

**Name of responding organisation:
Austrian Federal Economic Chamber (WKÖ)**

Feedback: Draft voluntary standard for non-listed SMEs (VSME)

May 16, 2024

Regarding to the public consultation on the SME standards, we would like to provide the following feedback on the draft voluntary standards developed by EFRAG that can be used by non-listed SMEs (VSMEs).

It should be noted at the outset that there are already some comments and concerns from member undertakings regarding the introduction of a (mandatory) sustainability report. These relate to both the fundamental introduction and the standardisation of voluntary sustainability reporting for unlisted micro, small and medium-sized enterprises (SMEs) by EFRAG.

From a business perspective, the fundamental **promotion of transparency and accountability** in relation to sustainable business practices through the CSRD and the associated standards and sustainability reports is an **important initiative** of the European Union. The voluntary standards (VSME) **are intended to** help micro-undertakings and SMEs **to respond efficiently and appropriately to requests** for detailed and comprehensive **sustainability information** from, for example, credit institutions, investors and customers. **Objectively speaking**, this can be seen as a **positive development**, as it aims to help smaller undertakings to meet the growing demands for future reporting and is therefore supportive in its basic idea.

Nevertheless, we must recognize that despite efforts to make the standards SME-friendly, the **current draft of the VSME standards still presents significant challenges** that have the potential to seriously impact our members' operations. In any case, the **draft in its current form is not suitable for SMEs**. The language used, including the many abbreviations and references to separate guidance documents, makes it impossible to implement the reporting standards at this stage.

Firstly, the **risks in terms of complexity, costs** and the so-called **trickle-down effect** should be emphasised. From a business perspective, it should be ensured that the mandatory standards do not exert any pressure **on voluntary reporting (VSME)**. To a certain extent, this question of pressure also arises within the VSME.

In our point of view, generally the **Basic Module** should **only be applicable** as we consider the **extensions (Narrative and Business Partner)** to be **excessive and too complex** for the actual implementation for affected SMEs. The Basic Module was increasingly chosen by entrepreneurs based on the capacities currently available.

In the interests of a clearer, more proportionate and more practicable reporting system and easier manageability, but above all with a view to maintain the competitiveness of EU undertakings, the **voluntary SME standards** should in any case be **further simplified and reduced** to the **bare essentials**, which is necessary for the understanding and traceability of undertakings' sustainability efforts. The **Basic Module** should therefore **be used primarily** and the **extension modules** should **only be required in individual cases**.

I. Summary of the core concerns

Main concerns and challenges

Despite the positive intentions, we see significant challenges in the practical implementation of the standards of a sustainability report. These challenges are summarised below:

- Complexity and feasibility

A key problem is the complexity of the proposed sustainability standards. Many SMEs (particularly in the ancillary building trade or in the skilled trades in general) do not have the necessary resources or expertise to fulfil the detailed and **extensive data requirements** of these standards. Processing this data requires specialised knowledge and systems that are often not available in smaller businesses. The **draft of the VSME is difficult to understand** for many of our member undertakings and implies an **administrative burden** that clearly exceeds the capacities of smaller undertakings.

- We are therefore calling for a revision of the standards that includes simpler language, clear guidelines and practical guidelines to enable direct implementation without external help.

- Language too complex / tools too extensive

The **language** used is **too difficult** for most SMEs. Too much technical jargon and too many abbreviations are used. In addition, the questionnaire cannot be completed without using the guidelines (VSME Draft). There were also several complaints that the official draft is only available in English.

- In any case, the VSME standard needs to be written in a more understandable language 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 with the 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 ERS standards (which is the case for most SMEs that choose or are asked to do VSME).

Another point of concern is that the directive, which is quite complex in itself, refers to **various tools, standards and protocols to fulfil** the reporting requirements. These additional tools are too complex and cannot continue to exist in this form.

- "Trickle-down effect" and indirect obligations

Although the sustainability standards for SMEs are initially declared as voluntary, we fear significant indirect effects due to the trickle-down effect. **Larger, reporting undertakings**

could require their SME business partners and suppliers to provide corresponding sustainability information in order to fulfil their own reporting obligations. This process not only increases the burden on SMEs, but also fosters their dependence on corporations and large undertakings, 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 are therefore in favour of clear regulatory guidelines that protect SMEs from such excessive requirements and ensure that these indirect obligations do not lead to disproportionate burdens.

