

POSITION PAPER



ESBG response to the EFRAG consultation on the Exposure Draft ESRS for non-listed SMEs (VSME)

ESBG (European Savings and Retail Banking Group)

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May 2024

Questions

Q1. The objective of this ED is to provide a simple reporting tool, that can credibly replace a substantial part of the questionnaires used by business partners (lenders, investors and corporate clients) in requesting ESG data from SMEs and that can support SMEs in monitoring their sustainability performance. While the ED has been built mainly on the basis of questionnaires from business partners, the resulting information is expected to also benefit SMEs by improving their management of sustainability issues and, in this way, contribute to a more sustainable and inclusive economy.

Do you agree with this standard setting objective?

Yes/No/Please explain your answer.

The overwhelming sustainability regulation (which is aimed directly at companies in the real economy and those that are indirectly affected by it, e.g. via credit institutions) leads to enormous bureaucratic burdens for SMEs. For example, data requirements that are directed at large companies via the CSRD are passed on to SMEs (trickle-down effect) and thus place a burden on companies that are explicitly exempt from these regulations. Regulation should be designed in such a way that trickle-down effects are effectively prevented.

Against this background, we support the implementation of a voluntary reporting standard for small and medium-sized businesses. A common standard can potentially yield significant efficiency gains for reporting companies and users of the information. To fully realize these positive benefits, it is crucial that the standard is user-friendly for businesses while meeting the needs of users. The financial industry is one of the primary users of sustainability information and has a specific requirement for structured data to assess the financial risks and impact of decisions on the environment. The current standard can provide valuable information to the financial industry, but we suggest simplifying its structure and reducing reporting requirements to increase its adoption in the market.

Q2. VSME ED has been structured in three separate modules:

- **The Basic Module is the entry level for SMEs and the target for micro-SME; it is required also in case of use of one of the two other modules.**
- **The Narrative-Policies, Actions and Targets (PAT) Module is expected to be used by SMEs that have already in place some formalised policies, actions and targets.**
- **The Business Partners (BP) Module is expected to be used when an SME faces data requests from its business counterparties.**

The following alternatives for reporting uses are possible under the VSME ED:

- 1) The Basic Module alone;**
- 2) The Basic Module with the Narrative-PAT Module;**



- 3) The Basic Module with the Business Partners (BP) Module;
4) All three Modules together.**

Do you agree that these alternatives are appropriate to deal with the diversified undertakings in scope (both number of employees and economic sectors) in the context of the objective as stated in Q1 of this questionnaire?

Yes/No/Please explain your answer.

Overall, the number of reporting requirements across the three modules is also disproportionately high for the smallest actors, imposing a significant burden on most SMBs (small and medium-sized businesses).

There is uncertainty and concern that the requirement to perform a materiality analysis for reporting on the BP module may lead SMBs to choose not to report on certain points considered crucial for the financial industry (such as GHG emission reduction targets, scope 3 emissions, turnover in certain sectors and violations of OECD Guidelines). Therefore, we suggest that there should be no requirement for materiality analysis to report on reporting requirements in the PAT and BP module. Instead, we propose continuing the 'if applicable' principle from the Basic module.

Requiring the materiality assessment as a prerequisite for reporting on relevant data points might pose unintended negative consequences for SMEs, specifically in terms of the burden imposed by the reporting requirements associated with it, due to the following considerations:

- While acknowledging the strategic benefits of a materiality assessment, it may be burdensome for SMEs undertaking with limited resources and capabilities. The exercise entails the need to have more dedicated resources and more mature processes than the average situation of an SME;
- It might potentially impair the ability of banks to aggregate data that are not material to the individual undertaking but become material to the financial institution when considered at portfolio level. Financial market participants with investments / loans to SMEs would only have access to sustainability information from their investees / borrowers to the extent the corresponding information is assessed to be material by the undertaking. This limitation might challenge or even compromise SMEs market access and expansion.

