

Exposure Draft ESRS for listed SMEs (ESRS LSME ED) & Exposure Draft for the voluntary reporting standard for non-listed SMEs (VSME ED)

Host: FEBA at Sofia University

Partners: KBC Bulgaria JSC, 168 Chasa national media group

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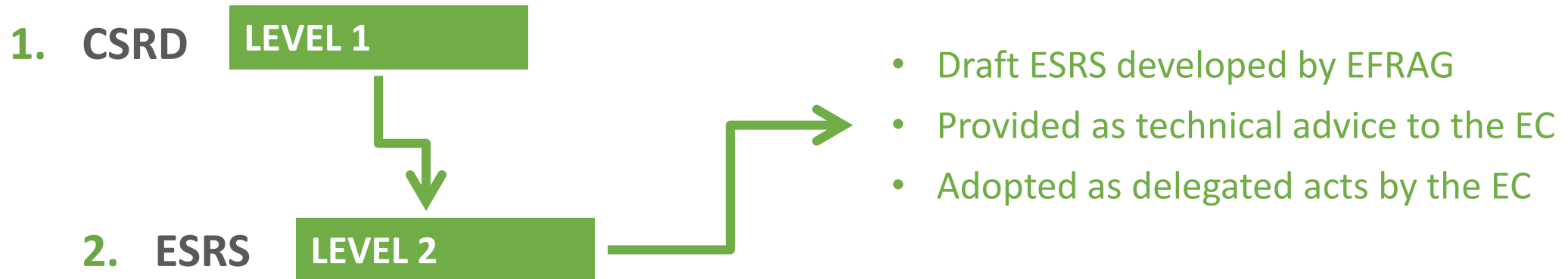
1. 14:30 – 15:00, Presentation on LSMEs (EFRAG) - *Dimitris Katsagounos, EFRAG SR Technical manager*
2. 16:00 – 16:30, Presentation on VSMEs (EFRAG) - *Mathias Mingazzini, EFRAG SR Technical manager*



Intro: EFRAG's workstream and timeline for SMEs 2024

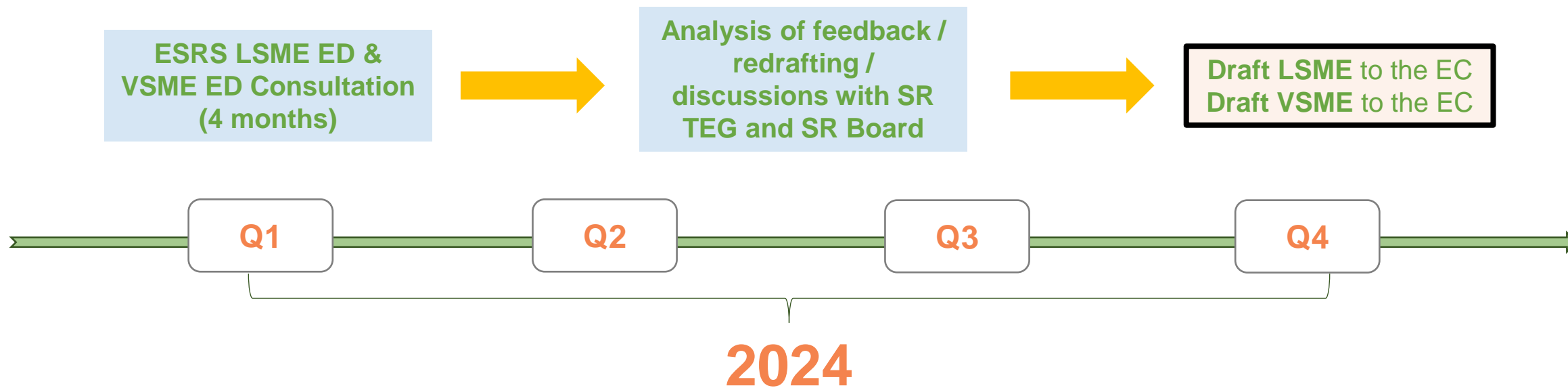
Sustainability reporting in the EU

- A robust mandatory legal regime of sustainability reporting under double materiality



- Firstly, sector agnostic, then sector specific

Overview of EFRAG's workstream for SMEs 2024





1. LSME overview

ESRS for listed SMEs - LSME

- Part of EFRAG mandate in CSRD, delegated act, effective 01/01/26 (two-year opt out)
- **Public-interest relevance for entities in scope (see scope of LSME in next slide)**
- To set requirements proportionate and relevant to the scale and complexity of the activities and to the capacities and characteristics of LSMEs.
- Expected to support LSMEs in better access to finance and avoid discrimination against them on the part of financial market participants

Which undertakings apply ESRS LSME?

