

EFRAG

Attn: Mr. Hans Buysse
President of the EFRAG Administrative Board
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Our ref: DASB commentletter VSME LSME
Direct dial: Tel.: (+31) (0)88 4960391
Date: Hoofddorp, May 21st 2024
Re: DASB commentletter on the ED for VSME and LSME

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Dear Hans,

The Dutch Accounting Standards Board (DASB) welcomes the opportunity to respond to the exposure drafts for the European Sustainability Reporting Standards (ESRS) for SMEs (hereafter: VSME) and ESRS for listed SMEs (hereafter: LSME) published by EFRAG for public consultation on January 22, 2024. The DASB believes that the use of sustainability reporting standards by SMEs can contribute to accelerating the transition to a sustainable economy. The DASB supports the development of proportionate sustainability reporting standards for SMEs that ensure high quality, consistent and comparable reporting.

We value and appreciate the enormous amount of work done by EFRAG. Compared to the (first set of) ESRS, these draft VSME and LSME are in general more accessible and suitable for the wide variety of SMEs. This largely due to the modular build up in the VSME, the language used and the limitation in reporting requirements in VSME and LSME.

The DASB requested its Working Group Sustainability Reporting (hereafter WG) to review the draft VSME and LSME and prepare a reaction to the online survey. The WG consists of sustainability experts and is diverse in composition representing reporting entities, auditors, investors, as well as a wide range of users and stakeholders (e.g., academics, trade unions and NGOs). This letter contains three general observations and suggestions for improvement to stimulate the successful implementation of the VSME and LSME; for our detailed comments we refer to the online survey.

1. Further simplification of ESRS, VSME and LSME desirable

We note that “SME” is a collective term used to describe a very diverse group of companies. The aim of VSME (and LSME) is to support the entire SME sector from micro to medium-sized undertakings. Despite the efforts to simplify the ESRS, the DASB believes that further simplification for especially micro and smaller SMEs is needed, as well as more support to be able to properly understand and apply the VSME.

We consider the language in VSME to be too technical, legal, and complex for the average SME. This is expected to hinder the SME-sector in understanding and applying the standards without external support. The DASB understands that the German Sustainability Code is simplifying the ESRS by translating it into layman’s terms while retaining the original text for reference. The DASB requests that EFRAG explore whether this approach could also be applied to the VSME (ideally by EFRAG itself).

The current draft of the VSME is expected to be considered too difficult, especially with new topics such as environmental reporting points. For example: what is scope 1, 2, 3 or what does a transition plan look like. The DASB advises to make the VSME (better) applicable by removing the references to other ESRS made in the text, simplify wording, adding examples, adjusting the structure to make it more readable and user friendly and supplementing the VSME with a fill-in form to provide the SME's with practical assistance to comply with the standard.

Also, for the LSME the readability is still experienced to be too complex, because the information required is not logically grouped, which increases the risk of reducing quality of reporting. In the LSME the requirements for reporting on plans, actions and objectives are centered in one section, while three separate sections (E / S / G) are needed to define the KPIs. Regarding reporting on a material topic, one must look in at least in two places for the information to be reported. The DASB suggests to adjust the structure of the LSME and make it more comparable to the structure of (the first set of full) ESRS.

2. Value chain cap is necessary, but current cap too high for an average SME

The VSME aims to help non-listed SMEs to respond in an efficient and proportionate manner to requests for sustainability information they receive from business relations. Furthermore, the proposed value chain cap should maximize the burden of sustainability information requests an SME receives from business partners (large companies). The LSME is indeed designated to include such a value chain cap. However, the content of the LSME is significantly more substantive than the content of the VSME. And already this VSME will most likely be very difficult for the average SME. The DASB foresees that in practice, queries from large reporting value chain partners will be based on the LSME content, while almost all SMEs will fall under the VSME and will therefore probably receive many (too) difficult queries.

The DASB believes market acceptance of the VSME will largely depend on the support from the legislator and EFRAG emphasizing that for value chain information the maximum content of the VSME is (for the time being) sufficient to meet the sustainability reporting requirements of the CSRD. Alternatively, the DASB suggests EFRAG to stimulate the use of proxies and estimates by large reporting undertakings, in order to limit their queries for (the smaller) SMEs.

3. Practical questions arising from ESRS for VSME and LSME

For the DASB it is unclear what a listed (public interest) small or medium sized entity must do if reporting requirements that must be reported on the basis of the double materiality analysis are unclear and missing in the LSME. Does the entity then fall back on the full (first) set of ESRS or may it itself determine the appropriate bases and definitions for the topics, when there is no specific reporting requirement? We believe, based also on our experience with specific standards for small-sized companies, that it is preferable that EFRAG includes a statement that companies are strongly recommended to use the requirements of the ESRS set 1 but not required to comply with all aspects of the ESRS set 1.

The DASB is in favor of the modular buildup of VSME. However, for most SMEs a materiality analysis and stakeholder analysis will be a too complex, time-consuming and expensive exercise. Notably, for two of the three modules, such a materiality analysis is

required in order to determine the topics that must be reported. We believe appropriate practical support is needed for SMEs. For example, in the area of the materiality analysis, it would be helpful to give guidance that the DMA may be less extensive than under ESRS, and for example allowing to a large extent the use of sector-based materiality analysis, or sector-based guidance on material topics from EFRAG. Furthermore, the collection of (verifiable) data is experienced as difficult. The DASB urges to develop tools to support data collection for SMEs.

Furthermore, we still do not understand why a listed SME, would not be able to apply the LSME standard to prepare a consolidated sustainability report. We understood that EFRAG believes this would not be possible under the CSRD. If this would be the case, we strongly urge EFRAG to liaise with the commission to allow the use of the LSME also for such reports. Most listed SMEs will have subsidiaries and also prepare a consolidated financial report; as a result it would be completely counterintuitive if they would not be allowed to use the LSME for their consolidated report, while for example the VSME does facilitate consolidated reporting. It also impacts the connectivity between the sustainability information and the consolidated financial report.

Final remarks

Sustainability information of the material elements of the value chain is necessary for the transition towards a more sustainable Europe. This indicates significant information will be required from the material elements of the value chain. SMEs may face a significant reporting burden although the CSRD intends that non-listed SMEs are not required but can voluntary report (VSME), and listed SMEs should report in a proportionate and relevant to the scale and complexity of the activities (LSME), and to the capacities and characteristics of the SMEs. The draft VSME and LSME are indeed less detailed than the (full first set of) ESRS and are in general easier to read and understand and are useful steps to reduce the reporting burden on SMEs. This could be further improved by facilitating the use of approximations and extrapolations for large entities falling under the scope of the CSRD. By doing so, these large entities would need to collect less value chain information from the supply chain. This approach could streamline reporting requirements and reduce administrative load for SME's.

Our feedback is meant to help to design the VSME and LSME standards in such a way that application will imply the sustainability information in annual reports to be relevant, comparable, and reliable for all stakeholders. We trust that our concerns will be considered in the finalization of the VSME and LSME.

Please feel free to contact us if you wish to discuss the contents of this letter.

On behalf of the DASB and Olga Smirnova and Simon Braaksma as co-chairs of the DASB WG Sustainability Reporting.

Yours sincerely,

G.M. van Santen Chairman of the Dutch Accounting Standards Board