

Response of FIEC – European Construction Industry Federation

Questionnaire Voluntary Sustainability Reporting Standards for non-listed SMEs (“VSMEs”)

EFRAG Public Consultation Exposure Draft (ED)

EFRAG is developing simpler, a voluntary standard for use by non-listed SMEs to enable non-listed SMEs to respond to requests for sustainability information in an efficient and proportionate manner as well as to facilitate their participation in the transition to a sustainable economy. The European Commission SME Relief Package of September 2023 refers to the VSME ED as a measure to support SMEs in accessing sustainable finance and to reduce the reporting obligations by 25%.

The VSME ED will allow non-listed SMEs (including micro) to face growing requests for ESG data and to lower the entry barrier to reporting. Undertakings with no company statute (self-employed) are expected to use this VSME.

EFRAG has launched an open public consultation in the form of a questionnaire which supports the development of their Exposure Draft for a Voluntary Standard for non-listed SMEs (‘VSME ED’) before delivery to the European Commission (‘EC’). The deadline for completion is set for **21st May**.

Q1. The objective of this ED is to provide a simple reporting tool, that can credibly replace a substantial part of the questionnaires used by business partners (lenders, investors and corporate clients) in requesting ESG data from SMEs and that can support SMEs in monitoring their sustainability performance. While the ED has been built mainly on the basis of questionnaires from business partners, the resulting information is expected to also benefit SMEs by improving their management of sustainability issues and, in this way, contribute to a more sustainable and inclusive economy.

Do you agree with this standard setting objective?

Yes/No/Please explain your answer.

Yes, we agree with this standard setting objective.

FIEC is the European Construction Industry Federation with 32 national member federations in 27 European countries, including Norway, Switzerland and Ukraine.

In FIEC, 95% of companies are SMEs or micro-enterprises. We therefore expect the CSRD and ESRS to have a particular impact on the construction sector, which is characterised by long supply/upstream value chains, with contractors "in the middle" of the value chain, and sometimes long downstream chains with many (SME) subcontractors. Therefore, we expect the trickle-down effect of the CSRD to be felt strongly in our sector, as larger business partners request sustainability data from construction SMEs.

This response is based on feedback from FIEC members. Some members launched a field test at the end of February 2024, where companies were assigned a personal advisor. Others have not conducted field tests but have asked member companies directly about their impressions of the Exposure Drafts.

Please note that the FIEC response focuses only on the questions and modules considered essential.

We have some introductory remarks:

There is a general feeling in our sector that reporting requirements (not only from the EU) have become so extensive and detailed that smaller construction companies with limited staff are finding it difficult to focus on their core business. We therefore welcome the VSME standard as a tool to make the burden more manageable for SMEs in the construction sector, but also to attract the interest of investors, as SMEs can find it difficult to access the capital that is urgently needed to transition the construction sector to more sustainable production processes.

FIEC members are aware of their responsibility to contribute to the sustainable transition of the EU economy and industry and a better climate footprint of the construction sector. Given the structure of the European construction sector, the VSME standard is important to get as many unlisted construction SMEs involved in sustainability reporting as possible.

Therefore, the VSME standard must first and foremost be easy for smaller construction companies to understand and implement. It also needs to be consistent with what larger construction companies require of their subcontractors – a particular feature of our sector - and should allow flexibility in the presentation and some of the data points to be reported in the sustainability report.

*When defining reporting standards, it is essential to take into account the specificities of the various industrial sectors. The definition of general disclosure requirements, which are likely to be applied in many sectors, has the advantage of ensuring comparability between the various statements, but risks failing to capture and therefore reflect the specificities of very different industrial realities. **The construction industry is certainly one of the industrial sectors that, more than others, presents specific needs and characteristics in the various areas of sustainability that must be taken into account. For this reason, FIEC hopes that once the consultation phase on the draft VSME standard has been completed, the discussion on the definition of sectoral guidelines will begin.***

While we strongly welcome the idea of voluntary and simple standards for SMEs, our members believe that the draft standards in their current form will only partially help an SME to "get its foot in the door" of a CSR approach - for a number of reasons described in the responses to the following questions of the questionnaire - nor will the standard serve as a "one and only" reference document enabling companies to respond to a single questionnaire.