The scope is set by the European Commission and can be found [here](#), however, they are provided in short below:

1. **SMEs with shares, bonds and other securities traded in regulated market in the EU** (as defined in point (a) of point (1) of Article 2 of the Accounting Directive N. 2013/34);
2. **small and non-complex institutions** defined in point 145 of Article 4(1) of Regulation (EU) No 575/2013; and
3. **captive insurance and reinsurance undertakings** defined in point (2) of Article 13 of Directive 2009/138/EC of the European Parliament and of the Council.

WHAT ARE THE CRITERIA FOR SMALL / MEDIUM COMPANIES?

For item 1) above, these are the amended size criteria “Accounting Directive” (see the EC’s adjustments [here](#)):

Small undertakings shall be undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria:

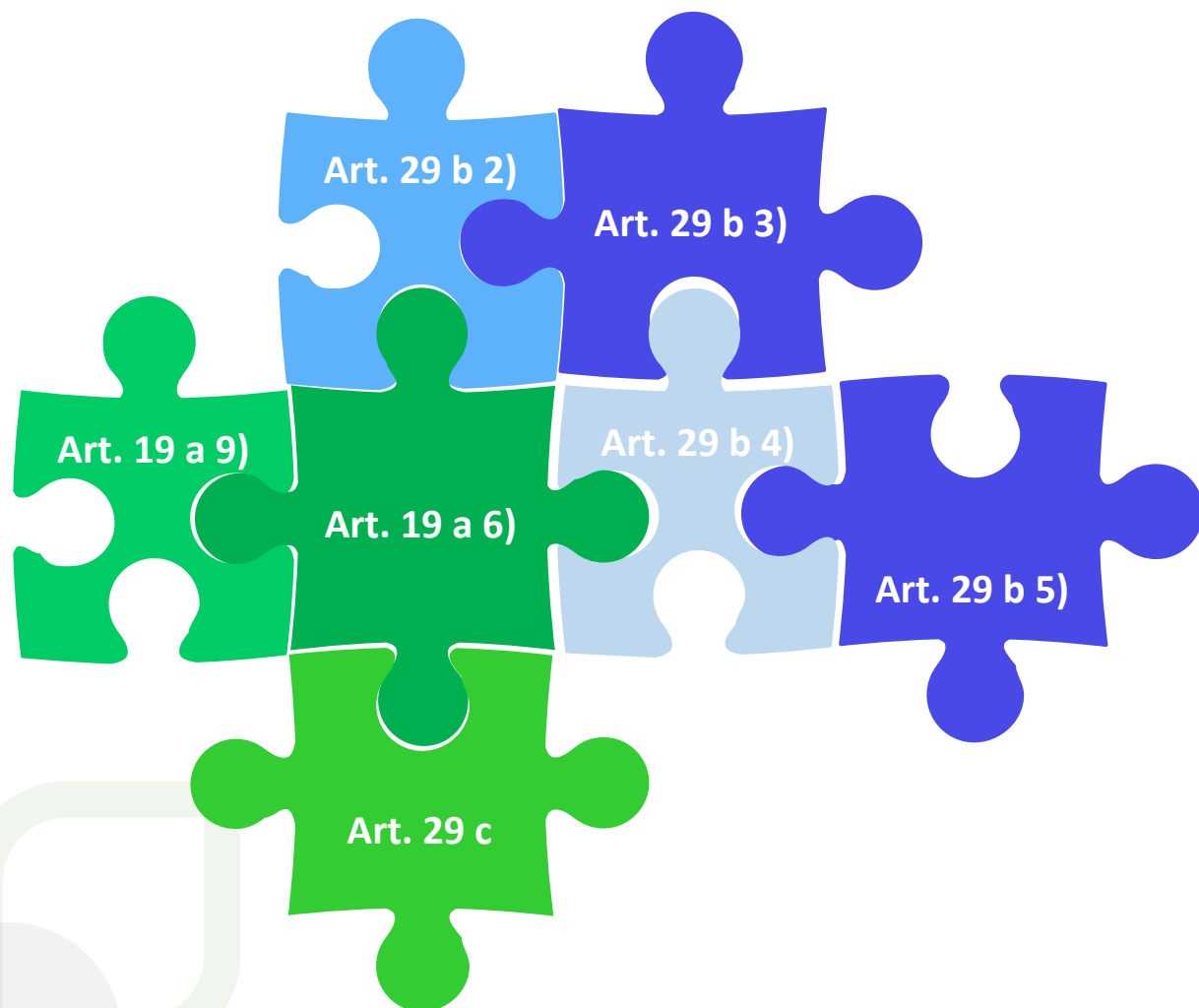
- a) *balance sheet total: EUR 5 000 000;*
- b) *net turnover: EUR 10 000 000; and*
- c) *average number of employees during the financial year: 50.*

