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## RESPONSE TO THE PUBLIC CONSULTATION ON TWO EXPOSURE DRAFTS ON SUSTAINABILITY REPORTING STANDARDS FOR SMES: VSME/LSME

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### Cover letter

Dear Mr De Cambourg,

The Banque de France and the Autorité de contrôle prudentiel et de résolution (hereinafter “ACPR”) welcome the publication of the two exposure drafts on sustainability reporting standards for SMES.

The Banque de France is the French pillar of the Eurosystem, a federal system formed by the European Central Bank and the national central banks of the euro area. Its three main missions are monetary strategy, financial stability and the provision of economic services to the community.

The ACPR is the French supervisory authority for the banking and insurance sectors which is in charge of preserving the stability of the financial system and protecting the customers, insurance policyholders, members and beneficiaries of the persons that it supervises.

**The Banque de France and the ACPR strongly support the development of high-quality European standards for sustainability reporting** to enhance the ability for financial institutions to collect standardized ESG data about their counterparties and investee companies.

Furthermore, as an extension of its mandate, through the Green Industry Act, the Ecological Transition Financing Committee mandated the Banque de France to define a climate indicator for non-financial corporations, including both large entities and SMEs, listed or not (more details about this climate indicator are provided in appendix). In that respect, **the Banque de France supports the development of European standards for SMEs covering a sufficient number of data points, but in a proportionate manner and likely to be widely adopted on a voluntary basis.**

Please find hereafter our concerns and feedback regarding the two exposure drafts.

## More homogenous and proportionate requirements for all SMEs

There is a unanimous assessment from stakeholders in France about the unsuitability and disproportionality of the current LSME standard. The draft standard is very long (almost 200 pages), worded in a very technical way, and requires a level of information that is too granular with many data points.

One could argue that this LSME standard concerns only few companies in France, but our concern is that it is supposed to represent the cap in the value chain. We are on the view that **the current LSME standard, as drafted, does not address the proportionality principle nor the cap in the value chain objective**. It could also discourage some SME to get listed on the market.

On the other hand, the current VSME standard has been welcome and is considered as accessible, understandable and likely to be widely applied. It would also be likely to meet the objective of replacing the questionnaires from business partners.

In our view, subject to relatively limited amendments and supplements, **this VSME standard could serve both listed and non-listed SMEs. We suggest to adopt the three modules of the draft VSME standard as mandatory information (subject to materiality) to be disclosed by listed SMEs, while non-listed SMEs could apply all or part of the standard** (e.g. a modular approach would be maintained for non-listed SMEs that apply the standard on a voluntary basis).

This solution would present the merit of the simplification, with a single standard applicable for all SMEs, and thus avoiding the step-up effect of the listing.

## Additional data points are warranted

As previously mentioned, the current VSME standard would need to be supplemented with some additional data points in order to meet the cap in the value chain objective. It is also important to keep in mind the needs from the financial sector which is subject to many regulations and obligations with regards to sustainability. In that respect, the future SME standard should consider covering the mandatory PAI requested under SFDR, information required under the Taxonomy regulation (e.g. as mentioned in section 1, paragraph 106 of the current LSME draft standard), information necessary for ESG Pillar 3 and regulatory reporting...

We would like to highlight a few elements that should, in our view, be necessarily included in the revised standard:

1) If existing, **actions implemented or scheduled to reduce emissions**, and the **financial resources committed for implementation of these actions**. This information together will help to identify tangible action and limit attempts of greenwashing. Moreover, the financial resources being conditional on the existence of action to reduce emissions by the company, they will not add a disproportionate reporting burden.

2) **Production volumes**, such as for example:

- MWh for electricity production

- Tons.km or passengers.km for the road freight and road passenger transport
- Tons for iron, aluminum, concrete,
- m<sup>2</sup> for real estate

This information, together with the **related GHG emissions**, will allow a robust calculation of the company's departure point and trajectory. However, it should be disclosed with a **sufficient granularity**, for example:

- per technology (wind power, nuclear, fossil etc.)
- per type of building (individual housing, collective housing, offices, hotels etc)
- per type of vehicle (individual, collective, freight etc)

Indeed, a company's efforts to reduce emissions is also measured against the volume of production it generates. This information is also compulsory for the ISSB standards.

Let us note that this information don't represent a disproportionate additional burden insofar as it is information known to the company, which does not have the characteristics of sustainability information that is difficult to identify and measure for a company with limited knowledge of sustainability.

From a practical standpoint, the financial resources committed to actions implemented or scheduled to reduce emissions should be in our view incorporated in the Business Partners Module, with the merge of the BP3 and BP4 disclosures and the inclusion of the requirements disclosed in IR-3 paragraph 10 of the current LSME draft standard.

Concerning the granular production volumes and related GHG emissions, they should be in our view incorporated in the guidance outlining material sustainability issues per sector as proposed hereafter.

## **Need for sector-specific disclosure requirements for SMEs**

We support the objective of creating a standardised reporting tool for SMEs to address ESG data requests from business partners. However, it is important to clarify that this standard - in its current form - may not replace a portion of questionnaires used by business partners. More particularly, sector-specific requests from business partners might remain.

We propose to introduce sector-specific disclosure requirements for SMEs when such provisions become available for large undertakings, starting in July 2026. Meanwhile, **we strongly advocate for the development, together with the revised standard, of an implementation guidance outlining material sustainability issues per sector in a concise table format.** It will provide SMEs with a **comprehensive overview of major relevant issues within their sector(s)**, enabling them to transition to a **more targeted approach**, addressing the core IROs specific to their sector(s) rather than generic ones. This initiative is particularly crucial for SMEs as they often lack the resources to conduct sector-specific materiality assessments independently. Consequently, we believe that this guidance will assist SMEs in seamlessly integrating sector-specific issues into their sustainability reporting and management, without overburdening standards or enduring prolonged waits for the development of sector-specific ESRS

Yours sincerely,

## Appendix

### **A climate indicator based on the international methodology ACT**

The climate indicator developed by the Banque de France has **three dimensions**: two quantitative (the transition risk and the physical risk), one qualitative (the maturity).

The **transition dimension** is materialized through a synthetic indicator, which aims to give the level of progress of the company in its low-carbon transition based on quantitative metrics. The methodology is relying on the **international ACT methodology** (Accelerate Low Carbon Transition), developed by ADEME, the French Agency for Ecological Transition, the Carbon Disclosure Project and the World Benchmarking Alliance.

The ACT initiative drives climate action by enabling benchmarking against advanced, science-based metrics. ACT provides:

- A **forward-looking approach** taking into account **tangible actions** undertaken by the company (e.g. documented, quantified and with committed financial resources).
- A **sector-specific methodology**, focusing on the main challenges for each sector closer to the real economy.

It analyzes the company's ambition by comparing its emissions trajectory to a personalized benchmark, the latter being calculated on the basis of its production volume and reference sector intensities aligned with science. It also examines the **strategy and the robustness of the actions implemented** on different aspects (governance, suppliers, customers, horizon and content of the transition plan) as well as its business model.

Therefore, the transition dimension of the climate indicator will **measure a company's carbon overshoot using an alignment metric** that takes into account a net zero 2050 sectoral benchmark. According to the alignment, a company will obtain a transition indicator on a discrete scale.