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PUBLIC CONSULTATION ON TWO EXPOSURE DRAFTS ON SUSTAINABILITY REPORTING STANDARDS FOR SMES

Dear Sir or Madam,

Thank you for the opportunity to participate in the consultation on the subject. We appreciate the chance to contribute our perspective on this important matter.

Easy access, coherence and simplicity are key for acceptance. The ESRS will convince if the standards can be used at low or no cost for companies, are easy to use and integrate performance indicators from already existing accounting and management systems. The SME Standard(s) have to be as simple as possible. From a company perspective, coherence with existing ISO and other industrial standards with information qualities on sustainability issues is key – for relevance, applicability, easy access, coherence, and simplicity are essential for acceptance. The European Sustainability Reporting Standards (ESRS) will be effective if they are low-cost or free for companies to use, are user-friendly, and can integrate performance indicators from existing accounting and management systems. The SME Standards must be as simple as possible. From a business perspective, coherence with existing ISO and other industrial standards that provide quality information on sustainability issues is crucial for relevance, applicability, and acceptance. The SME ESRS should serve as a guide in the complex field of sustainability regulation, aiming to provide structured and market-relevant transparency. Meaningful core performance indicators that are relevant for managing the company's sustainability performance and strategy will be welcomed.

Standards that are convincing from an entrepreneurial point of view will be adopted. However, the current draft of the LSME and VSME standards are not convincing.

The reasons are:

1. **Lack of Coherence:** The current LSME and VSME standards lack coherence with the first set of ESRS. It appears that the LSME Standard and the VSME ESRS ask for the same content but with different wording and order, creating extra costs without added benefit.
2. **Duplication of Efforts:** The EU Commission tasked EFRAG with creating an easier-to-apply standard for small and medium-sized companies. It is unclear why two standards are offered, which seems unnecessary and counterproductive.
3. **Overreach:** Going beyond the EU Commission's mandate should mean improving quality and requirements, not just adding complexity.

Recommendations

We advocate for:

1. **Smart Standards Architecture:** A well-structured standards architecture with the ESRS as the basis for defining reporting issues relevant to small and medium-sized companies. Coherence and uniformity in supply chains will be necessary. An example for orientation could be the GRI comprehensive and core approach.
2. **“Comply or Explain” Approach:** Implementing a “comply or explain” approach in the ESRS to ease the reporting burdens for SMEs and other organizations.
3. **Adoption of the Sustainability Code:** Establishing the existing Sustainability Code as European Sustainability Code. The German Sustainability Code, which is being enhanced for CSRD readiness by integrating ESRS requirements by the summer of 2024, is a suitable model. It is currently applied by over 1,260 companies in Germany and around 50 in Greece, with interest from other EU member countries.

[The Sustainability Code](#) (established in 2012) covers all sustainability issues, including good Corporate Governance, integrating NFRD, the Guiding Principles on Business and Human Rights, the EU taxonomy, and the option to identify third-party assured information. The Sustainability Code's database solution already offers practical help for companies at no cost. It is set up on an XBRL basis, making it the perfect plugin solution as a national collection hub for the European Single Access Point (ESAP).

Benefits of a Smart Standards Architecture

A smart standards architecture helps secure acceptance for the CSRD, fosters the reception of ESRS, and creates sustainability markets and impact with a market-based approach. To achieve this, we need a virtuous circle between standard setting, reporting, and corporate development. Coherence between the ESRS for large companies and SMEs, as well as between European and international sustainability standards, is crucial. Silo thinking is counterproductive.

German SMEs' Perspective

German SMEs are more open to EU regulation than one might expect. The Commerzbank study “Economy in Transition: The Opportunities of the Green Deal” confirms that a large majority of companies practice informal sustainability. The challenge is turning lived or perceived sustainability into a strategic competitive advantage through transparency and reporting. Studies¹ show that German companies generally support the EU initiatives on sustainability. Core findings include:

- Despite difficult political conditions for transformation, ¾ of large SMEs expect at least equal advantages and disadvantages from Brussels' climate protection policy.
- 50% of SMEs expect it to benefit their company's bottom line.

¹ See [“Economy in Transition: The Opportunities of the Green Deal - Study by Entrepreneurs' Perspective Initiative from Commerzbank”](#), a [study conducted by OMFIF](#) and of [the Sustainability Council](#).

- Listed companies are less positive, with around 60% expecting at least equal economic advantages and disadvantages from the Green Deal, and only just under 1/3 expecting advantages.

Opportunity and Call to Action for Multi-Stakeholder Approaches

The general support by SMEs for EU initiatives on sustainability represent a significant opportunity. We advocate for better explanation of the objectives of EU regulation. The challenge is to explain the purpose of reporting and EU standardization to SMEs broadly. Therefore, a decentralized “train & explain” approach should counter the top-down approach of EU regulation with bottom-up processes for its uptake. Intermediaries and multipliers in EU member states play a central role, including industry associations, business associations, sustainable business initiatives, chambers of commerce, and industry. These entities should be mobilized, enabled, supported, and held accountable to contribute constructively towards ambitious and meaningful reporting. Strengthening small consultancies and auditing firms is particularly desirable, as they are more willing to cooperate and think in networks compared to market-dominating forces.

Multi-stakeholder approaches are conceivable and should work on the interfaces between entrepreneurial practice and reporting that can change market design. Such transformation labs could be monitored by UNRISD to ensure connectivity with the Conference on Trade and Development (UNCTAD) [Core Indicators for Sustainability and SDG Impact Reporting](#), as well as the UNRISD Sustainable Development Performance Indicators (SDPI). The question of third-party assurance and the creation of new partnerships between companies, accounting firms, accredited testing organizations, standard setters, and NGOs should be addressed in leadership formats. Willingness to cooperate and find the best solutions for companies and the common good are credibility factors.

Thank you for considering our input on this matter. We look forward to contributing further to the development of effective and practical sustainability reporting standards.

Best regards,

Chrysoula Exarchou, Vice-President QualityNet Foundation, initiator of the Greek Sustainability Code

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