We recognize that there is significant variation in the size of companies within the SMB (Small and Medium-sized Business) segment, and a considerable proportion of SMBs are classified as micro-enterprises with fewer than 10 employees. Several of the points that may be relevant for larger SMBs are considered unrealistic to impose on micro-enterprises. An alternative approach to differentiating in various modules could be to filter based on enterprise size (micro, small, and medium) to align reporting requirements with their scale. We also recognize that this modular building-block approach is intended to introduce proportionality in the disclosures applicable to the undertaking in



terms of its size. The bigger the company is, the more modules they have to apply. However, there are two additional variables that are critical for user of sustainability information:

- Sector: Additional sector-specific disclosures based on a risk-based approach i.e. differentiating highly critical sectors from less critical sectors. In some cases, a small company exposed to a highly polluting sector could easily have a meaningful environmental impact despite the actual size of its business if compared to other larger companies within the same size range. SMEs in the same size category can be very different depending on the sector in which they operate.
- Location: additional disclosures for those companies that operate with high-risk countries.

This combination of size, sectors and location is currently followed by sustainability ratings platforms.

Q3. The Basic Module is written in simplified language to make it easily understandable for micro and SME undertakings, while ensuring clarity in terms defined by the ESRS with 12 disclosures to be reported. There is no need for a materiality analysis. Certain disclosures are required only if the undertaking considers them "applicable".

Do you agree that the Basic Module is proportionate, understandable (in terms of language), and has a reasonably complete set of disclosures to be used as a starting point?

Yes/No/Please explain your answer.

With regard to the language used in the Basic Module, we support EFRAG's approach to use a simplified language not aligned with ESRS to facilitate small enterprises and entrepreneurs what is expected from their firms. ESRS are complex even for large undertakings.

Q4. The Narrative-Policies, Actions and Targets (PAT) Module is suggested in addition to disclosures in the Basic Module, to undertakings that have formalised and implemented PAT. Materiality analysis is required to determine and disclose the sustainability matters that are relevant for the undertaking.

Do you agree with the content and approach of the Narrative-PAT Module, which is reserved to undertakings that have Policies, Actions and Targets (PAT) in place?



Yes/No/Please explain your answer.

Yes, while the PAT module is considered less central for the financial industry, it can still benefit companies. Therefore, it is recommended that it be retained as a separate module.

Q5. The Business Partners (BP) Module sets datapoints to be reported in addition to disclosures in the Basic Module, which are likely to be included in data requests from lenders, investors and corporate clients of the undertaking. Materiality analysis is required, in order to determine and disclose the sustainability matters that are relevant for the undertaking.

Do you agree with the content and approach to the Business Partners (BP) Module, as a replacement and standardisation of information requests by business partners, being a proportionate but complete set of ESG disclosures?

Yes/No/Please explain your answer.

There is a desire to keep the standard as simple as possible to encourage greater adoption in the market. Many of the points are perceived as unnecessary for the financial industry, and it is proposed to reduce the number of reporting points, in addition to the suggested size-based filtering (Q2), which will also help reduce the scope. Physical risk from climate change (BP 5) is important for banks and needs to be kept.

The key data points to address the financial industry's needs are those related to energy consumption and greenhouse gas emissions (these points are covered in the Basic module). The point concerning human rights violations is also crucial, along with information about energy labels, exposure to physical climate risk, scope 3 emissions, turnover in certain (critical) sectors and emission reduction goals (these points are included in the BP module) and physical risk from climate change (BP 5).

For additional relevant datapoints, please refer to Q14.

Q6. FOR USERS and PREPARERS ONLY: Kindly indicate the proportion of ESG questionnaires or other ESG information requests that are used to collect data from SMEs (both for reporting and managerial purposes) that could be replaced if the SMEs provide the information covered by the three modules of the VSME ED.

- Below 20%; 20-50%; 50% -80%; above 80%
- Please explain what items are missing and your rationale.

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ESBG supports EFRAG's efforts to develop a single set of disclosures that can accommodate all data requests to SMEs. However, this is a challenging task. In addition, it is not possible to estimate the proportion requested given the diversity of ESBG's members.