*The double materiality analysis/assessment derived from the CSRD/ESRS and to be applied as part of the PAT / BP module is hardly or not at all feasible for smaller enterprises in its current form. The background information provided in the guidelines is far too vague to derive a general procedure or to obtain comparable results. For example, many construction SMEs lack concrete thresholds to assess when which issues are really 'material', or at what level of reduction in carbon footprint or operating costs, for example, the climate change/energy aspect would no longer be considered material. **Overall, the application of the concept of double materiality to SME reporting should be reconsidered or at least more guidance provided.***

In general, the standard should be more "pedagogical" and interactive to make it easier for SMEs to get to grips with reporting. An online reporting template could be developed to

*facilitate the transfer of information. It should also be better explained and justified that the VSME standard **can also be used by SMEs that are not (yet) asked by their business partners** to prepare sustainability reports on a voluntary basis.*

*In addition, it should be mentioned that it is likely that sustainability reports **will also be required by public authorities in the context of public procurement**, subsidies, permits, etc. This should be mentioned in paragraph 1 of the VSME standard ('Objective of this standard and to which undertakings it applies').*

The overall guiding principle of the standard should be to

reduce the administrative burden for smaller companies with limited financial resources, staff, time and access to information and

enable them to monitor their sustainability performance, attract the interest of lenders and investors, open up new financing opportunities and progressively become more sustainable.

The standard should

be useful in the day-to-day running of the business as an essential management tool;

be suitable for smaller SMEs, including the self-employed;

foresee an implementation/adaptation period for SMEs. A timetable has been drawn up for listed SMEs, but non-listed SMEs will not have an adaptation period;

be accepted by supervisors or, if not, supervisors should agree to the use of proxies (estimates) or industry data to allow for simplification;

serve as a "value chain cap" This would clearly regulate the maximum amount of VSME data that reporting entities can request as part of the value chain;

serve as a benchmark in support/funding programmes, enabling SMEs to receive support at improved conditions;

not be subject to external verification.

Q3. The Basic Module is written in simplified language to make it easily understandable for micro and SME undertakings, while ensuring clarity in terms defined by the ESRS with 12 disclosures to be reported. There is no need for a materiality analysis. Certain disclosures are required only if the undertaking considers them "applicable".

Do you agree that the Basic Module is proportionate, understandable (in terms of language), and has a reasonably complete set of disclosures to be used as a starting point?

Yes/No/Please explain your answer. If answer is NO, please indicate the relevant disclosure.

No. *FIEC acknowledges EFRAG's efforts to provide an understandable and manageable Basic Module to encourage SMEs and micro-enterprises to prepare simple and relevant sustainability reporting.*

However, we do not fully agree with the proportionality of the BM. Even if the short and direct language will help to simplify the reporting process by improving comprehensibility, the terms/expressions used to describe the content of some reporting requirements should allow for more flexibility in explaining some of the data provided in the metrics.

In addition, some disclosures should be tailored to ensure that SMEs and microenterprises can easily gather the information without having to hire professional ESG experts to do it for them (which we expect is already happening or will happen a lot at the SME level). Example: Calculation with reference to energy and CO2 emissions data.

Finally, some basic metrics still contain references to other EU and international legislation or EMAS, which construction SMEs are often not familiar with or don't use. We recommend that these references be removed from the ED unless they are absolutely necessary for reporting.

Overall, the Basic Module is a useful starting point, but the wording and some of the data points need to be improved.

Other comments:

- FIEC members report that the time and cost involved in implementing the BM is already considerable for smaller companies.*
- The draft VSME standard provides for some details that could be used to assign certain information to individual persons. Such personal data is in conflict with data protection. If there is a risk that answering individual questions might reveal personal data of employees or that certain data could be attributed to an individual, companies must be able to refrain from providing such information and submit a zero report.*

Overall, it is of critical importance that businesses are able to understand what data needs to be compiled to answer individual questions without a great deal of thought, additional research or external advice. This is not the case for a number of questions and needs to be addressed urgently (e.g. the question on "areas with sensitive biodiversity" (see Chapter III.2.1. Basic module B5). The wording of the BM must be self-explanatory.

Q4. The Narrative-Policies, Actions and Targets (PAT) Module is suggested in addition to disclosures in the Basic Module, to undertakings that have formalised and implemented PAT. Materiality analysis is required to determine and disclose the sustainability matters that are relevant for the undertaking.