Medium-sized undertakings shall be undertakings which are not micro-undertakings or small undertakings and which on their balance sheet dates do not exceed the limits of at least two of the three following criteria:

- a) *balance sheet total: EUR 25 000 000;*
- b) *net turnover: EUR 50 000 000; and*
- c) *average number of employees during the financial year: 250.*

CSRD PROVISION FOR LSME - OVERVIEW

There are several articles in CSRD that define the scope and the content of LSME.



Public accountability perspective

- LSME is expected to support the availability of ESG information of listed SMEs, to avoid discrimination against such entities on the part of financial market participants.
- LSME is expected to ensure the availability of SFDR PAI and Taxonomy disclosures.

DEROGATION FOR LSME

LSME SCOPE AND CONTENT FRAME

ARTICLE 19a (6)

As derogation to art 19a(1), the article specifies the reporting content of LSME ESRS to include :

- a brief description of the undertaking’s business model and strategy;
- a description of the undertaking’s policies in relation to sustainability matters;
- the principal actual or potential adverse impacts of the undertaking on sustainability matters, and any actions taken to identify, monitor, prevent, mitigate or remediate such actual or potential adverse impacts;
- the principal risks to the undertaking related to sustainability matters and how the undertaking manages those risks;
- key indicators necessary for the disclosures referred to in points (a) to (d).

PROPORTIONALITY - ARTICLE 29c

Establishes on sustainability reporting standards for SMEs that LSME shall *be proportionate and relevant to the scale and complexity of the activities, and to the capacities and characteristics of small and medium-sized undertakings*. In terms of content, it refers to art 19a (6) and to the criteria in Article 29b, paragraphs 2, 3 ,4 and 5. It requires the standards to specify, to the extent possible, the structure in which that information shall be reported. The Commission shall adopt those delegated acts at the latest by 30 June 2024.