- **Costs and strain on resources**

The introduction of sustainability reporting standards is likely to entail considerable costs. The costs include not only the direct expenditure for external consulting and the customization of systems, but also the considerable amount of time required for data collection and processing. These financial and human resources are often very limited for SMEs. Implementing the standards could therefore represent an excessive **financial and operational burden** for smaller undertakings in particular, weakening their competitiveness and, in the worst case, jeopardising their market position.

- **Distortion of competition**

The introduction of sustainability reporting standards should aim to create a level playing field. SMEs should be able to fulfil the same requirements as larger undertakings **without** being disadvantaged.

- **Cybersecurity**

Digitalisation presents undertakings with new challenges. Small and medium-sized enterprises (SMEs) are also increasingly affected by cyber-attacks. They should therefore invest in preventive measures to strengthen their IT and cyber security.

- **Expertise**

SMEs often lack specialised knowledge in the area of sustainability. Training and training programmes can help to 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 to ensure that SMEs are not disadvantaged and that sustainable development is **practicable** for all undertakings.
- It should also be emphasised that the **voluntary nature** of the VSME standards is clearly communicated and enforced in practice. Mechanisms should be implemented to prevent larger undertakings 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.

Relationship to other legal norms / concerns

In order to attract as many SMEs as possible and thus realise its full potential, it must be officially clarified that the CSRD and ESRS reporting obligation is fulfilled if SMEs submit the information that can be determined/completed in accordance with VSME. It must also be pointed out that the "*data gaps*" that lead to different reporting obligations (e.g. CSRD vs. VSME ESRS) do not fall back on the undertakings that have higher reporting obligations. 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 only limited benefits for larger undertakings if SMEs in their supply chain report under VSME ESRS. This could end up hurting SMEs (e.g. larger undertakings force SMEs to collect data even if they do not have to or cannot according to VSME ESRS).

II. Detailed assessment of the individual VSME standards

General

From a business perspective, there are a number of concerns and challenges regarding the VSME draft, which are addressed in extracts below.

About the individual modules (basic module, narrative PAT module and business partner module)

Basic module

In this context, we would like to mention that we generally welcome the fact that the materiality principle does not apply to the **basic module**. This eases the burden on our small undertakings.

Practical example

- "*Our aim is to use the basic module in any case!*" The questions are very detailed and difficult to answer in the current phase of the project and with the current level of knowledge. Nevertheless, an attempt was made to find the best possible answers. There is a concern that small and medium-sized enterprises could be overburdened by possible future standards in terms of resources, which would represent a considerable burden. Careful consideration should be given to how extensive these standards may be and what requirements are placed on SMEs. Ideally, participation should remain voluntary, as currently planned, so that undertakings can decide for themselves to what extent they deploy resources. This example undertaking is endeavouring to act sustainably and make an economically justifiable contribution to a sustainable future. It is important to critically scrutinise the relevance of the topics. Not all topics are necessarily sustainable; there may be side effects that work against a sustainable future. This undertaking example endeavours to act sustainably and make an economically justifiable contribution to a sustainable future. It is important to critically scrutinise the relevance of the topics. Not all topics are necessarily sustainable; there may be side effects that work against a sustainable future.

However, the materiality analysis must be fulfilled in most other sustainability reports, even in the advanced VSME modules (Narrative-PAT, Business Partners). This raises the question of how compatible data without a materiality analysis is with data from undertakings that undergo a materiality analysis (as mentioned above). Nevertheless, this

issue is becoming less relevant as the **business partner module** (for business partner questionnaires) is the module that most SMEs need to fulfil data requests from their business partners (see ad hoc session 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 undertakings that have to report under more comprehensive standards. For this reason, it is imperative that the Commission determines that the information that larger undertakings receive from SMEs reporting under VSME is "*acceptable*" and does not create further burdens for SMEs and large undertakings. Without clarification, as just described, there is no reason for SMEs to voluntarily produce 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 guidance (guidance points 42-57), but there is no definition of what constitutes an impact for the purposes of the double materiality analysis. As this definition is crucial, it needs to be added.

Narrative PAT module

There is no guideline 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 previously mentioned, there were examples of completed templates to show SMEs what the Commission expects. We consider the extensions to be unattractive or impractical.