Do you agree with the content and approach of the Narrative-PAT Module, which is reserved to undertakings that have Policies, Actions and Targets (PAT) in place?

Yes/No/Please explain your answer.

No. The PAT Module provides a good basis for reporting by larger SMEs. However, FIEC believes that only the largest and most sophisticated SMEs will report on the PAT Module in its entirety. In general, the ED sets out rather detailed requirements for the content of an SME's PAT. Consideration should be given to whether the VSME standard could provide more flexibility for SMEs and micro-enterprises to report on their PAT and more guidance to provide sufficient support to companies.

Furthermore, we remain sceptical about the feasibility of value chain reporting in the construction sector and the level of detail of this requirement.

For example, in disclosure N3, the company may need information input from outsourced departments or other companies in the chain. This risks creating additional burdens for SMEs, particularly in our sector which relies heavily on subcontracting. In particular, the required information on GHG emissions in the value chain at Scope 3 level is considered to be too burdensome.

We ask EFRAG to ensure that the double materiality analysis required by the PAT module is explained as simply as possible and supported by good guidance. If not, it will have to be deleted from the standard. The double materiality analysis needs to be easily understood by SME preparers, who are often not familiar with ESG policies, reporting or standard setting, and this is particularly true for the construction sector.

We fear that, despite the good intentions, information from SMEs will be systematically requested by the users of the standard (clients, banks) from all SMEs out of habit or “precaution” (these companies are themselves subject to sustainability reporting requirements). This would mean that SMEs with less experience in CSR reporting and unable to meet the requirements of this module could be excluded from private or public contracts.

Overall, the PAT Module should not be included in the VSME standard. If EFRAG were to retain it, companies would need sector-specific text modules to answer the individual questions.

Q5. The Business Partners (BP) Module sets datapoints to be reported in addition to disclosures in the Basic Module, which are likely to be included in data requests from lenders, investors and corporate clients of the undertaking. Materiality analysis is required, in order to determine and disclose the sustainability matters that are relevant for the undertaking.

Do you agree with the content and approach to the Business Partners (BP) Module, as a replacement and standardisation of information requests by business partners, being a proportionate but complete set of ESG disclosures?

Yes/No/Please explain your answer.

No.

It would remain too burdensome and complex for SMEs to understand without external assistance. A better balance needs to be found between the need to respond to business partners' requests for information and the need to ask SMEs to disclose simplified and manageable data.

We recommend the following:

(1) avoid too many references to other EU and international legislation and reliance on instruments specifically designed for multinational enterprises, as in BP 1, 8 or 9;

(2) find a proportionate approach for SMEs rather than BP 4 transition plans.

An alternative could be to focus on the company's GHG reduction action plan without reference to alignment with the Paris Agreement, as this is too conceptual for an SME.

The various data requested are not adapted to the majority of SMEs. In particular, the following information would be problematic if it were systematically and compulsorily requested by users:

BP1

BP 2

BP 3

BP 4

BP 5

BP 7

BP 8

BP 9

BP 10

Overall, FIEC members do not consider the BP Module to be useful for smaller enterprises, as the questions are too broad or not relevant for construction enterprises and the data required are too complex.

**Q7. Sustainability matters may be highly dependent on the specificities of the relevant sector(s) that the reporting undertaking operates in. Please select your recommended course of action for standard setting and guidance purposes on this matter.
[PLEASE SELECT ONE]**

1. Undertakings applying VSME ED should apply on a voluntary basis existing reporting practices, without specific EFRAG guidance.
2. Undertakings applying VSME ED should apply on a voluntary basis the content of the future Sector ESRS for large undertakings.
3. Undertakings applying VSME ED should apply on a voluntary basis sector specific guidelines and disclosures designed for non-listed SMEs, to be issued by EFRAG as a non-authoritative annex to the future sector-ESRS.
4. Undertakings applying VSME ED should apply on a voluntary basis sector specific guidelines and disclosures applicable to both listed and non-listed SMEs, to be issued by EFRAG as a nonauthoritative annex to the future sector-ESRS.

Please note that your answer will be complemented by question 13 on the additional dimension of reporting including sectors.

Please provide your comments, if any.

