

EFRAG Sustainability Reporting Board  
35 Square de Meeüs  
1000 Brussels  
Belgium

## Comments regarding the ESRS VSME Exposure Draft

The Confederation of Danish Industry (DI) welcome the opportunity to comment on the ESRS VSME Exposure Draft.

DI supports the efforts of EFRAG in developing a VSME standard that reflects the size and complexity of the VSMEs as well as ensuring that the standard allows a pathway ensuring that the financial market participants can receive the information, they need to with their own sustainability disclosure requirements as defined by the SFDR and Taxonomy disclosures, CRR Pillar III and the Benchmark regulation.

DI generally supports the draft standard and its content. Furthermore, DI finds that the approach adopted in the development should provide the foundation for a proportionate and relevant standard for the SMEs in view of the scale and complexity of their activities as well to users of the reports, including the financial institutions.

The draft VSME-standard have been very well received by Danish SMEs. The basic module allows – and provide good incentives – for SMEs to embark on the journey of providing sustainability related information. Combined with the flexibility to include selected information from the BP- and Narrative-PAT-module (as stipulated in paragraph 11 and 19), we believe the VSME-standard will promote and encourage more, relevant sustainability reporting. This has been confirmed by a number of our SME members. Having said this, we overall believe that the flexible approach needs to be slightly modified so that if information covered by a disclosure requirement in the BP-module, then that specific disclosure requirement needs to be covered in its entirety (for instance BP3 – GHG emission reduction targets) and not only an element of that specific disclosure requirement. This should also facilitate the dialogue with the financial market participants.

DI would also like to point out that there is a need for a long-term solution for SMEs in terms of alignment between the sustainability reporting encouraged with the VSME-standard and the ability for SMEs to voluntarily report relevant information aligned with the Taxonomy reporting

needed by financial institutions according to SFDR and Pillar 3. Therefore, an SME-approach in the Taxonomy-framework is needed and should be encouraged.

DI has, only, a few comments and suggestions for clarifications that would improve the draft standard without making substantive changes to it.

## **General comments**

### **Structure**

We generally agree to the structure whereby entities can comply with “basic module”, only; or can choose also to adapt “Narratives - PAT” and/or “Business Partnering” as well as we agree to the option to provide “subject specific” disclosures on certain elements in accordance with the principle laid out in paragraph 11 and 19. We do however suggest that;

- The building blocks are shown graphically to help the SME’s understand the structure
- That the “subject specific” disclosure is further guided, cf. below

### Subject specific disclosures

We suggest, that if the reporting entity use “subject specific” disclosure covered by the disclosure requirements in a disclosure requirement in the BP-module, then that specific BP-disclosure requirement must be adopted fully and thereby fully complying with the specific BP-DR(s) that are chosen. Everything within the chosen BP-DR’s must be disclosed unless immaterial. Non-disclosure thereby also provides relevant information, as it indicates a non-existence or nil.

By allowing the choice of BP-DRs, the SME’s can include items that are discussed with customers, banks etc. without a DMA. This provides an easy opportunity for SME’s to provide more information than the basis module in a structured format. This would allow for the SME to develop the reporting over time as relevant for the business.

### Flexibility encourages reporting

Furthermore, we would like to state that we believe the flexibility also encourage further reporting. With the flexible approach, an SME could as part of their progression choose to report on both their policies actions and targets in relation to climate (in accordance with the relevant requirements in the Narrative-PAT-module) as well as the relevant metrics without triggering a full Narrative-PAT and/or BP-module. The average SME will not have the capacity to perform a DMA-analysis but would find it more manageable to focus on a specific topic like climate in addition to the information in the basis module and hence gradually expand the reporting, when relevant.

Therefore, given that the VSME-standard is voluntary, we value the fact that the standard provides an incentive for SMEs to embark on the reporting while at the same time ensuring structured and relevant information for the users of the reporting.

### **Double materiality (DMA)**

We agree to the use of DMA if the undertaking wants to state compliance with the PAT-module (Policies, Actions and Targets) and/or the BP-module (Business Partnering). It is our understanding that complying with these modules is primarily/only relevant for the larger SME's. Those entities will therefore also be able to work with the DMA

We have heard proposals whereby the SME's should be complying with everything (without a DMA) in the BP module in order to make use of the BP-disclosures. We believe this would be too extensive and disproportionate and would go against the thinking in the standard. Hence, we cannot support an approach where the BP-module is mandatory in its entirety without a DMA.

This would in reality prevent the entities from providing information beyond the basic module as the DMA process would be too complex for most (small) SME's as would reporting in accordance with the full BP-module. We would also like to note, that in case an SME would want to report on all the DR's in the BP-module, then this is a possibility under the flexible model – but would not allow to state that the reporting is in accordance with the Basic Module + the BP-module.

### **Making the DMA easier accessible for SME's**

DI recognizes the fact that a DMA for most SME's is a difficult process, and we recognize that many are struggling with the DMA under the full ESRS-standards.

DI does support the approach taken by EFRAG, whereby the DMA-process in the VSME-standard is aligned with the DMA-approach in the full ESRSs although the SME's focus more on their own business. Having the same "name" of a process that in reality comprise two very different things would be confusing and not helpful.

Having said this, we believe EFRAG should consider simplifying the DMA, by adding better descriptions or examples of what to consider by introducing for instance

- a simple overview /table/questionnaire of items to consider
- state specifically that the DMA is primarily focused on the business itself, including effects e.g. from their products on consumers, but not on the full value chain as in ESRS
- provide guidance and examples on value chain (supply chain) considerations based on the fact that the SME most likely have very little leverage and impact on the supply chain

### **"If applicable"**

The VSME- standard use the term "if applicable" several times, both in Basic module (B 4,5,6 og 8) as well as in the Narrative-PAT and BP modules.

The term is thereby used both in the basic disclosures and in Narrative-PAT/BP's that have been deemed material (assuming a DMA process has been completed). Consequently, we believe the meaning of the term might be unclear vs. the use of materiality and relevance.

We therefore suggest that the term is defined, and that the definition reflects the fact that the term is used both for mandatory information as well as information subject to materiality.

**IRO**

The VSME does not use the term “IRO”. Risks and Opportunities are described when these are to be considered.

While we support the approach taken in the VSME standard, we find that this difference in approach compared to the full ESRS may not be clear for the users of the standard.

We therefore suggest that this difference in approach is stated more explicitly, but we believe that further descriptions in the standard itself would confuse the SME’s as they would not know that there is a difference. Consequentially, we could suggest that the difference is articulated in the Basis for Conclusion.

Kind regards  
Confederation of Danish Industry

Tina Aggerholm  
Leading Senior Advisor