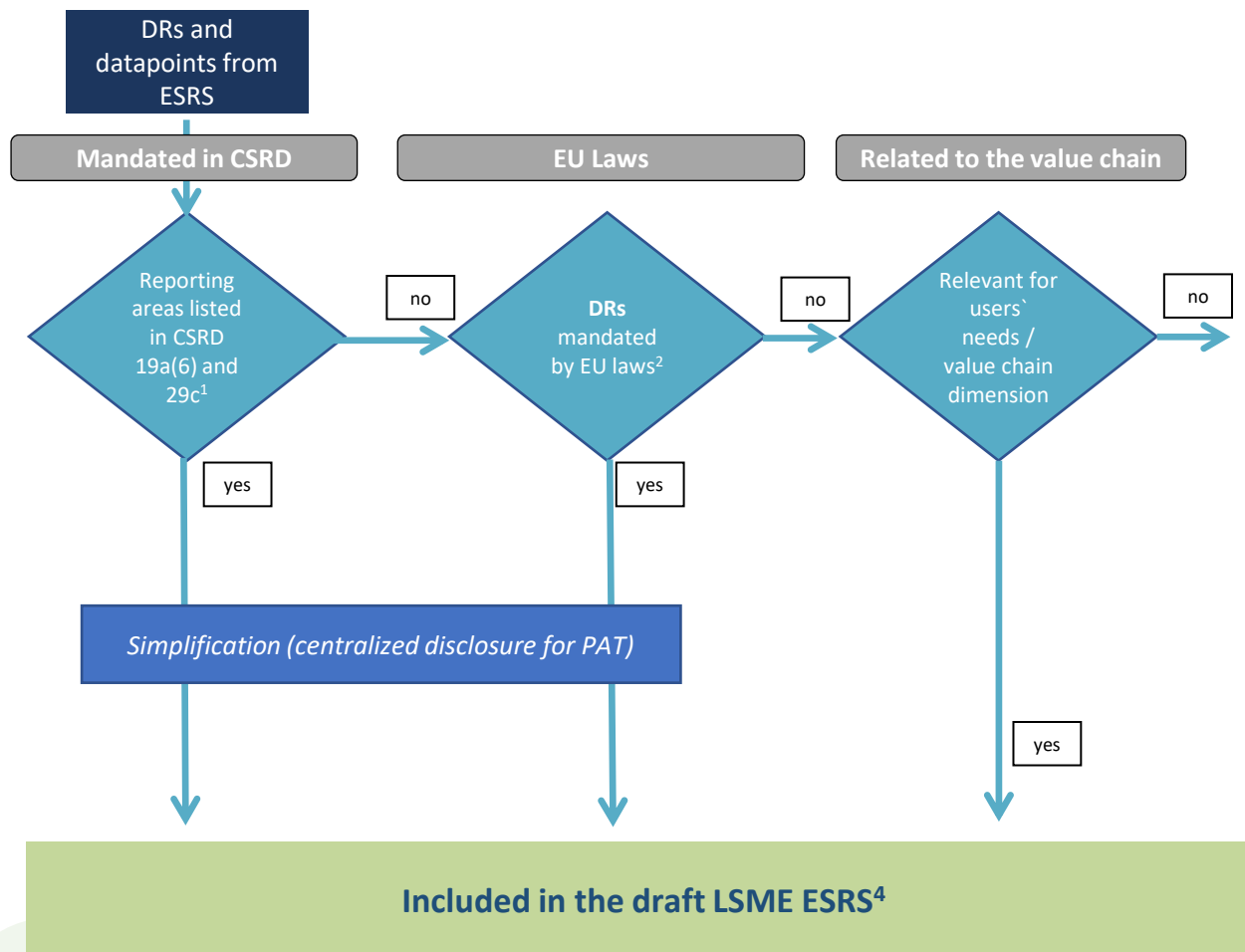
Which are the undertakings that have to apply the individual reporting concept in LSME?*

- All those undertakings that fall in the LSME scope and that prepare an LSME report should follow the concept of the **individual reporting**.
- Exception to this concept: listed SMEs are exempted from carrying out individual sustainability reports if they are included in the consolidated management report of a parent company that has carried out a consolidated sustainability report
- Note: If an LSME is a parent undertaking of a large group, then it has to report in accordance with the ESRS for large undertakings (Set 1)
- EFRAG adaptation for addressing this concept of individual reporting:

Subsidiaries are included in this individual LSME report as part of business relationships through value chain dimension.

*Article 19a(9) in the CSRD

DECISION TREE



IFRS S1 and S2 alignment

Priority given to simplification over alignment, as CSRD does not indicate to cover financial opportunities.

However, no significant reduction of aligned datapoints compared to Set 1: degree of alignment with IFRS still high

Note 1: Art. 29c refers to the criteria set out in Art. 29b point 2 to 5

Note 2: EU laws limited to SFDR, Pillar 3, benchmark regulation, climate law and Taxonomy Regulation art. 8

Note 3: ESRS Set 1 has been deeply scrutinised during the drafting of LSME, to achieve the maximum level of simplification, while providing a reporting that is able to meet the needs of LSME investors. As a second step, the resulting potential losses of information in the value chain dimension of Set 1 preparers have been considered

Note 4: VSME ED has considered also EFRAG PTF cluster 8 proposal as a possible minimum content

KEY SIMPLIFICATIONS – ARCHITECTURE

- voluntary nature of positive impacts and opportunities.
- ‘report if you have’ approach (to better differentiate from “voluntary” DRs; i.e. opportunities and positive impacts):
 - climate transition plan;
 - targets;
 - due diligence (requirement limited to SFDR PAI ‘lack of due diligence’);
 - stakeholder engagement;
 - processes to engage with affected stakeholders; and
 - processes to remediate negative impacts and channels.
- simplified architecture, one standalone Standard
- more voluntary Disclosure requirements (from “shall” in Set 1 to “may” in LSME)

ONE STANDALONE STANDARD: SIX SECTIONS

LSME

GENERAL SECTIONS

SECTION 1

General requirements

- Objective and scope
- Structure
- General requirements (concepts, materiality, etc.)