It is not possible to answer this question properly at the moment as there are too many uncertainties. It will all depend on the final content of the VSME standards and its acceptance by the market, as well as the discussions on the sectoral standards.

At this stage, FIEC has a slight preference for option 3.

In general, we believe that it is important to provide sector specific information. If the common objective of the VSME standard is to support smaller companies in the transition process towards sustainable choices, it is essential to prepare specific information for each sector.

Indeed, sustainability issues are highly dependent on the specificity of the sector to which the company preparing the report belongs. For example, the construction sector has some specific characteristics in terms of consumption of energy resources, use of natural resources such as land, contractual conditions, and so on.

All these elements need to be contextualised and calibrated according to the specificities of the sector, otherwise there is a risk of producing misleading results that do not reflect reality.

Example: In the context of construction, it is clear that the impact on the soil cannot be treated as a standardised parameter in relation to the activity carried out, otherwise it would always lead to a negative assessment. It is essential that the assessment criterion be flexible and adaptable to the specific circumstances of each construction project and its impact on the existing environment. This flexibility must take into account the type of activity being carried out, whether it is renovation or new construction, without this distinction becoming an element of the performance assessment.

*The flexibility of the evaluation criterion is essential **because the dynamics of each construction project can vary significantly depending on its location, the characteristics of the land, the purposes and the requirements of the reference legislation.** For example, a renovation project may require a different assessment of the impact on the existing environment, while a new construction project may require different assessments related to the issue of land use, for example with reference to the application of the various regional and local regulations that may regulate the execution of certain building interventions.*

For this reason, we ask EFRAG to start as soon as possible with the definition of specific guidance for different sectors. The definition of sectoral information would also be very useful as it would help micro and small/medium enterprises to carry out this type of reporting without the help of external consultants and without excessive expenditure of economic resources.

Q11. 11. Since non listed SMEs are outside the scope of CSRD, the subsidiary exemption (see CSRD Art. 19a9) does not apply to them. One proposal that EFRAG could consider is to include such exemption in VSME ED, as a further incentive to apply consolidated sustainability reporting.

Would you consider the inclusion of a subsidiary exemption to VSME ED as pertinent and feasible?

Yes/No/Please explain your answer.

Yes.** Many construction companies have subsidiaries, separating, for example, operations from assets or concrete production from construction. Group reporting is comparatively complex because all the companies need to be accounted for. A step-by-step approach starting with a subsidiary can be useful. As this is still 'voluntary reporting', we propose to leave it up to companies to decide whether they want to produce a single consolidated report or whether they want to gradually include subsidiaries in their sustainability reporting. There are advantages and disadvantages to both approaches. As far as voluntariness is concerned, we should leave this decision to the companies. **Nevertheless, a subsidiary exemption would do "no harm" and should be considered.

Q13. The Basic Module is the entry level for non-listed SMEs and has a highly simplified language. Ideally the undertaking should be able to produce these disclosures with limited help of consultants. It comprises 12 disclosures which have been mapped with existing voluntary initiatives (i.e. Nordic Sustainability reporting standards for SMEs, German Sustainability Code, CDP guide for SMEs etc.). These disclosures have been identified as recurring in the questionnaires analysed by the EFRAG Secretariat (please refer to Annex 2 Basis for conclusions for VSME ED for more details). With reference to the proposed disclosure requirements, please include your answer in the table below:

VSME ED	Do you have comments on the inclusion and content of this disclosure?
Disclosure B 1 – Basis for Preparation	Detailed comments may be submitted by individual FIEC members.
Disclosure B 2 – Practices for transitioning towards a more sustainable economy	<i>We suggest replacing “equal treatment” with “non-discrimination”.</i>
B 3 – Energy and greenhouse gas emissions	<p><i>The requirement in paragraph 25 raises concerns as it requires the use of specific coefficients to provide the information requested, which are difficult for SMEs to find.</i></p> <p><i>There are some practical difficulties:</i></p> <p><i>It is not always possible to identify specific, verifiable energy usage/consumption, for example where several companies share a factory building. In addition, not all energy suppliers include details of different energy sources (renewable vs. non-renewable) on their bills.</i></p> <p><i>For companies that provide their services mainly at the customer's premises or on construction sites, energy consumption can only be reported for the company's headquarters and for journeys to the customer/construction site, but not for the place of performance.</i></p> <p>.</p>
B 4 – Pollution of air, water and soil	<i>Few SMEs have EMAS.</i>
B 5 – Biodiversity	Detailed comments may be submitted by individual FIEC members.
B 6 – Water	Detailed comments may be submitted by individual FIEC members.
B 7 – Resource use, circular economy, and waste management	Detailed comments may be submitted by individual FIEC members.
B 8 – Workforce – General characteristics	<p><i>A systematic survey of the "gender of the employee" is not permitted under labour and data protection law in some EU countries. Employees are not obliged to answer such questions. As a result, it is not possible to calculate key figures that differentiate between male/female/diverse.</i></p> <p><i>The general reference in paragraph 11 of the consultation document is important, which considers it appropriate for the company to provide additional</i></p>

