads of SMEs, to understand. The document contains two to three times more data points than the VSME, which already goes beyond SMEs' reporting abilities in many regards (namely, module 3). All of this makes it impossible to implement the reporting standards at this stage.

Furthermore, according to feedback from users (banks, lenders, etc.), they need a limited amount of data for their green operations, such as bonified loans to SMEs. The amount and kind of data is far less than what is currently required through the LSME and regulations such as the SFDR. It does not seem therefore logical to request such information from SMEs, and especially given the expected revision of the SFDR in the coming years. The ratio "cost of preparation for SMEs" vs. "usefulness of information" seems imbalanced.

## Our suggestion

We fully support the aim of standardizing the various ESG questionnaires through a CSRD standard for SMEs. We plea for the VSME to be adopted as the new binding or at least effective cap in the value chain, instead of the LSME, provided some adjustments made to module 1, and a simplification of modules 2 and 3 (see our respective responses to the public consultation regarding the VSME). Any further information that would be required from listed SMEs should then be included in a fourth module, clearly marked as 'For listed SMEs only'. Thus, voluntarily reporting SMEs would not be overburdened, while at the same time listed SMEs would have a more feasible standard that would still cater to additional information needs their potential investors might have. Such a new standard for listed SMEs in this form would be more suitable than the current draft and avoid presenting listed SMEs with a legally binding standard that is difficult for them to comply with.

Furthermore, a strong commitment from the European Commission and users (banks, lenders, larger corporations), as well as outreach efforts, would be essential to ensure proper market uptake of the "CSRD standard for SMEs", and help it become the substitute for other existing transparency practices. Otherwise, other current initiatives, some of which are privately led and costly, will persist and the VSME will fail to achieve this essential objective.