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Ihre (Miet-) Wäsche in den besten Händen

Dear Ladies and Gentlemen!

In the appendix we would like to send you the BSGH's statement and also ask you to take into account that it would be desirable if small and medium-sized enterprises in particular were allowed to include estimates and the possibility of foregoing time-consuming research.

### Consultation for SME Sustainability Reporting Standards: ESRS LSME + VSME

#### 1. Introduction

Thank you for including me in this consultation on sustainability reporting standards for SMEs. We would like to point out that there are comments and concerns from committed member companies about the introduction of (mandatory) sustainability reporting. These relate to both the basic introduction and standardisation of voluntary sustainability reporting for non-listed micro, small and medium-sized enterprises (SMEs) by the European Financial Reporting Advisory Group (EFRAG).

Promoting transparency and accountability in relation to sustainable business practices through the Corporate Sustainability Reporting Directive (CSRD) and related standards and sustainability reports is basically an important initiative of the European Union.

The Voluntary Standard for non-listed SMEs (VSME) is intended to help micro-enterprises and SMEs to respond efficiently and appropriately to requests for detailed and comprehensive

sustainability information from e.g. credit institutions, investors and customers. Companies can choose between the mandatory "Basic Module" and up to two optional modules "Narrative-Policies, Actions and Target (PAT)" and "Business Partner" in order to – gradually – meet CSRD obligations while at the same time building on international developments.

Objectively, this can be seen as a positive development, as it aims to help smaller companies meet the growing demands for future reporting and thus provide support in their basic idea. However, we have to note that despite the efforts to make the standards SME-friendly, the current draft of the VSME standards still poses significant challenges that have the potential to seriously affect the operational business of our members. Of particular concern are the risks in terms of complexity, cost and the so-called trickle-down effect. This development could lead to an involuntary burden on SMEs that exceed both their financial and operational capacities.

## 2. Key Concerns and Challenges

Despite the positive intentions, we see significant challenges in the practical implementation of the sustainability reporting standards that could have a significant impact on our businesses:

### Complexity and feasibility:

A key problem is the complexity of the proposed sustainability standards. Many SMEs in the ancillary construction industry or in the skilled trades in general do not have the necessary resources or expertise to meet the detailed and extensive data requirements of these standards. The processing of this data requires specialized knowledge and systems that are often not available in smaller companies. The draft of the VSME is difficult for many of our member companies to understand and implies an administrative burden that significantly exceeds the capacities of smaller companies. Therefore, we call for a revision of the standards that includes simpler language, clear guidelines and practical guidelines to enable direct implementation without external help.

### "Trickle-down effect" and indirect obligations:

Although the sustainability standards for SMEs are initially declared voluntary, we fear significant indirect effects due to the trickle-down effect. Larger, reportable companies could require their SME business partners and suppliers to provide appropriate sustainability information in order to meet their own reporting obligations. This process not only increases the burden on SMEs, but also increases their dependence on corporations and large companies, as they are forced to provide data that they would not otherwise collect. This additional requirement can significantly affect the competitiveness of SMEs and lead to unfair market conditions. We therefore call for clear regulatory guidelines that protect SMEs from such excessive requirements and ensure that these indirect obligations do not lead to disproportionate burdens.

### Costs and resource strain:

The introduction of sustainability reporting standards is expected to entail significant costs. The costs include not only the direct expenses for external consulting and the adaptation of systems, but also the significant time required for data collection and processing. These financial and human resources are often very limited for SMEs. The implementation of the standards could therefore represent an excessive financial and operational burden, especially for smaller companies, weakening their competitiveness and, in the worst case, jeopardising their market position.

### 3. Relationship with other legal norms

We fully agree with the points that have already been made. In particular, the relationship between ESRS and VSME ESRS. In order to attract as many SMEs as possible and thus exploit their full potential, it must be officially clarified that the CSRD and ESRS reporting obligation is fulfilled when SMEs submit the information that can be determined/filled in accordance with the VSME. It is also important to note that the "data gaps" that lead to different reporting requirements (e.g. CSRD vs. VSME ESRS) do not fall back on the companies that have higher reporting requirements. If these two points are not supported by the European Union, there is no incentive for SMEs to voluntarily opt for the VSME ESRS, and there are limited benefits for larger companies when SMEs report under VSME ESRS in their supply chain. This could end up harming SMEs (e.g. larger companies force SMEs to collect data, even though they do not have to or cannot do so according to the VSME ESRS).