1. The type and level of detail of ESG data needed by a financial institution is highly dependant on the specific facts and circumstances affecting both the client and the financial institution:
 - The type of lending transaction;
 - The size, sector and location of the borrower, among other factors.
2. In addition, at this stage there is a great regulatory uncertainty:
 - The main banking regulators are still developing their expectations on how financial institutions should manage sustainability risks from their lending portfolios;
 - Still no clarity on the scope of the value chain and its boundaries for financial institution.

As a general trend, we note that sustainability requests from banks are following a risk-based approach: starting with those counterparties with higher impact. In practice, we observe different degrees of development in these sustainability requests:

- Most advanced entities have in place questionnaires that are populated during the loan granting process.
- Others do not have these questionnaires in place due to the reasons abovementioned.

It is also worth mentioning supervisory expectations are quickly evolving. As such, the current version of questionnaires will also need to evolve in the short and medium term.

Q7. Sustainability matters may be highly dependent on the specificities of the relevant sector(s) that the reporting undertaking operates in. Please select your recommended course of action for standard setting and guidance purposes on this matter.

- 1. Undertakings applying VSME ED should apply on a voluntary basis existing reporting practices, without specific EFRAG guidance.**
- 2. Undertakings applying VSME ED should apply on a voluntary basis the content of the future Sector ESRS for large undertakings.**



3. Undertakings applying VSME ED should apply on a voluntary basis sector specific guidelines and disclosures designed for non-listed SMEs, to be issued by EFRAG as a non-authoritative annex to the future sector-ESRS.

4. Undertakings applying VSME ED should apply on a voluntary basis sector specific guidelines and disclosures applicable to both listed and non-listed SMEs, to be issued by EFRAG as a non-authoritative annex to the future sector-ESRS.

Please note that your answer will be complemented by question 13 on the additional dimension of reporting including sectors.

Please provide your comments, if any.

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Q8. Do you agree with the proposed Principles for the preparation of the sustainability report in VSME ED?

a) Complying with this Standard (paragraphs 9 and 10 in VSME ED)

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b) Preparation on a consolidated basis (paragraph 12 in VSME ED)

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c) Timing and location of the Sustainability Report (paragraphs 13, 14 and 15 in VSME ED)

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d) Classified and sensitive information, and information on intellectual property, know-how or results of innovation (paragraph 16 in VSME ED)

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Q9. Additional question on Complying with this Standard. Undertakings should indicate which modules or which combination of modules they expect to use. This question aims at better understanding the market acceptance as a fundamental aspect of the standard on the two different sides of users and preparers (please refer to BC5 in Annex 2 Basis for conclusions for VSME ED). In this context, how do you anticipate to make use of the modular approach:

Q10. Additional question on Preparation on a consolidated basis. The VSME ED recommends the undertakings that are parent of small and medium sized groups to prepare consolidated reports for their sustainability statement, i.e. to include data of their subsidiary/ies in the report. Do you agree with this approach?

Yes/No/Please explain your answer.

Q11. Since non listed SMEs are outside the scope of CSRD, the subsidiary exemption (see CSRD Art. 19a9) does not apply to them. One proposal that EFRAG could consider is to include such exemption in VSME ED, as a further incentive to apply consolidated sustainability reporting. Would you consider the inclusion of a subsidiary exemption to VSME ED as pertinent and feasible?

Yes/No/Please explain your answer.

Q12. Additional information component including sectors (VSME ED par. 11, applicable to all the modules)

Depending on the type of activities carried out, the inclusion of additional information about issues that are common to the undertaking's sector supports the provision of relevant, faithful, comparable, understandable and verifiable information. While acknowledging the difficulties that this requirement may raise for SMEs, the inclusion of this additional dimension was considered an important element of VSME ED to fulfil in particular-sector specific disclosures. Do you agree with this approach?

Yes/No/Please explain your answer.