The narrative option requires a **considerable amount of time** for writing on the one hand and analysing on the other, which is **not offset by any recognisable added value**. Such narrative presentations usually **elude comparative evaluation** because everyone can write about something different in a different style, but not about everything in a certain way. Consequently, if someone has to decide between several undertakings on this basis, they have to "*compare apples with pears*".

Detailed information about the business partner also reaches the limits of their willingness to co-operate and cannot be controlled by the requesting/reporting undertaking anyway.

Practical example

- The questions in the Basic Module were answered successfully. However, processing the Narrative PAT-Module turned out to be much more complex, especially as no materiality analysis had been carried out to date. The Narrative PAT module comprises five categories: The undertaking's strategy, the business model and the sustainability-related initiatives are presented. The material sustainability matters, the management of these aspects, the key stakeholders and governance (responsibilities) are also described. A materiality analysis assesses the undertaking'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 undertaking to minimise or prevent negative effects, optimise products and services or develop new ones, reduce operating costs and avoid fines, legal disputes and reputational damage. However, analysing the direct and indirect effects was a major challenge and demanded enormous capacities from the management and their assistants.

The Narrative PAT-Module was already viewed with a great deal of scepticism at the beginning, and it should also be noted that in N3 §61 the focus on the reporting period also holds the following danger: those who have already reduced significantly in the past can now only report slight progress and thus get a worse picture than in the comparison based on the absolute result figures (in the basic module).

Paragraph 62: Policies, actions and targets in relation to (i) workers in the value chain
A large undertaking can perhaps afford an inspector who visits the small suppliers and checks compliance with legal regulations.

But how realistic is it for a small restaurant operator to develop and implement targets, strategies and control measures to ensure that one of the two catering wholesalers Metro or Transgourmet treats its employees in the best possible way? The model is tailored to a textile trading undertaking that is supposed to ensure that no child labour is practised in the Asian production country. But in the Intra-European sphere, or in our case almost exclusively within Austria, it is hypertrophic. This is precisely why there is a labour inspectorate, which every employer is subject to and which every employer can also assume will inspect all other Austrian undertakings. It can gain access to undertaking premises and inspect documents through legal legitimisation.

A large undertaking may be able to do this with a small supplier due to its market power/dependence - but the reverse is doubly impossible. The SME does not have the human and financial resources and would not even get through to the HR department with this request, which I would also understand, because if 12 hosts want to take a look at Transgourmet or Metro every day just to have something for their narrative module, then the operational work stops, then Europe is exhausted in documentation and its administration.

Business Partner Module

In individual cases, the Business Partner Module together with the Basic Module can be the most important, but also the most extensive, in our view. Comprehensive analyses are required in order to meet the necessary requirements. We must therefore support SMEs wherever possible. Micro and small undertakings in particular will struggle with the requirements they have to fulfil if they want to report under VSME. We consider the extensions to be unattractive or impractical.

- Result: The basic module should be left as it is.

Practical example

"The latest developments in the area of sustainability reporting are a disaster for SMEs, far from helpful and in no way facilitate efforts towards sustainability." An in-depth examination of the topic of sustainability report shows that it is currently still voluntary for unlisted small and medium-sized enterprises. Nevertheless, SMEs could be indirectly influenced, as larger undertakings that have a business relationship with them may request corresponding information. Statutory reporting obligations that apply to large corporations could therefore also play a role in the evaluation of suppliers. Failure to fulfil the specified requirements could lead to the loss of contracts, and in the case of tenders, this could mean the elimination of suppliers. The fulfilment of these reporting obligations requires the collection, documentation and processing of a large amount of data, which in turn can result in

the deployment of specialist personnel 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 undertakings could benefit from this development. There are fears that this could be a strategy by large corporations to drive SMEs out of the market. Against this backdrop, there could be opportunities for SMEs mainly in the smaller order segment, while it could become more difficult to secure innovative and lucrative large orders. The reporting obligation under NIS2, which covers cybersecurity and similar aspects, has not yet been taken into account in this analysis. In particular, the procurement and processing of data for Scope 3 poses a challenge, 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 - GHG emissions reduction target). There is a desire for stronger support from political decision-makers to prevent the introduction of these extensive data collection obligations or at least to postpone them, particularly in view of the EU and Chamber of Commerce elections.