	<p><i>information "depending on the type of activity carried out".</i></p> <p><i>For construction companies, it may also be useful to report this breakdown by gender, broken down by category of classification (manual/non-manual/other), as well as the average data for the male/female distribution in the sector. As the construction workforce is predominantly male, the fact that an enterprise has a predominantly male workforce is not in itself an indication that the enterprise is not paying attention to the inclusion of women in its workforce.</i></p> <p><i>In the glossary annexed to the document under consultation, add to the definition of "employee" the word in bold: "a natural person who, in accordance with national law or practice, has an employment relationship with the undertaking".</i></p>
<p>B 9 – Workforce - Health and Safety</p>	<p><i>With regard to paragraph 35(b), it should be specified that deaths due to occupational accidents and diseases, the number of which must be reported by the enterprise, are those for which the employer's liability is recognised.</i></p>
<p>B 10 – Workforce – Remuneration, collective bargaining, and training</p>	<p><i>Revision of the disclosure on training (36d):</i> <i>The disclosure of the average number of training hours per employee should be revised, because monitoring the number of training hours may be complex and may not necessarily indicate the quality of training or skill development. Instead, it should be required to disclose the share of training expenditure in relation to the total payroll. It should be specified that this metric only pertains to formal forms of capacity building, excluding informal ones.</i></p> <p><i>The information contained in letters a), b) and c) of this disclosure should leave more flexibility to the reporting company. For countries that do not have a legal minimum wage, the references for remuneration are represented by the levels set by collective agreements and this case, too, should be explicitly mentioned among the cases (letters) of the disclosure.</i></p>

	<i>Another remark concerns the disclosure of the percentage of employees covered by collective bargaining agreements: If a company applies collective agreements to all its employees, the percentage will consequently be 100%, so this disclosure is pleonastic in some cases.</i>
B 11– Workers in the value chain, affected communities, consumers and end-users	<i>We suggest that VSME ED B11 is deleted.</i> <i>The measure is an outlier regarding complexity, thus substantially heightening the barrier of entrance for (micro-)SMEs to partake in sustainability reporting.</i>
B 12 – Convictions and fines for corruption and bribery	Detailed comments may be submitted by individual FIEC members.

Q29. While acknowledging the complexities of this calculation specifically for SMEs, the inclusion of greenhouse gas (GHG) Scope 3 emissions as the entity-specific dimension was considered an important element of disclosure in some sectors. The Business Partners Module includes an entity specific consideration for GHG Scope 3 emissions to guide undertakings in certain sectors and for which Scope 3 GHG emissions are material in addition to the disclosures envisaged in B3 Energy and GHG emissions (Basic Module).

Do you agree with the inclusion of GHG Scope 3 emissions in the Business Partner Module in the paragraph "*Entity specific consideration when reporting on GHG emissions under B3 (Basic Module)*"?

No.

We agree that Scope 3 emissions are relevant metrics for SMEs working towards net zero.

However, given resource constraints and a relative lack of power/control up and down their value chain, many SMEs will find it very difficult to obtain accurate Scope 3 emissions figures.

This is an area where we believe that an EU GHG emissions calculator would be extremely useful, so that SMEs could provide a comparable approximation of their Scope 3 emissions based on an EU agreed methodology.