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Q13. The Basic Module is the entry level for non-listed SMEs and has a highly simplified language. Ideally the undertaking should be able to produce these disclosures with limited help of consultants. It comprises 12 disclosures which have been mapped with existing voluntary initiatives (i.e. Nordic Sustainability reporting standards for SMEs, German Sustainability Code, CDP guide for SMEs etc.). These disclosures have been identified as recurring in the questionnaires analysed by the EFRAG Secretariat (please refer to Annex 2 Basis for conclusions for VSME ED for more details). Please include your answer with respect to the following:

Disclosure B 1 – Basis for Preparation

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Disclosure B 2 – Practices for transitioning towards a more sustainable economy

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B 3 – Energy and greenhouse gas emissions

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B 4 – Pollution of air, water and soil

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B 5 – Biodiversity

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B 6 – Water

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B 7 – Resource use, circular economy, and waste management

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B 8 – Workforce – General characteristics

Information on the total number of employees who have left the company during the reference period and the turnover rate of employees could also be relevant. Where appropriate, the provision of contextual information could also be necessary to understand the data (for example, fluctuations in the number of employees during the reference period).

B 9 – Workforce -Health and Safety

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B 10 – Workforce – Remuneration, collective bargaining, and training

This disclosure lacks clarity and should be modified as indicated below:

“The undertaking shall disclose:

- (a) **if applicable the percentage of employees paid the current legal minimum wage and** ~~when a significant proportion of employees are compensated based on wages subject to minimum wage rules,~~ the relevant ratio of the entry level wage to the minimum wage;
- (b) the percentage gap in pay between its female and male employees. The undertaking may omit this disclosure when its head count is below 150 employees;
- (c) **if applicable,** the percentage of employees covered by collective bargaining agreements; and



(d) the average number of annual training hours per employee, broken down by gender, that are related to the development of skills and competences, whether acquired through formal or informal forms of capacity-building”.

Besides the gender pay gap calculation, which measures differences in compensation between women and men in an organization irrespective of the type of work, companies could voluntarily disclose the equal pay gap, which measures the “equal pay for equal work” for women and men in the same job at the same level.

B 11- Workers in the value chain, affected communities, consumers and end-users

B 12 - Convictions and fines for corruption and bribery

Q14. FOR USERS ONLY: Is there any datapoint(s) missing from this module that you consider as essential to meet your information needs?

Yes/No.

If Yes, please specify the datapoint(s) and provide a rationale for your answer.

Besides the essential points mentioned in response to Q5, some additional points are necessary to meet the requirements of the financial industry:

- Location data is essential for conducting independent analyses of climate and natural risks, particularly for project financing.
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- Information about significant labour outsourcing by the company is relevant for assessing risks related to employment conditions and human rights.



- It is relevant to expand the point about human rights violations to include other legal infractions or fines, such as environmental legislation violations or money laundering.
- Information about permits is also considered relevant (e.g., discharge permits for water and/or air).

These datapoints could be in the BP module, with a mention that they should be disclosed “if applicable” and “depending on the sector”.

Simplicity and comprehensibility in reporting are crucial for the extent to which the VSME standard will be adopted by SMEs. National regulations cover some of the reporting points requested in the VSME standard. To simplify reporting for companies, the various national authorities should be obligated to assess which reporting points in the VSME standard are already addressed by national regulations. This way, companies will know that if they operate in accordance with national legislation, they can quickly fulfil these reporting requirements. Additionally, it is recommended that national authorities make available data sources, information, and documentation to ease the reporting burden and support strategic sustainability efforts within SMEs.

Q15. B3 to B7 require disclosure of environmental performance metrics. There are other schemes used by SMEs requiring reporting of similar metrics, such as the European Eco-Management and Audit Scheme (EMAS - Regulation (EC) No. 1221/2009). Do you see any potential for better alignment with those other reporting schemes?

Yes/No/Please explain your answer.

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Q16. The guidance provided for B9 on the number of fatalities as a result of work-related injuries and work-related ill health refers to incidents arising during travel and, outside of the undertaking's responsibility (e.g. regular commuting to and from work). These incidents are subject to the applicable national legislation that regulates their categorisation as to whether these are work-related or not. Is the practice in your country to include such incidents as work-related fatalities?