Experience from the field test, consultation and contact with EFRAG

The participating undertakings provided feedback showing that the deadlines set by EFRAG were not met. EFRAG itself was rather restrained in its communication, but responded quickly to enquiries and offered support by email. The voluntary standard for unlisted SMEs, VSME, revealed significant shortcomings in both the execution of the field tests and in time management. Furthermore, the undertakings were asked to complete two questionnaires - the public consultation and the field test - which were very similar. The check-up planned for March was not carried out. In addition, the documents currently available are only partially available in the various national languages. The documentation is very extensive for some people who have not dealt with the topic before. They have to switch between questionnaires, explanatory texts and appendices, which represents a considerable effort for reading and analysing. The current draft of the VSME standard harbours considerable challenges and could seriously affect the operational business of undertakings. **In particular, the complexity, costs and the so-called trickle-down effect harbour risks.** These developments could lead to an **involuntary burden, especially for SMEs**, that exceeds both their financial and operational capacities. The processing, collection and transfer of data requires specialised systems, which are not currently available in most SMEs. A revision of the standard is required 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**.

Q3 Basic Model

We note here that paragraph 5(a) of the VSME ED states that "*disclosures B 3 - B 12 shall be made when applicable to the entity's specific circumstances*", while paragraph 18 specifies that "*certain disclosures [B 1 - B 12] are only applicable to specific circumstances [...], the information shall be reported only when deemed applicable by the entity*". The instructions in these two paragraphs can lead to confusion, as paragraph 5(a) implies that all disclosure requirements in the basic module are dependent on the entity's circumstances, while paragraph 18 clarifies that this only applies to specific disclosures.

Transparency Register: No. 10405322962-08

- We note that paragraph 18 better reflects the approach of the foundation module and we call on EFRAG to remove this inconsistency.

B 3 Point 91 ff

Greenhouse gas emission calculations must comply with the GHG Protocol.

- Problem: The Directive is too complex. There is a regular need for references to **various tools, standards and protocols**.

B 7

One or the other ambiguity can be found here and need to be clarified in B7. Firstly, there appears to be one comma too many (between operates and manufacturing). All manufacturers and preparers of food or other health-related products are legally only allowed to use recycled material to a very limited extent.

B 9

In B 9, the undertaking discloses the number of recordable work-related accidents and the number of fatalities as a result of work-related injuries and work-related ill health. These figures are important and have a major impact on employees and the undertaking. However, it must be taken into account that there are **different industries and occupations** that lead to **non-attributable figures**.

- The data obtained should therefore only be compared with that of undertakings in the same sector.

B 10

We see the biggest problems for our undertakings in point B 10, as this creates pressure to overpay compared to the collective bargaining agreement. Of course, since many other countries do not apply a collective bargaining agreement, the picture here is distorted.

- We would therefore suggest placing the third sub-question, how many employees are subject to a collective bargaining agreement, at the beginning and applying the first sub-question only to cases that are not subject to a collective bargaining agreement and measuring only these against wages subject to minimum wages rules.

When comparing the differences in pay, no overall view should be taken of all job groups, as it is practically the case that room cleaning in a hotel, for example, is almost exclusively carried out by women. Even if men and women are paid equally in all other occupations, the inclusion of a lower-level group in the overall analysis inevitably creates an imbalance.

The criterion of training hours per employee must also be critically scrutinised. In tourism, for example, the proportion of employees in SMEs is the highest. At the same time, however, the undertakings are often so small that there is no management level below the owner to which the employees could be promoted. Providing higher education that cannot be utilised in your own undertaking makes no sense - for either side.

B 12

We consider it **unacceptable** that undertakings that opt for voluntary sustainability reporting have to **disclose** their **convictions and fines** for corruption and bribery. This has nothing to do with a sustainability report, but is an intrusion into their own "*private*" affairs. If a conviction has to be public, a court will order this.

Exposure Draft Point 129

WRI's Aqueduct Water Risk Atlas or references to other standards.

- Problem: The Directive is too complex. There is a regular need for references to **various tools, standards and protocols**.

Miscellaneous

- There is a whole series of "*if applicable*" questions. This is relevant for the "*data gaps*" mentioned earlier. It is of utmost importance to get an explanation of how these questions, if not answered, will affect the reporting obligations for the larger, e.g. CSRD obligated entities.