### 4. Critical Preliminary Review

In addition, there are some issues with the current VSME design. The aim is to create reporting standards for SMEs that are compatible with ESRS criteria, but at the same time proportionate in terms of size and feasible for companies.

However, the draft in its current form is not suitable for small businesses. The language used is too difficult for most SMEs. The author used too much jargon and too many abbreviations. In addition, the questionnaire cannot be completed without the use of the guide (VSME Draf). This sums up how complicated the VSME standard is.

If the Commission wants VSME to be a success, the standard must be written in a more understandable language in order to minimise the burden on SMEs. Providing guidance is a good first step to help SMEs with the standard, but there needs to be additional help in terms of reporting requirements under VSME. For example, completion guides or examples of completed templates would be a good way to support SMEs that are not familiar with the ESRS standards (which is true for most SMEs that choose or are encouraged to use VSME).

Another worrying point is that the policy, which is quite complex on its own, refers to various tools, standards, and protocols to meet the reporting requirements. These additional tools are too complex and take some getting used to (e.g. Exposure Draft item 129: WRI's Aqueduct Water Risk Atlas or references to other standards, e.g. B 3 point 91 et seq., where greenhouse gas emissions calculations must comply with the GHG Protocol). Therefore, they are not suitable for SMEs that are already struggling with the essential requirements of the standard. We are concerned that these additional tools and references to other standards/protocols that our operations are getting used to could deter SMEs or at least significantly increase the workload for them. Especially when you consider that most of the tools listed are only available in English.

In B 9, the company discloses reportable accidents at work and the number of deaths due to work-related injuries. These numbers are important and have a huge impact on employees and the company.

However, it must be taken into account that there are different industries and professions that lead to unattributable figures. Therefore, the data obtained should only be compared with those of companies in the same sector.

We find it unacceptable that companies that opt for voluntary sustainability reporting should have to disclose their convictions and fines for corruption and bribery (B 12). This has nothing to do with a sustainability report, but is an intervention in one's own "private" affairs. If a conviction must be public, a court will order it, no one else.

There are quite a few "if applicable" questions. This is relevant to the "data gaps" mentioned earlier. It is of paramount importance to get an explanation of how, if these questions are not answered, they will affect the reporting requirements for the larger ones, such as CSRD obligators.

We welcome the fact that the materiality principle does not apply to the basic module. This relieves the burden on our small businesses.

However, the materiality analysis must be met in most other sustainability reports, including the advanced VSME (Narrative PAT, Business Partners) modules. This raises the question of how compatible data without materiality analysis is with data from companies undergoing materiality analysis (as mentioned above).

Nevertheless, this topic is becoming less relevant as the Business Partner module (for Business Partner Questionnaires) is the module that most SMEs need to meet data requests from their Business Partners (see Ad hoc meeting on EFRAG SME Standards). Therefore, they will eventually have to deal with materiality, as the main reason for reporting under the VSME is to be able to answer the questionnaires of the companies that are required to report according to more comprehensive standards. For this reason, it is essential that the Commission concludes that the information received by larger companies from SMEs reporting under VSME is "acceptable" and does not lead to further burdens for SMEs and large companies. Without clarification, as just described, there is no reason for SMEs to voluntarily prepare sustainability reports, so they cost a lot of money and time.

The materiality analysis (double materiality) is very important for the report and is well explained in the guideline (Guidelines 42-57), but there is no definition of what constitutes an impact in terms of double materiality analysis. Since this definition is crucial, it needs to be added.

There is no policy for the Narrative PAT module. Even if there is one for the other two modules.

As the wording in the explanatory notes to disclosures N 1-5 (narrative PAT module) is quite 'open', it would be very helpful if, as mentioned earlier, there were examples of completed templates to show SMEs what the Commission expects.

From our point of view, the Business Partner module, together with the basic module, is the most important, but also the most extensive. Comprehensive investigations are required to meet the required requirements. That is why we need to support SMEs wherever possible. Micro and small enterprises, in particular, will struggle with the requirements they need to meet if they want to report under VSME.