Yes/No/ Please explain your answer including references to the relevant legislation.

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Q17. B10 (a) requires undertakings to disclose the relevant ratio of the entry level wage to the minimum wage, when a significant proportion of employees are compensated based on wages subject to minimum wage rules. This datapoint deviates from the disclosure requirement on adequate wages established in ESRS S1-10 – Adequate wages (from paragraphs 67 to 71) as a simplification (i.e., easier to collect). Do you consider that this requirement will provide relevant and comparable information?

Yes/No/Please explain your answer.

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Q18. B11 was drafted to cover, in a simplified way, a description of the process to identify material impacts and a description of those for workers in the value chain, affected communities and consumers/end-users. This disclosure is an exception to the general approach in the Basic Module where materiality does not apply. As a compromise, it was included as a voluntary disclosure. Do you agree with this approach?

Yes/No/Please explain your answer.

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Q19. In order to help SMEs prepare the sustainability report, specific guidance has been developed for the Basic Module in paragraphs 87 to 167 of VSME ED. Do you think that it is useful for the preparation of the report? Do you think it is sufficient?

Yes/No/Please explain your answer or add suggestions.

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Q20. Do you think that the language and approach to the Principles of Materiality to be applied to the Narrative-PAT Module and Business Partners (BP) Module are proportionate for the undertakings in scope?

Impact materiality (paragraphs 46-50 in VSME ED)

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Financial materiality (paragraphs 51-55 in VSME ED)

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Stakeholders and their relevance to the materiality analysis process (paragraphs 56 and 57 in VSME ED)

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Q21. The VSME ED requires to perform materiality analysis in order to disclose which of the sustainability matters listed in Annex B of VSME ED (which is the same as AR 16 of ESRS 1 General requirements) are material to the undertaking. Therefore, users will understand for which material matters the undertaking does not have Policies Actions and Targets (PAT) in place. This approach (like for ESRS Set 1) is designed to have a reliable depiction of what the undertaking is doing to address sustainability matters, avoiding greenwashing. At the same time, this approach only requires reporting the PAT (Policies, Actions and Targets) that the undertaking has in place. No information is required when they have no PAT in place for a material matter (in addition to the list of material matters itself).

In the VSME ED, the Narrative-PAT and Business Partners Modules require assessing the materiality of the matters, as it considers the disclosure of only material matters as essential information for users. Do you agree with this approach?

a) For all respondents: Yes/No/Please explain your answer.

No.

Requiring the materiality assessment as a prerequisite for reporting on relevant data points might pose unintended negative consequences for SMEs, specifically in terms of the burden imposed by the reporting requirements associated with it, due to the following considerations:

- While acknowledging the strategic benefits of a materiality assessment, it may be burdensome for SMEs undertaking with limited resources and capabilities. The exercise entails the need to have more dedicated resources and more mature processes than the average situation of an SME;



It might potentially impair the ability of banks to aggregate data that are not material to the individual undertaking but become material to the financial institution when considered at portfolio level. Financial market participants with investments / loans to SMEs would only have access to sustainability information from their investees / borrowers to the extent the corresponding information is assessed to be material by the undertaking. This limitation might challenge or even compromise SMEs market access and expansion.

b) For users only: Is the list of material matters essential for you? Yes/No/Please explain your answer.

Q22. As a way to simplify the materiality approach, whenever possible the notion of “report only if applicable” has been introduced. This filters information to be reported by undertakings on the basis of relevance. No disclosure is expected for a specific datapoint, when the undertaking’s circumstances are different from those that would trigger disclosure of that specific datapoint, as described by the relevant provision in VSME ED. This is particularly important for the Basic Module, where no materiality analysis is foreseen and all the disclosures are to be reported, if applicable. Disclosures in the Business Partners module are to be reported if they are applicable and for BP 5,7, 8, 9, 10 (for which the “if applicable” approach would not work) if they are relevant to the undertaking’s business and organisation.

Do you agree with this approach?

Yes/No/Please explain your answer.