SECTION 2

General disclosures

- Basis for preparation
- GOV, SBM, IR
- Centralised disclosure for IR-1 and SBM-3: in AR topic specific requirements

SECTION 3

Policies, actions and targets

- Centralised PAT, in the main part only topic agnostic DRs
- In ARs topic specific requirements

TOPICAL SECTIONS (only metrics)

SECTION 4

Environment

SECTION 5

Social


SECTION 6

Business conduct

ACRONYMS AND GLOSSARY OF TERMS

LSME DATAPPOINTS REDUCTION: ESTIMATION

	SHALL	MAY			REPORT IF YOU HAVE / IF APPLICABLE
		From "Shall" to "May"	MAY in Set 1	Total	
Set 1*	823	-	279	279	-
LSME	466	81	110	191	32
Reduction "nr."	-357	-	-147	-66	-
Reduction "%"	-43%	-	-57%	-26%	-47%



- 47%
if we consider the simplification of "report if you have" and "if applicable" components

* based on [Draft] EFRAG IG 3: List of ESRS datapoints

Section 1 – General requirements

1. Categories of disclosures, reporting areas and drafting conventions
2. Qualitative characteristics of information
3. Double materiality as the basis for sustainability disclosures
4. Value chain
5. Time horizons
6. Preparation and presentation of sustainability information
7. Structure of the sustainability statement
8. Linkages with other parts of corporate reporting and connected information
9. Transitional provisions

*Topic specific IROs and SBMs are centralised in this section

Section 2 – General disclosures

- (BP-1) – General basis for preparation of the sustainability statements
- (BP-2) – Disclosures in relation to specific circumstances
- (GOV-1) – The role of the administrative, management and supervisory bodies
- (GOV-2) – Due diligence
- (SBM-1) – Strategy, business model and value chain
- (SBM-2) – Interests and views of stakeholders
- (SMB-3) – Material impacts and risks and their interaction with strategy and business model*
- (SBM-4) – Positive impacts and material opportunities (Voluntary)
- (IR-1) – Processes to identify and assess material impacts and risks*
- (IR-2) – Disclosure Requirements in ESRS LSME covered by the undertaking's sustainability statement

Section 3 – Policies, Actions and Targets

(IR-3) – Policies and actions in relation to sustainability matters*

(IR-4) – Targets in relation to sustainability matters*

Section 4 – Environment

E1-1 – Energy consumption and mix

E1-2 – Gross Scopes 1, 2, 3 and Total GHG emissions

E1-3 – GHG removals and GHG mitigation projects financed through carbon credits

E1-4 – Anticipated financial effects from material physical and transition risks and potential climate-related opportunities

E2-1 – Pollution of air, water and soil

E2-2 – Substances of concern and substances of very high concern

E3-1 – Water consumption

E4-1 – Impact metrics related to biodiversity and ecosystems change

E5-1 – Resource inflows

E5-2 – Resource outflows

*Topic specific requirements for Policies, Actions and Targets are centralised in this section including Climate Transition plan, Processes to engage and Processes to remediate from Social disclosures

Section 5 – Social

S1-1 – Characteristics of the undertaking’s employees

S1-2 – Characteristics of non-employees in the undertaking’s own workforce

S1-3 – Collective bargaining coverage

S1-4 – Adequate wages

S1-5 – Social protection

S1-6 – Training metrics

S1-7 – Health and safety metrics

S1-8 – Remuneration metrics (pay gap and total remuneration)

S1-9 – Incidents and severe human rights impacts

S1-10 – Diversity metrics

S1-11 – Work-life balance metrics (Voluntary)

Section 6 – Business conduct

G1-1 – Management of relationships with suppliers

G1-2 – Anti-corruption and anti-bribery

G1-3 – Political influence and lobbying activities



2. VSME Overview

➤ Not legally binding – outside CSRD- but to fulfill market needs.

➤ **Proportionality** = simplified language + modularity + overall ESRS consistency

➤ Scope: Non-listed Micro and SMEs in EU

99.8% of total
EU companies

➤ Why a voluntary standard for SMEs?