## 5. Experiences from field testing, consultation and contact with EFRAG

The participating companies provided feedback showing that the deadlines set by EFRAG were not met. EFRAG itself was rather cautious in communication, but responded quickly to inquiries and offered support via email. The voluntary standard for unlisted SMEs, VSME, revealed significant deficiencies in both the conduct of the field tests and time management. In addition, companies were asked to complete two questionnaires – that of the public consultation and that of the field test – which showed a high degree of similarity. The check-up scheduled for March was not carried out. In addition, only some of the documents currently available are available in the various national languages. The documentation is very extensive for some people who have not yet dealt with the topic. You will have to switch between questionnaires, explanatory texts and appendices, which is a considerable effort to read and analyze. The current draft of the VSME standard poses significant challenges and could seriously affect companies' operations. In particular, the complexity, the costs and the so-called trickle-down effect pose risks. These developments could lead to an involuntary burden, especially for SMEs, which exceeds both their financial and operational capacities. The processing, collection and transfer of data requires specialized systems, which are currently mostly not available in SMEs. It calls for a revision of the standard with regard to simple and understandable language, clear guidelines and practical guidelines (checklists, free seminars, etc.) in order to enable direct implementation without external help.

a. Concrete example of a company that has completed the basic module:

"In any case, our goal is to use the basic module!"

The questions are very detailed and difficult to answer at the current stage of the project and with the current state of knowledge. Nevertheless, an attempt was made to find the best possible answers. There is concern that small and medium-sized enterprises could be overburdened by possible future standards in terms of resources, which would be a significant burden. Careful consideration should be given to how extensive these standards may be and what requirements are placed on SMEs. Ideally, participation will remain voluntary, as currently planned, so that companies can decide for themselves to what extent they allocate resources.

This company example strives to act sustainably and make an economically justifiable contribution to a sustainable future. In doing so, it is important to critically question the relevance of the topics. Not all topics are necessarily sustainable; there may be side effects that counteract a sustainable future.

b. Concrete example of a company that has filled in the basic module with the narrative PAT module:

"Overall, I hope that by participating we can make a valuable contribution to the development of this standard."

The company is currently in the process of preparing its first voluntary sustainability report. Initial data and experiences are already being compiled. The answers to the questions of the basic module were successfully completed. However, working on the narrative PAT module turned out to be much more complex, especially since no materiality analysis has been carried out so far. The Narrative PAT module is divided into five categories: the company's strategy, business model, and sustainability initiatives. In addition, the main sustainability aspects, the management of these aspects as well as the key stakeholders and governance (responsibilities)

are described. A materiality analysis assesses the company's impact on society and the environment, as well as the associated financial risks and opportunities. The results of this analysis are presented in questions 39 to 66 of the questionnaire. The analysis enables the company to minimize or prevent negative effects, optimize products and services or develop new ones, reduce operating costs and avoid fines, litigation and reputational damage. However, the analysis of the direct and indirect effects was a major challenge and demanded enormous capacities from the management and your assistance.

c. A concrete example of a company that has generally shared an opinion on CSRD or (mandatory) sustainability reporting is:

"The latest developments in the field of sustainability reporting are a disaster for SMEs and far from helpful and in no way facilitate the effort to achieve sustainability."

An intensive examination of the topic of sustainability reporting shows that this is currently still voluntary for small and medium-sized enterprises that are not listed on the stock exchange. Nevertheless, SMEs could be indirectly affected, as larger companies that have a business relationship with them may request such information. Legal reporting obligations, which apply to large corporations, could therefore also play a role in the evaluation of suppliers. Failure to meet the specified requirements could lead to the loss of orders, especially in the case of tenders, which could mean withdrawal from the circle of suppliers. The fulfilment of these reporting obligations requires the collection, documentation and processing of a large amount of data, which in turn can entail the use of specialist staff or outsourcing to consulting firms. The additional costs can lead to a significant increase in the price of services and affect the competitiveness of SMEs. This could lead to a distortion of competition to the detriment of SMEs, as larger companies could benefit from this development. There are fears that this could be a strategy by large corporations to squeeze SMEs out of the market. Against this backdrop, opportunities for SMEs could arise mainly in the smaller contract segment, while it could become more difficult to secure innovative and lucrative large contracts. This analysis does not yet take into account the reporting obligation under NIS2, which includes cybersecurity and similar aspects. In particular, the procurement and processing of data for Scope 3 is challenging, with a distinction being made between upstream and downstream Scope 3. Scope 3 is currently still optional. However, in the third optional module "Business Partner" (questions 67 to 85, especially in the disclosure BP 3 – Target to reduce GHG emissions). There is a desire for greater support from the Chamber of Commerce and political decision-makers in order to prevent or at least postpone the introduction of these extensive data collection obligations, especially in view of the EU and Chamber of Commerce elections.

d. Identified challenges:

There is an urgent need for action. Our member companies are already aware of the consequences. However, it is important to reiterate that there are some challenges, especially for SMEs:

- Distortion of competition: The introduction of sustainability reporting standards should aim to create a level playing field. SMEs should be able to meet the same requirements as larger companies without being disadvantaged.

