



Position Paper

on the Voluntary European Sustainability Reporting Standard for non-listed SMEs (VSME)

May 2024

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The cooperative's range of products and services encompasses the fields of accounting, personnel management, taxes, enterprise resource planning (ERP), IT services, IT security, training and consultancy.

Via our 40,000 members, the cooperative continuously improves the business processes of 2.5 million companies (most of them SMEs), municipalities and institutions.

DATEV has consistently developed into an internationally operating service provider, with branches in Italy, Austria, Czech Republic, Poland, Slovakia, Hungary, and Spain.

DATEV's position papers are drafted exclusively from the company's perspective as a professional IT services provider and are submitted independently from positions established by professional organisations such as chambers and associations.

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I Introduction

The objective of the Green Deal is that the EU will be climate-neutral by 2050. Small and medium-sized undertakings (SMEs) play a major role in achieving these climate/environmental goals. In transitioning their business models toward a sustainable economy, SMEs require easy access to finance on one hand, while on the other, they should not face undue administrative and financial burdens from stakeholders when disclosing their sustainable commitment.

While SMEs may not fall directly within the scope of the EU sustainable finance framework, such as the [Corporate Sustainability Reporting Directive \(EU\) 2022/2464 \(CSRD\)](#), they face an increasing demand for ESG information from their business partners along the value chain (so-called trickle-down effect) and/or financial partners when granting green finance. Those requests are made through various and very extensive, sometimes contradictory questionnaires, lacking standardization, and thereby constituting a significant burden for SMEs.

The EU Commission has acknowledged this problem and, as a part of the [SME relief package](#) of September 2023, announced its intention to provide voluntary standards for non-listed SMEs, which EFRAG has now developed and submitted for consultation.

As a leading provider of standard software solutions for businesses of all sizes, DATEV is actively engaged in advancing reporting standards and corresponding taxonomies that adhere to the principle of proportionality and prioritize on the information needs of the respective recipients, taking into consideration the size category of the reporting entity. The tax advisory profession can assist SMEs as competent partners in providing their ESG information in line with their needs.

We welcome the draft for a voluntary SME standard for sustainability reporting (VSME draft) presented by EFRAG and are pleased to provide our feedback on it.

II VSME

DATEV believes that the VSME draft provides a promising basis for non-listed SMEs to report their ESG information in a way that is appropriate for the target group. Considering the comments below, we see potential for the VSME to evolve into a future market standard, that could replace the current multitude of sometimes heterogeneous ESG questionnaires directed at SMEs.

1 Modular approach of the VSME

We welcome generally the modular approach, comprising the mandatory Basic Module and the voluntary PAT and Business Partners Modules. This approach enables SMEs to provide

their ESG information to the diverse stakeholders, especially lenders and business partners in the supply chain, in a manner that is both user-orientated and well-structured.

In most cases, recipients should consider the Basic Module as sufficient to fulfill their information needs – particularly as it provides the opportunity for voluntary inclusion of information from the other modules.

1.1 Basic Module

The "if applicable" approach, implemented as a kind of a filtering mechanism, offers SMEs a streamlined method to determine the relevance of ESG disclosure requirements without the need for a time-consuming and cost-intensive materiality analyses.

Furthermore, SMEs possess the flexibility to cherry-pick individual data points from the additional voluntary modules, enabling them to enrich the Basic Module according to their specific needs with additional relevant information. However, the inclusion of these additional data points should not require a materiality analysis, instead, they should also be considered under the "if applicable" principle. In our view, additional stakeholder requests should become obsolete in many cases with this module.

Despite its strengths, we recognize areas in the Basic Module that could benefit from further refinement:

- SMEs encounter challenges in determining and gathering data, particularly when sourcing information from third parties (e.g., B7) or when making estimations (e.g., B3; please see the appendix for more details).
- Even with significantly simplified language compared to ESRS1 and LSME, certain data points require clearer formulations (e.g., B5, B7, B11 – please see appendix for more details).
- The determination of certain information, such as the calculation of Scope 1 and 2 greenhouse gas emissions (e.g., B3), will regularly necessitate the involvement of third-party experts or additional tools. Furthermore, we recommend implementing a transitional period for the disclosure of Scope 2 greenhouse gas emissions, given the additional effort required compared to Scope 1.
- Narrative disclosures (e.g., in B2) should be further simplified by providing SMEs with a list of different choices of common sustainability practices, accompanied by free text fields for additional comments.

1.2 PAT and Business Partners Modules

We anticipate that SMEs may utilize the PAT and Business Partners Modules to a lesser extent:

The *Business Partners Module* is complex (e.g., BP 4, BP 5 or BP 7) and contains data points (BP 10, BP 11) whose added value is not readily apparent. There is a need of better alignment between the requirements of the various stakeholders and of practical implementation feasibility for SMEs.

In addition, references to broad international requirements (OECD/UN), as in data points BP 7 - BP 9, are of little relevance for SMEs. We recommend employing precise formulations in the VSME, preferably with references to European or national legislation. Many international frameworks cited in the draft are often integrated into European or national laws, which SMEs must adhere to in their operations and are more familiar with. Synergies in the standard setting should be used here.

During the initial stages, companies may lack sustainability targets and consequently do not formulate corresponding action plans rendering the PAT Module potentially unsuitable, particularly at the outset.

1.3 Guidelines

We find the guidelines provided for the individual modules at the end of the draft standard to be highly beneficial for SMEs. Additional details, such as clarifications on calculations or presentation formats, are crucial for the preparation of a sustainability report.