Q23. Financial opportunities have been included only on an optional basis in VSME ED since the CSRD focused on negative impact when addressing SMEs. Do you agree?

a) Yes, reporting for financial opportunities should be optional

b) No, reporting for financial opportunities is not needed for non-listed SMEs (focus on negative impacts only).

Please explain your answer.



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Q24. Do you agree with the proposed principles for the preparation of the sustainability report for the Narrative-PAT and Business Partners Module in VSME ED?

a) Time horizons (paragraph 40 in VSME ED)

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b) Coherence and linkages with disclosures in financial statements (paragraph 41 in VSME ED)

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Q25. Do you agree with the content of the disclosures required by the Narrative-PAT Module of VSME ED? Please refer to Annex 2 Basis for conclusions for VSME ED for further detail.

Disclosure N 1 - Strategy: business model and sustainability related initiatives

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Disclosure N 2 - Material sustainability matters

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Disclosure N 3 - Management of material sustainability matters

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Disclosure N 4 - Key stakeholders

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Disclosure N 5 – Governance: responsibilities in relation to sustainability matters

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Q26. FOR PREPARERS ONLY: If you anticipate that you will apply the Narrative-PAT module, have you implemented policies, actions and targets (PAT) and/or climate transition plans due to requests of counterparties in the value chain?

Yes /No/Please explain.

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Q27. FOR USERS ONLY: Are there any datapoint(s) missing from this module that you consider as essential to meet your information needs?

Yes/No/Please specify the datapoint(s) and provide a rationale for your answer.

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Q28. N3 requires the disclosure of policies, actions and targets to manage material sustainability matters. There are other schemes used by SMEs requiring reporting of similar information, such as the European Eco-Management and Audit Scheme (EMAS – Regulation (EC) No. 1221/2009) regarding environmental policies, actions and targets. Do you see any potential for better alignment with those other reporting schemes?

Yes/No/Please explain your answer.

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Q29. While acknowledging the complexities of this calculation specifically for SMEs, the inclusion of greenhouse gas (GHG) Scope 3 emissions as the entity-specific dimension was considered an important element of disclosure in some sectors. The Business Partners Module includes an entity specific consideration for GHG Scope 3 emissions to guide undertakings in certain sectors and for which Scope 3 GHG emissions are material in addition to the disclosures envisaged in B3 Energy and GHG emissions (Basic Module). Do you agree with the inclusion of GHG Scope 3 emissions in the Business Partner Module in the paragraph “Entity specific consideration when reporting on GHG emissions under B3 (Basic Module)”?

Yes/No/Please explain your answer.

FOR PREPARERS ONLY: Is this disclosure feasible? Yes/No/Please explain your answer.

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Q30. Do you agree with the content of disclosures required by the Business Partners (BP) Module of VSME ED? Please note that you can find the background for each Disclosure in the Annex 2 Basis for conclusions for VSME ED (BC130. to BC149).

Disclosure BP 1 – Revenues from certain sectors

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Disclosure BP 2 – Gender diversity ratio in governance body

Gender diversity is not relevant for SMEs. Most small enterprises are family companies. These companies are established by their founders and then managed by the members of the family.

Disclosure BP 3 – GHG emissions reduction target

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Disclosure BP 4 – Transition plan for climate change mitigation

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Disclosure BP 5 –Physical Risks from climate change

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Disclosure BP 6 – Hazardous waste and/or radioactive waste ratio

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Disclosure BP 7 – Alignment with internationally recognized instruments

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Disclosure BP 8 – Processes to monitor compliance and mechanisms to address violations

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Disclosure BP 9 – Violations of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles (including the principles and rights set out in the 8 fundamental conventions of the ILO Declaration and the International Bill of Human Rights)

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Disclosure BP 10 – Work-life balance

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Disclosure BP 11 – Number of apprentices

Q31. FOR USERS ONLY: Disclosures in this module are reported if applicable, with the exception of BP 5, 7, 8, 9, 10 that are omitted when considered not material. Do you agree with this approach?

Yes/No/Please explain your answer.