- **Cost:** Implementing sustainability reporting can come at a cost. Especially for SMEs, which often have limited resources, it is important that the costs are proportionate to the benefits.
- **Cybersecurity:** Digitalization poses new challenges for companies. Small and medium-sized enterprises (SMEs) are also increasingly affected by cyberattacks. In order to strengthen their IT and cybersecurity, they should therefore invest in preventive measures.
- **Expertise:** SMEs often lack specialized expertise in the field of sustainability. Education and training programs can help keep employees up to date and provide them with the necessary skills.

It is important that the introduction of sustainability reporting standards takes these aspects into account in order to ensure that SMEs are not disadvantaged and that sustainable development is feasible for all businesses .

It should also be emphasized that the voluntary nature of the VSME standards is clearly communicated and enforced in practice. Mechanisms should be implemented to prevent larger companies from "directly coercing" their SME partners to adopt these standards. These steps would not only reduce the pressure on SMEs, but also ensure that their participation in sustainability initiatives remains authentic and self-determined.

## 6. Concrete suggestions for improvement

In general, we would like to underline the need for a practical, cost-efficient and comprehensible approach to this topic. In view of the challenges ahead, we propose the following measures to minimise the burden on SMEs and facilitate the practical implementation of the standards:

### a. Simplification of Sustainability Reporting Standards and Documents:

For the development and implementation of sustainability reporting standards, it is crucial that they can also be used effectively by small and medium-sized enterprises. The currently proposed standards and questionnaires are often overloaded with technical jargon and structured in a complex way, which can be a significant challenge for SMEs without prior experience in sustainability reporting. In order to improve the accessibility and applicability of these standards, the following adjustments are necessary:

- **Simplification of language:** Standards should be written in clear, simple and directly understandable language. Complicated definitions and jargon should be avoided. Important terms and requirements should be explained directly in the text of the standards to avoid constantly switching between different documents.
- **Integration of explanatory notes:** It is essential that explanatory texts are integrated directly into the standards. These direct explanations make it easier to understand and apply the standards and avoid the need to constantly consult additional documents.
- **Provision of sample questionnaires:** Fully developed sample questionnaires and sample standards that can serve as a template for SMEs should be made available. These examples would provide the necessary practical guidance and could help to reduce uncertainties in dealing with the requirements of the standards.

### b. Protective measures against the trickle-down effect:

In order to minimise the potentially burdensome indirect impact of sustainability reporting standards on SMEs, it is crucial to implement effective safeguards that preserve the voluntary nature of these standards for unlisted companies (VSMEs). Despite the good intentions of promoting sustainability transparency, larger, reportable companies can put pressure on their "smaller" business partners by indirectly enforcing compliance with these standards and requiring the delivery of such data in order to meet their own sustainability reporting obligations. This could lead to an unfair and disproportionate burden on SMEs, which have neither the resources nor the capacity to produce complex sustainability reports.

- **Legal restrictions:** To ensure that SMEs are not put under undue pressure, clear legal guidelines should be developed that define exactly what type and amount of sustainability information large companies are allowed to request from their smaller partners. These measures should aim to prevent SMEs from being overburdened and to ensure fair burden-sharing within the supply chain.

- **Emphasizing voluntariness:** It is of great importance that the voluntariness of the VSME standards is clearly communicated and enforced in practice. Mechanisms should be put in place to prevent larger companies from directly forcing their SME partners to adopt these standards. These steps would not only reduce the pressure on SMEs, but also ensure that their participation in sustainability initiatives remains authentic and self-determined.

- **Regulatory safeguards:** Regulatory safeguards are also needed to prevent large companies from passing on their reporting obligations to SMEs. Such rules could help to maintain the voluntary nature of the standards and not be undermined by market mechanisms that could put SMEs at a disadvantage.

c. **Promoting and supporting SMEs in sustainability reporting:**

The effective implementation of sustainability reporting standards for SMEs requires comprehensive support and resources specifically tailored to the needs of these companies. The European Union, as well as national legislators, should therefore develop targeted support programmes that provide financial and technical assistance to facilitate the participation of SMEs in these important initiatives.