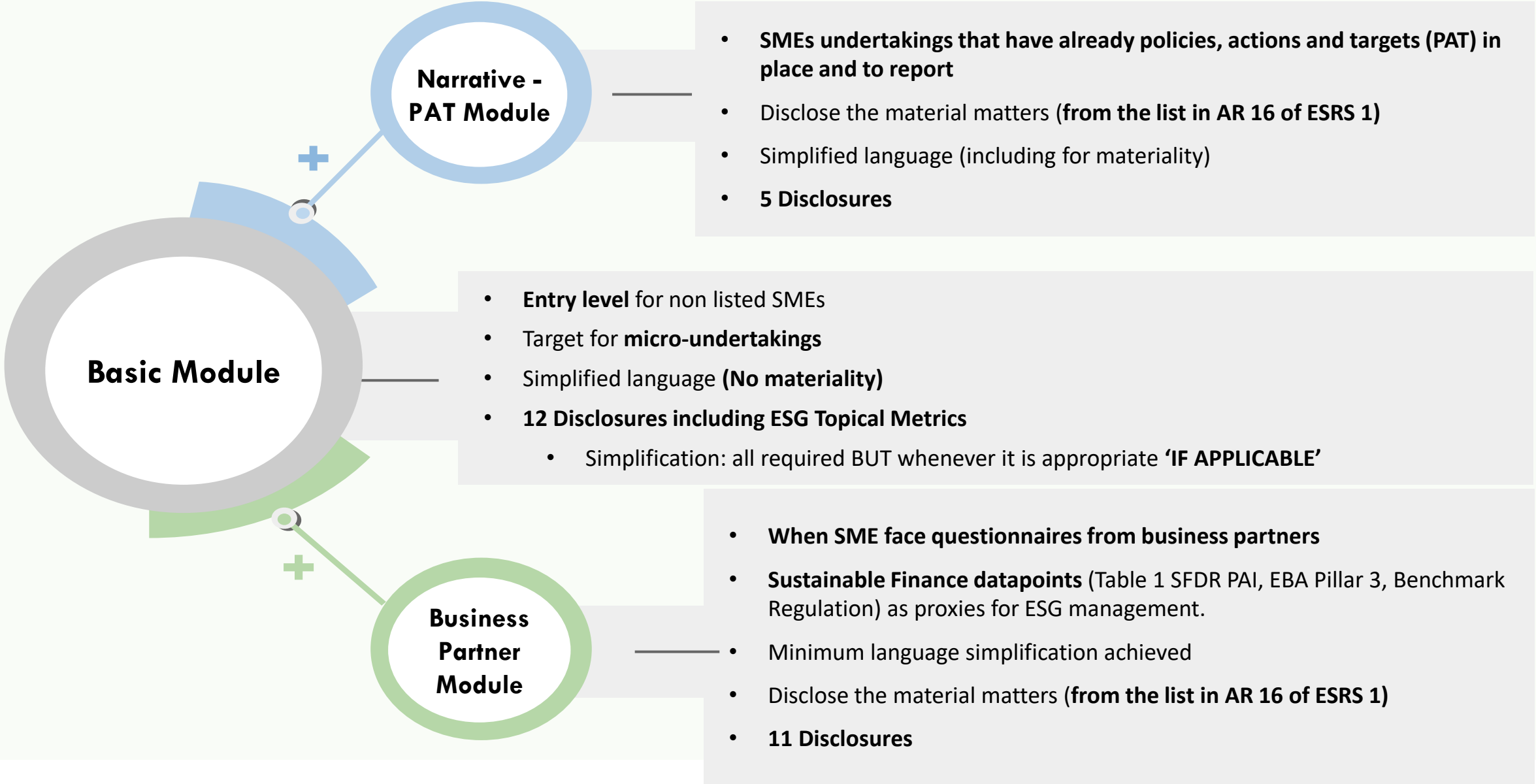
- i. [EC Q&A Delegated Acts ESRS in July 2023](#): “*EFRAG is developing simpler, voluntary standards for use by non-listed SMEs [...] to respond to requests for sustainability information in an efficient and proportionate manner, and so facilitate their participation in the transition to a sustainable economy.*”
- ii. [EC SME Relief Package of September 2023](#) refers to VSME as a measure to support SMEs in accessing sustainable finance.

➤ Commitment of market participants (larger corporates and banks) essential for the success of the standard

OBJECTIVES OF THE VOLUNTARY STANDARD

- 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 – supply chain dimension**) 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.

MODULAR APPROACH TO MAXIMISE PROPORTIONALITY



General approach: VSME is a standalone document to provide a simple reporting guidance for SMEs that are outside the scope of CSRD.