However, the explanations provided may not be sufficient for all data points (e.g., B5). Moreover, it would enhance practicality and user-friendliness if these guidelines were integrated into the modules or within the descriptions of the individual data points, thereby minimizing the need for cross-references.

1.4 "If applicable" approach vs. materiality analysis

We appreciate the inclusion of the "if applicable" approach within the Basic Module. Unlike a comprehensive materiality analysis, this approach offers a proportionate method, particularly beneficial for micro and small undertakings, to determine whether the disclosure requirements are relevant to their circumstances. If certain data points within the Basic Module are irrelevant, no information needs to be provided.

Therefore, we advocate for extending this approach across the entirety of the VSME, including the PAT and Business Partners Module.

We consider a mandatory materiality analysis, as foreseen in the PAT and Business Partners

Modules, is overly complex and cost-intensive, especially for micro and small undertakings. Furthermore, there is a lack of concrete examples illustrating how such an analysis should be conducted. The list provided in Appendix B is insufficient, and it remains entirely unclear how the results of the materiality analysis should be reported.

2 Value chain cap

In line with the CSRD, sustainability reporting standards for SMEs will serve as a benchmark for large undertakings concerning the level of sustainability information, they may reasonably request from SMEs within their value chains. This reference, defined within the LSME as value chain cap, also indirectly influences the VSME. Considering the significant importance of the value chain cap for SMEs, we appreciate its thorough consideration in the draft standards.

However, there remains a possibility that large undertakings may request additional data from SMEs that exceed the value chain cap, such as in specific projects or when concluding specific agreements. We anticipate that undertakings falling under the scope of the CSRD with significant market power could exert pressure on SMEs and request data points beyond the value chain cap, including data on Scope 3 greenhouse gas emissions or resource inflows.

Therefore, we propose a continuous review of the VSME standard in line with established processes. If needed, a revision of the standards or a more restrictive set of information requirements should be initiated with all parties involved (preparers and users).

Contact

Barbara Leyh

Tax advisor

E-Mail: barbara.leyh@datev.de

Anke Geißler

Policy Advisor

E-Mail: anke.geissler@datev.de



Appendix: Specific notes on individual data points

Basic Module	
<i>B2 "Practices for transitioning towards a more sustainable economy"</i>	Narrative disclosures should be further simplified, e.g., by providing SMEs with a list of different choices of common sustainability practices, accompanied by free text fields for additional comments.
<i>B3 "Energy and greenhouse gas emissions"</i>	<p>The determination of certain information, such as the calculation of Scope 1 and 2 greenhouse gas emissions is too complex and will regularly necessitate the involvement of third-party experts or additional tools.</p> <p>Furthermore, we recommend implementing a transitional period for the disclosure of Scope 2 greenhouse gas emissions, given the additional effort required compared to Scope 1.</p> <p>Estimating emissions is challenging, especially when invoice details lack specificity (e.g., no separate breakdown of renewable and non-renewable energies). It would be more feasible to use approximate values that are reasonably accurate.</p>
<i>B5 "Biodiversity"</i>	Further clarification is required, such as defining what is meant by a "nature-oriented area on-site", a "nature-oriented area off-site" or a biodiversity sensitive area?
<i>B7 "Resource use, circular economy and waste management"</i>	<p>The data point requires restructuring to enhance clarity.</p> <p>Data determination and collection pose significant challenges for SMEs, particularly when sourcing information from third parties.</p>
<i>B11 "Workers in the value chain, affected communities, consumers and end users"</i>	<p>too complex and burdensome, especially for micro and small undertakings</p> <p>We welcome that this data point falls under the if-applicable approach.</p>
Business Partner Module	
<i>BP 4 "Transition plan for climate change mitigation"</i>	SMEs need guidance or more specific information to formulate a transition plan for mitigating climate change. However, preparing such a plan is especially challenging for micro and small undertakings, whereas larger SMEs, in our opinion, should encounter fewer obstacles.
<i>BP 5 "Physical risks from climate change"</i>	<p>This data point is too complex and cost-intensive to prepare, especially for micro and small undertakings, and cannot be managed without the support and expertise of third parties (e.g. tax advisors).</p> <p>Considering its relevance to stakeholders, especially banks and insurance companies, we recommend that this information be obtained through a dedicated set of questions outlined in BP5, which SMEs should address. Such an approach would facilitate SMEs in providing the required information with manageable effort.</p>

<i>BP 7 "Alignment with internationally recognised instruments"</i>	<p>too complex</p> <p>References to broad international requirements (OECD/UN) are disproportionate for SMEs. We recommend using precise formulations in the VSME, preferably, with references to European/national law.</p>
<i>BP 8 "Processes to monitor compliance and mechanisms to address violations"</i>	<p>References to broad international requirements (OECD/UN) are disproportionate for SMEs. We recommend using precise formulations in the VSME, preferably, with references to European/national law.</p>
<i>BP 9 "Violations of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles"</i>	<p>References to broad international requirements (OECD/UN) are disproportionate for SMEs. We recommend using precise formulations in the VSME, preferably, with references to European/national law.</p>
<i>BP 10 "Work-life balance"</i>	<p>The data point requires additional clarification.</p> <p>Under the heading "Work-life balance", more than just family-related leave can be considered. Moreover, it's not feasible to provide information under data point BP 10 a) because the employer is only aware of family-related leave when an employee applies for it and subsequently takes it.</p>
<i>BP 11 "Number of apprentices"</i>	<p>The added value is not readily apparent.</p>