Q32. With reference to disclosures BP 7, BP 8 and BP 9, the objective of these three disclosures is to assess the SME's commitment to respecting human rights. The ED has used the terms in the Sustainable Finance Disclosures Regulation (SFDR), applicable to the financial market participants (for example banks), for consistency purposes. Are there alternative disclosures covering the same objective regarding the human rights of own workforce and that are more suitable than these disclosures?

Yes/No/Please explain your answer including updated/proposed text.

Q33. Do you think that it would be beneficial to split the Business Partners (BP) Module into sub-modules depending on the nature of the user (for example “banks”, “investors”, “large corporates”)?

Yes/No/Please explain your answer.

Q34. Some of the questionnaires of banks and other business partners analysed by EFRAG Secretariat included also datapoints related to the EU-taxonomy regulation, despite non-listed SMEs being out of scope. EFRAG considered that preparing this information would be too complex for non-listed SMEs. We note that the EU Platform for Sustainable Finance may in the future make a proportionate tool for EU-taxonomy available. In particular, to meet the technical criteria for inclusion in the climate mitigation taxonomy, large undertakings have to consider the greenhouse gas (GHG) emissions of their various economic activities. These undertakings will need data from their suppliers. Small and medium-sized enterprises (SMEs) playing a crucial role in these undertakings' supply chains may be asked to provide the following information voluntarily to streamline the process for themselves and their clients:

- **SMEs whose activities fall under enabling activities of the Climate Delegated Act, e.g., categories 3.6 (Manufacture of renewable energy technologies) or 9.1 (Market research, development and innovation), should disclose the emission savings of their technology compared to the best-performing alternative.**

Do you think that VSME ED should include this additional datapoint to cover EU-Taxonomy disclosures?

Yes/No/Please explain your answer.

We share the concern that SMEs should be included in the EU-Taxonomy. However, at this stage, we deem appropriate not to request EU-Taxonomy disclosures to SMEs until the European Commission and the EU Platform for Sustainable Finance develop a proportionate approach to include SMEs in the EU-Taxonomy.

Q35. In order to help SMEs prepare their sustainability report, specific guidance has been developed for the Business Partners Module in paragraphs 169 to 193 of VSME ED. Do you think that it is useful in the preparation of the sustainability report? Do you think it is sufficient?

Yes/No/Please explain your answer.



Q36. FOR USERS ONLY: Are there any datapoint(s) missing from this module that you consider as essential to meet your information needs?

Yes/No/Please specify the datapoint(s) and provide a rationale for your answer.

Same answer as Q14:

Besides the essential points mentioned in response to Q5, some additional points are necessary to meet the requirements of the financial industry:

- Location data is essential for conducting independent analyses of climate and natural risks, particularly for project financing.
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- Information about significant labour outsourcing by the company is relevant for assessing risks related to employment conditions and human rights.
- It is relevant to expand the point about human rights violations to include other legal infractions or fines, such as environmental legislation violations or money laundering.
- Information about permits is also considered relevant (e.g., discharge permits for water and/or air).

These datapoints could be in the BP module, with a mention that they should be disclosed “if applicable” and “depending on the sector”.

Simplicity and comprehensibility in reporting are crucial for the extent to which the VSME standard will be adopted by SMEs. National regulations cover some of the reporting points requested in the VSME standard. To simplify reporting for companies, the various national authorities should be obligated to assess which reporting points in the VSME standard are already addressed by national regulations. This way, companies will know that if they operate in accordance with national legislation, they can quickly fulfil these reporting requirements. Additionally, it is recommended that national authorities make available data sources, information, and documentation to ease the reporting burden and support strategic sustainability efforts within SMEs.

Q37. FOR USERS ONLY: Appendix C of VSME ED reflects the SFDR, Benchmark, Pillar 3 datapoints in VSME ED. This is to support particularly banks and investor to compare the data between SMEs and larger clients and to allow for aggregation. Is Appendix C clear?

Yes/No/Please explain your answer.