CSRD Scope: The CSRD however provides certain indications for non-listed small and medium companies (Art 29b4, Recital 21, Recital 22). With reference to Recital 21 above, EFRAG considered whether the non-listed SME should also apply LSME ESRS ED, resulting in a single standard for SMEs. The EFRAG SR TEG and EFRAG SRB considered that the level of simplification and proportionality of a voluntary standard suited for use by micro and small undertakings would be irreconcilable with the minimum disclosures needed by investors.

Building Block and methodology of SR TEG and SR Board:

- Ensure conceptual coherence with the ESRS Set 1 and ESRS LSME ED
- Appropriate proportionality
- Focus on the users' needs

Terminology:

- Simplified language in VSME, especially in the Basic Module, without impairing the coherence with LSME.
- Appropriate explanations on the disclosures of the Basic and Business Partners Module have been included in the Guidance sections for both modules.

Consolidated perspective: VSME ED recommends the undertaking to prepare its sustainability report on a consolidated basis, if it is a parent company of a group, in order to include the information of its subsidiaries.

Entity Specific information: VSME ED refers to inclusion of additional information, depending on the type of activities it carries out (sectors).

EFRAG TRANSPARENT AND INCLUSIVE DUE PROCESS

EFRAG SME Communities

- Group of experts participating in surveys and workshops with EFRAG Secretariat (closed meetings)

Outreach and workshops with SMEs associations and users of their information

- Questionnaire-based, to collect feedback on the content of the 3 modules head of consultation

Benchmarking

- German Sustainability Code, Nordic Sustainability Reporting Standards and the CDP Climate, disclosure for SMEs
- Business Partners questionnaires
- Cluster 8 EFRAG PTF ESRS

EFRAG SR TEG

- Group of experts advising the EFRAG SR Board, multistakeholder composition, 4 meetings per month in 2023, public meetings. EC observer.

EFRAG SRB

- Group of stakeholders' representatives, multistakeholder composition, 2 meetings per month in 2023, public meetings. EC observer.

VSME Exposure Draft for public consultation

- EFRAG Secretariat **analysed 12 real life examples of ESG questionnaires** which included:
 - 2 national central banks
 - 4 national federations
 - 1 national credit information provider
 - 1 national bank
 - 1 rating agency (used by more than 100,000 companies)
 - 3 mixed banks and supply chain (international initiatives) questionnaires.
- These questionnaires cover around 26,000 SMEs and are part of initiatives that comprise approximately 700 banks and 450 companies in the value chain.
- Please note that some of these questionnaires are international initiatives, thus have an international scope.
- On this basis, EFRAG secretariat has identified the following recurrences of DRs in VSME ED in the existing questionnaires (see next slides).

BASIC MODULE	CONTENT (Certain part of the text have been excluded to shorten the text)	Number of questionnaires in which it is asked
Disclosure B 1 – Basis for Preparation	<p>The undertaking shall disclose:</p> <ul style="list-style-type: none"> - Which of the following options it has selected in the preparation of its sustainability report (...) - Whether the sustainability report has been prepared on a consolidated (...) or individual basis (..) - The list of subsidiaries including their registered address covered in the consolidated sustainability report 	-
Disclosure B 2 – Practices for transitioning towards a more sustainable economy	<p>The undertaking may briefly describe specific practices for transitioning towards a more sustainable economy, in case it has them in place. (...)</p>	-

BASIC MODULE	CONTENT (Certain part of the text have been excluded to shorten the text)	Number of questionnaires in which it is asked
B 3 – Energy and greenhouse gas emissions	<p>The undertaking shall disclose its total energy consumption in MWh, with a breakdown between:</p> <ul style="list-style-type: none"> - fossil fuels; and - Electricity as reflected in utility billings, along with a breakdown between renewable and non-renewable sources if available. <p>The undertaking shall disclose :</p> <ul style="list-style-type: none"> - the Scope 1 GHG emissions in tCO₂-eq (from owned or controlled sources); - the location-based Scope 2 emissions in tCO₂-eq (emissions from the generation of purchased energy). 	<p>12</p>
B 4 – Pollution of air, water and soil	<p>The undertaking shall disclose, if applicable, :</p> <ul style="list-style-type: none"> - the pollutants (with respective amounts) it emits in its own operations to air, water and soil that it is required to report by law to competent authorities (...) or that it already reports according to an Environmental Management System such as EMAS. (...) 	<p>7</p>