Specific comments:

Paragraph 69: *Scope 3 is not feasible for an SME as they will generally not have the ability or power to obtain this information from their value chain. Although it is mentioned "depending on type of the activities", this is too vague. This request for information can only be accepted in some very specific cases and should be part of the sector specific standards.*

Paragraph 70: *Indirect GHG emissions resulting from a company's value chain, upstream ... and downstream of the company's activities (e.g. transport and distribution of the company's products, use of products sold, investments, etc.). This disclosure requirement is very comprehensive and should be written in simpler language.*

Additional comment: *Some FIEC members report that it was found that only the upstream aspects are relevant for reporting on a company's sustainability performance. The others, the so-called downstream aspects, concern aspects that are beyond the control of companies, as they relate to a phase after the construction of the building product, i.e. its life cycle.*

Q30. Do you agree with the content of disclosures required by the Business Partners (BP) Module of VSME ED? Please note that you can find the background for each Disclosure in the Annex 2 Basis for conclusions for VSME ED (BC130. to BC149). Please include your feedback in the table below:

VSME ED	Comment (FOR ALL CATEGORIES OF RESPONDENTS)
Disclosure BP 1 – Revenues from certain sectors	Detailed comments may be submitted by individual FIEC members.
Disclosure BP 2 – Gender diversity ratio in governance body	See previous comments
Disclosure BP 3 – GHG emissions reduction target	Scope 3 emissions – Too complex. External tools/consultants are needed. BP3 should therefore be deleted from the standard.
Disclosure BP 4 – Transition plan for climate change mitigation	<i>This information may be too complex for SMEs. There is a risk that companies will rely on external consultants to provide this information. Provision could be made for this information to be included only after an initial testing phase of the VSME standard.</i>
Disclosure BP 5 –Physical risks from climate change	<i>The information required under this data point is quite technical and complex to collect and disclose by SMEs. This disclosure requirement should be simplified.</i>
Disclosure BP 6 – Hazardous waste and/or radioactive waste ratio	Detailed comments may be submitted by individual FIEC members.
Disclosure BP 7 – Alignment with internationally recognized instruments	<i>The international instruments referred to in BP 7-BP 9 are complex texts that SMEs may have difficulties understanding and managing. A simplified reference to a due diligence process would be preferable. Companies comply with the laws in force in the EU. In most cases, value chains end at the EU's borders.</i>
Disclosure BP 8 – Processes to monitor compliance and mechanisms to address violations	<i>Same comment as above on the complexity of the international instruments referred to in BP 7-BP 9.</i> <i>Given that the consultation document is aimed at micro, small and medium-sized enterprises, it is not clear why reference is made to the "OECD Guidelines for Multinational Enterprises".</i>
Disclosure BP 9 – Violations of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles (including the principles and rights set out in the 8 fundamental conventions of the ILO	<i>See previous comments for BP 7 and 8.</i>

Declaration and the International Bill of Human Rights)	
Disclosure BP 10 – Work-life balance	Detailed comments may be submitted by individual FIEC members.
Disclosure BP 11 – Number of apprentices	Detailed comments may be submitted by individual FIEC members.

Q34. Some of the questionnaires of banks and other business partners analysed by EFRAG Secretariat included also datapoints related to the EU-taxonomy regulation, despite non-listed SMEs being out of scope. EFRAG considered that preparing this information would be too complex for non-listed SMEs. We note that the EU Platform for Sustainable Finance may in the future make a proportionate tool for EU-taxonomy available. In particular, to meet the technical criteria for inclusion in the climate mitigation taxonomy, large undertakings have to consider the greenhouse gas (GHG) emissions of their various economic activities. These undertakings will need data from their suppliers. Small and medium-sized enterprises (SMEs) playing a crucial role in these undertakings' supply chains may be asked to provide the following information voluntarily to streamline the process for themselves and their clients:

- **SMEs whose activities fall under enabling activities of the Climate Delegated Act, e.g., categories 3.6 (Manufacture of renewable energy technologies) or 9.1 (Market research, development and innovation), should disclose the emission savings of their technology compared to the best-performing alternative.**

Do you think that VSME ED should include this additional datapoint to cover EU-Taxonomy disclosures?

Yes/No/Please explain your answer.

No. FIEC believes that the VSME standard should not include additional data points to cover EU taxonomy disclosures. The overarching principle should be to keep the standard simple. The EU Taxonomy is still a "work in progress" and new technical screening and DNSH criteria may be added to the existing framework in the coming months. Data points to cover EU Taxonomy disclosures could be added to the VSME standard in the coming years, but not immediately.