III. Suggestions for improvement / simplification of sustainability reporting standards and documents

It is crucial for the development and implementation of sustainability reporting standards 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 have a complex structure, 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 the language

The standards should be written in clear, simple and directly understandable language. Complicated definitions and technical jargon should be avoided. Important terms and requirements should be explained directly in the text of the standards to avoid constant switching between different documents.

- Integration of explanations

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 orientation and could help to reduce uncertainties in dealing with the requirements of the standards.

- 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 non-listed undertakings (VSMEs). Despite the good intention to promote sustainability transparency, larger, reporting undertakings may exert pressure on their "*smaller*" business partners by indirectly forcing compliance with these standards and demanding the provision of such data in order to fulfil their own sustainability reporting obligations. This could lead to an unfair and disproportionate burden on SMEs that 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 undertakings are allowed to request from their smaller partners. These measures should aim to prevent SMEs from being overburdened and ensure a fair distribution of the burden within the supply chain.

- **Emphasise voluntariness**

It is of great importance that the voluntary nature of the VSME standards is clearly communicated and enforced in practice. Mechanisms should be implemented to prevent larger undertakings 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 protective measures**

Furthermore, regulatory safeguards are needed to prevent large undertakings from passing on their reporting obligations to SMEs. Such regulations could help to ensure that the voluntary nature of the standards is maintained and not undermined by market mechanisms that could penalise SMEs.

- **Financial support and training programmes**

It would be desirable to set up EU funding programmes that not only provide financial subsidies, but also offer subsidised training and free access to the necessary software, should this be available. These measures should help SMEs to acquire the necessary technologies and expertise without increasing the financial burden.

- **Technical support and provision of resources**

In addition to financial assistance, technical support in the form of easily accessible and usable tools for data collection and processing is crucial. This support should aim to minimise the administrative burden on SMEs and simplify the implementation of reporting standards. The support should be available without significant investment on the part of the SMEs themselves.

- **Multilingual documentation and clear instructions**

It is crucial that all standards, guidance and supporting documents are available in all official EU languages to ensure that SMEs have access to the necessary information, regardless of their national language. Clear and concise guidance on sustainability

reporting developed specifically for SMEs should also be provided to enable them to fulfil the requirements without external help.

- **Flexibility and adaptation to SME resources**

The 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 undertakings without specialised staff or external consultants.

- **Consideration of the cost factor**

The costs associated with implementing the standards should be kept as low as possible for SMEs. This could be achieved through government subsidies, tax incentives or other financial relief specifically aimed at supporting SMEs in their endeavours towards sustainability.

- **Flexible transition periods**

To enable a realistic adjustment to the reporting standards, longer and flexible transition periods should be established. These periods must give SMEs the opportunity to gradually prepare for the requirements without affecting their daily operational activities.

- **Adaptation of the 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 undertaking and the available capacity, in order to avoid overburdening SMEs.

IV. 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 behaviour, but also actively supports and maintains the economic diversity and competitiveness of SMEs.

While transparency and responsibility are essential in the area of sustainability, the proposed measures and their implementation require a thorough revision in order to be practicable for SMEs.

The **current draft** of the voluntary standards for non-listed SMEs (VSME) and the planned reporting requirements **do not take sufficient account of the necessary resources and the specific expertise that is often lacking in smaller undertakings.**

A fair, flexible and practicable 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 standards, there is a lack of a solution that provides SMEs with clearly structured **guidelines (including 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 this, reporting obligations should only be introduced for those undertakings that have sufficient resources to implement a sustainability report. It is

crucial that these obligations are not indirectly transferred to SMEs, which may not have the necessary resources to fulfil these requirements.

We would also like to highlight once again that, when revising the current drafts, **greater attention must be paid to** ensuring that the voluntary standards for non-listed SMEs (VSMEs) are geared **towards the limited resources and specific expertise that are usually not available.**

Furthermore, we would like to point out that **clear regulatory requirements should protect SMEs** from such excessive requirements (cumulative burden) and ensure that they **do not lead to indirect obligations and disproportionate burdens.**

In addition, the business community is calling on politicians to create **longer periods of validity for the implementation** of the directives so as not to overburden undertakings.