- **Financial support and training programmes:** It would be desirable to set up EU funding programmes that not only provide financial grants, but also provide subsidised training and free access to needed software, if available. These measures are designed to help SMEs acquire the necessary technologies and expertise without increasing the financial burden.

- **Technical support and resource provision:** In addition to financial assistance, technical support in the form of easily accessible and applicable data collection and processing tools is critical. This support should aim to minimise the administrative burden on SMEs and simplify the implementation of reporting standards. Support should be available without significant investment on the part of SMEs.

- **Multilingual documentation and clear guidance:** It is crucial that all standards, guides and accompanying documents are available in all official languages of the EU to ensure that SMEs, regardless of their national language, have access to the necessary information. Clear and concise guidance on sustainability reporting, specifically designed for SMEs, should also be provided to address the requirements without external help.

- **Flexibility and adaptation to SME resources:** Reporting requirements should be flexible enough to take into account the different capacities and resources of SMEs. Report formats and content should be designed in such a way that they can also be implemented by smaller companies without specialized personnel or external consultants.

- Consideration of the cost factor: The costs associated with the implementation of the standards should be kept as low as possible for SMEs. This could be achieved through government grants, tax incentives, or other financial relief specifically aimed at supporting SMEs in their sustainability efforts.

d. Long-term flexibility and continuous support for SMEs in the reporting process:

Given the challenges associated with sustainability reporting, it is crucial that SMEs are provided with long-term support and flexible mechanisms. These should be specifically designed to help companies gradually adapt to reporting requirements without requiring them to make significant investments right away:

- Flexible transition periods: Longer and flexible transition periods should be established to allow for realistic alignment with reporting standards. These periods must allow SMEs to gradually prepare for the requirements without affecting their day-to-day operations.

- Adaptation of requirements: It is essential that the requirements are adapted to the specific capacities and resources of SMEs. This is the only way to ensure a fair and feasible implementation of the standards. This includes the flexible application of the standards, depending on the size of the company and the available capacity, in order to avoid overburdening SMEs.

## 7. Summary

In summary, it is of great importance that the introduction of sustainability reporting standards in the EU not only promotes environmentally and socially responsible action, but also actively supports and maintains the economic diversity and competitiveness of SMEs. While transparency and accountability are essential in the area of sustainability, the proposed measures and their implementation require a thorough revision in order to be practical for SMEs. The current draft Voluntary Standards for Unlisted SMEs (VSME) and the envisaged reporting requirements do not sufficiently take into account the necessary resources and specific expertise that is often lacking in smaller companies. A fair, flexible and workable implementation of these standards is therefore crucial to ensure that sustainable development does not come at the expense of small and medium-sized enterprises, which play a crucial role in the European economy. Ultimately, despite the lack of standards, there is a lack of a solution that provides SMEs with clearly structured guidelines (free workshops, checklists, etc.) and clarifies all open questions. These shortcomings mean that the standards are not sufficiently adapted to the needs of SMEs. Apart from that, reporting requirements should only be introduced for those companies that have sufficient resources to implement sustainability reporting. It is crucial that these obligations are not indirectly transferred to SMEs, which may not have the necessary resources to meet these requirements.

It is also crucial that these standards are introduced in a way that provides fair support to all stakeholders and does not create insurmountable hurdles for SMEs. If these standards are unavoidable, it would be desirable if reporting could be seamlessly integrated into existing business processes, for example through the work of tax or management consultants. Sustainability reporting must not become a major part of day-to-day business activities or place a disproportionate burden on businesses that could lead to a distortion of competition. Although these standards could provide an opportunity for companies to identify their own shortcomings in the area of sustainability by taking a close look at this matter, voluntary participation in these standards also carries risks for small businesses. In particular, if

companies perform poorly in answering questions, such as in the Business Partner module, this could affect their business relationships in the long term and damage their own reputation. Consequently, entrepreneurs would only voluntarily submit to these standards if they are convinced that they can achieve positive results. Otherwise, there is a risk that participation could do more harm than good.

- In addition, KommR Ursula Krepp (BIM-Stv. LIM OÖ) and Michael Pecherstorfer from the politicians longer validity periods for the implementation of the directives so as not to overload companies. To be read on: New burdensome EU obligations ante portas

Best regards!

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