Q38. FOR USERS ONLY: Do you think that the ability of VSME ED to replace the existing ESG questionnaires or other ESG information requests can be further increased, if some datapoints were added to VSME ED?

Yes/No.

IF YES: please explain your answer.

IF NO: Why do you think that the ability of VSME ED to replace the questionnaires cannot be increased?

[select one or more]

- **Sector-specific data is not suitable for a sector-agnostic VSME ED**
- **Data demands that are specific to your relationship with the SME and cannot be standardized** o **In this case: please explain your reasoning.**
- **Other reasons**
 - o **In this case: please explain.**

ESBG supports EFRAG's efforts to develop a single set of disclosures that can accommodate all data requests to SMEs. However, this is a challenging task.

The type and level of detail of ESG data needed by a financial institution is highly dependant on the specific facts and circumstances affecting both the client and the financial institution:

- o The type of lending transaction;
- o The size, sector and location of the borrower, among other factors.

In addition, at this stage there is a great regulatory uncertainty:

- o The main banking regulators are still developing their expectations on how financial institutions should manage sustainability risks from their lending portfolios;
- o Still no clarity on the scope of the value chain and its boundaries for financial institution.

As a general trend, we note that sustainability requests from banks are following a risk-based approach: starting with those counterparties with higher impact. In practice, we observe different degrees of development in these sustainability requests:

- Most advanced entities have in place questionnaires that are populated during the loan granting process.
- Others do not have these questionnaires in place due to the reasons abovementioned.



It is also worth mentioning supervisory expectations are quickly evolving. As such, the current version of questionnaires will also need to evolve in the short and medium term.

Q39. Please provide any further comments not addressed in part 1 or 2 of the questionnaire here:

Q40. If you want to provide additional comments in a document on aspects not covered in the questionnaire, please upload your file here.

Q41. Do you agree with the approach taken by EFRAG on the Value Chain Cap for the following:

SBM-1,SBM-3, IRO-1: for both LSME and VSME EDs the conclusion is that no undue effect expected from ESRs reporting:

Policies, Actions and Targets (PAT): for both LSME and VSME EDs the conclusion is that no undue effect expected from ESRs reporting:

Climate Transition plan (Section 3 Actions - AR 6 and AR11): for both LSME and VSME EDs the conclusion is that no undue effect expected from ESRs reporting:



GHG emissions (E1-2 GHG emissions – Scope 3): for both LSME and VSMEEDs the conclusion is that no undue effect expected from ESRS reporting:

GHG removal (E1-3 GHG removals): No undue effect on LSMEs expected from ESRS reporting. Additional information (not for ESRS reporting but for the implementation of possible specific arrangements) may be needed beyond VSME but is too specific to be covered by VSME ED:

GHG emissions (E1-2 GHG emissions – Scope 3): for both LSME and VSMEEDs the conclusion is that no undue effect expected from ESRS reporting:

Substances of concern and substances of very high concern (E2-2 Substances of concern and substances of very high concern): No undue effect on LSMEs expected from ESRS reporting. Additional information (not for ESRS reporting but for the implementation of possible specific arrangements) may be needed beyond VSME but is too specific to be covered by VSME ED:

Resource inflows (E5-1 Resource inflows): for both LSME and VSME EDs the conclusion is that no undue effect expected from ESRS reporting:



Entity specific disclosures: For both EDs: Perspective 1: Possible trickle-down effect under specific arrangements to allow Set 1 preparers to cover material sector and/or to disclose entity-specific information including value chain. Perspective 2: not applicable, as the datapoint cannot be defined (due to entity-specific nature of the disclosure):

Q42. Do you have any other comment on value chain?



About ESBG (European Savings and Retail Banking Group)

ESBG is an association that represents the locally focused European banking sector, helping savings and retail banks in 17 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 871 banks, which together employ 610,000 people driven to innovate at 41,000 outlets. ESBG members have total assets of €6.38 trillion, provide €3.6 trillion loans to non-banks, and serve 163 million Europeans seeking retail banking services.

Our transparency ID is 8765978796-80.



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Published by ESBG. May 2024