BASIC MODULE	CONTENT (Certain part of the text have been excluded to shorten the text)	Number of questionnaires in which it is asked
B 5 – Biodiversity	<p>The undertaking shall disclose, if applicable, :</p> <ul style="list-style-type: none"> - the number and area (in hectares) of sites that it owns, that it has leased or that it manages, that are located in or near biodiversity sensitive areas. <p>The undertaking may disclose:</p> <ul style="list-style-type: none"> - metrics related to land use change such as total use of land; total sealed area; total nature-oriented area on site; and total nature-oriented area off site. 	<p>4</p>
B 6 – Water	<p>The undertaking shall disclose:</p> <ul style="list-style-type: none"> - total water withdrawal (...) <p>If applicable, the undertaking shall disclose:</p> <ul style="list-style-type: none"> - its water consumption (...) 	<p>9</p>
B 7 – Resource use, circular economy, and waste management	<p>If the undertaking operates, manufacturing, construction and/or packaging processes:</p> <ul style="list-style-type: none"> - The recycled content in the products (goods and materials) and their packaging produced by the undertaking - Rates of recyclable content in the products and <p>The disclosure shall include:</p> <ul style="list-style-type: none"> - Total annual waste generation - Total annual waste diverted to recycle or reuse 	<p>9</p>

BASIC MODULE	CONTENT (Certain part of the text have been excluded to shorten the text)	Number of questionnaires in which it is asked
B 8 – Workforce – General characteristics	<p>The undertaking shall disclose the total number of employees in full-time equivalents or provide a headcount of such employees broken down by:</p> <ul style="list-style-type: none"> - type of employment contract (temporary and permanent); - gender; and - country, if applicable. 	8
B 9 – Workforce - Health and Safety	<p>The undertaking shall disclose:</p> <ul style="list-style-type: none"> - number and rate of recordable work-related accidents - the number of fatalities (...) 	3
B 10 – Workforce – Remuneration, collective bargaining, and training	<p>The undertaking shall disclose:</p> <ul style="list-style-type: none"> - the relevant ratio of the entry level wage to the minimum wage - the percentage gap in pay between its female and male employees. (...) - the percentage of employees covered by collective bargaining agreements - the average number of training hours per employee and by gender (...) 	7

BASIC MODULE	CONTENT (Certain part of the text have been excluded to shorten the text)	Number of questionnaires in which it is asked
B 11 – Workers in the value chain, affected communities, consumers and end-users	<p>The undertaking <u>may</u> disclose:</p> <ul style="list-style-type: none"> - whether it has a process to identify if there are value chain workers, affected communities, and consumers and end-users who are or are likely to be affected by severe negative impacts in relation to the undertaking’s operations (i.e. its products, services and activities) and if so, describe such process. If they were identified, the undertaking may describe the types of impacts (...). 	-
B 12 – Convictions and fines for corruption and bribery	<p>In case of convictions and fines in the reporting period, the undertaking shall disclose:</p> <ul style="list-style-type: none"> - the number of convictions and the total amount of fines incurred for the violation of anti- corruption and anti-bribery laws. 	4

NARRATIVE-PAT MODULE	Number of questionnaires in which it is asked
Disclosure N 1 – Strategy: business model and sustainability related initiatives	10
Disclosure N 2 – Material sustainability matters	Not applicable
Disclosure N 3 – Management of material sustainability matters Paragraph 61: Actions taken in the reporting period to improve its energy efficiency and to reduce its greenhouse gas emissions	7
Paragraph 62: Policies, actions and targets in relation to (i) workers in the value chain; and/or (ii) consumers and end users; and/or (iii) affected communities	3
Paragraph 64: Actions taken to address breaches in procedures and standards of anticorruption and anti-bribery.	8
Disclosure N 4 – Key stakeholders	7
Disclosure N 5 – Governance: responsibilities in relation to sustainability matters	7

Business Partners Module	Number of questionnaires in which it is asked
Disclosure BP 1 – Revenues from certain sectors	5
Disclosure BP 2 – Gender diversity ratio in governance body	6
Disclosure BP 3 – GHG emissions reduction target	7
Disclosure BP 4 – Transition plan for climate change mitigation	7
Disclosure BP 5 –Physical Risks from climate change	9
Disclosure BP 6 – Hazardous waste and/or radioactive waste ratio	4
Disclosure BP 7 – Alignment with internationally recognized instruments	6
Disclosure BP 8 – Processes to monitor compliance and mechanisms to address violations	5
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)	3
Disclosure BP 10 – Work-life balance	1
Disclosure BP 11 – Number of apprentices	3



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