

EFAA for SMEs Position on the Reduction of Regulatory Burdens and the Promotion of Sustainable Growth for SMEs

Introduction

EFAA for SMEs welcomes the “**Communication from the Commission: A Competitiveness Compass for the EU**” (29 January 2025) which emphasises the need to reduce regulatory burdens and enhance the competitiveness of small and medium-sized enterprises (SMEs).

EFAA for SMEs advocates for an official and legal recognition of the **VSME standard** as the **maximum level of regulatory requirement** that can be imposed on or requested from non-listed SMEs in the value chain.

EFAA for SMEs reminds that small and medium-sized practitioners (SMPs), which also are SMEs and often are the main and trusted SME advisors, are instrumental in enhancing the competitiveness of EU. The VSME standard can significantly enhance the ability of SMEs and SMPs to provide sustainability reporting information. EFAA sees competitiveness and sustainability as complementary. Sustainability can be a source of competitive advantage for the EU. The EU can gain first mover advantage by being the first region to fully embrace sustainability.

The recommended actions below will help realize significant regulatory simplification and sustainability.

1. Recommended Actions at the EU Level

- **Endorse the VSME standard** as the maximum level of sustainability information that SMEs operating in the value chain can be requested to provide, while recognizing that the ESRS VSME will always be for voluntary use only. By establishing clear, proportionate and simplified requirements based on the size, complexity and sector of the SME, the VSME will guarantee that SMEs are not subject in practice to excessive burdensome requests.
 - **Enforce the VSME as CAP** to ensure its uniform application across all Member States. Harmonising reporting and compliance requirements for SMEs across member states will contribute to avoid duplication and inefficiencies, it will ensure legal certainty and a level playing field for all SMEs.
 - **Apply rigorously the one-in-one-out principle** not only for any new proposal affecting SMEs, but also while assessing current rules and during the entire decision-making procedure. This is essential to achieve simplification and codification of only needed legislation. Indeed, one could go further and seek a one-in-two out principle where possible.
 - **Clarify** that SMEs are not required to provide **all or full** sustainability information annually, but only when there have been significant changes. This will keep SMEs aligned with the needs of investors and financial actors while leveraging their capacity to contribute to the green transition.
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2. Recommended Actions at National Level

- Ensure that also national public authorities implement and enforce the use of the ESRS VSME standard within their jurisdictions, align national regulations accordingly and without introducing any additional burden or unnecessary requirement.
- Promote and develop joint training and dissemination programs involving SMPs and their national organizations to increase awareness and understanding of the VSME standard and other regulation.

- Establish continuous feedback mechanisms between SMEs, SMPs, their organisations and all the stakeholders to address regulatory challenges and identify areas for improvement. Provide continuous training and guidance on the latest regulatory developments and strategic opportunities for SMEs.
 - Encourage collaboration between organisations representing SMPs/SMEs to share best practices in order to facilitate SME compliance.
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3. Additional Sustainability Actions and Monitoring Results

- Encourage the development of EU-wide incentive programs promoting and supporting the adoption of sustainable business practices by SMEs.
 - Promote collaboration between large corporations and SMEs within the value chain to foster sustainable practices, while respecting the VSME cap on compliance.
 - Support EFRAG and promote the developed simplified sustainability guidelines which are tailored to the specific challenges of small businesses, with advisory support from SMPs.
 - Develop mechanisms to follow-up and to monitor the implementation of the VSME standard. Such mechanisms could focus on measurable and comparable results such as the reduction of compliance burdens and costs, as well as the benefits the use of the VSME has brought to SMEs and the local economy.
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4. Incentives for the Sustainability and Digital Transition

- Facilitate and encourage the digital and sustainability transition of SMEs by reducing processing times and administrative costs.
 - Develop key performance indicators (KPIs) to monitor progress in areas such as sustainability, regulatory compliance and digital transformation.
 - Make the monitoring results based on the developed KPI publicly available to promote transparency and encourage continuous improvement.
 - Align European and national tax policies with the objectives of making the European economy in general, and SMEs in particular, capable to innovate, compete and grow. It is essential to ensure the effectiveness of incentives for SMEs making efforts to make the digital and sustainability transition.
 - Corporate reporting (sustainability and financial) should be proportionate to the size of SMEs.
 - Include digital performance indicators in the monitoring reports to assess the effectiveness of digital adoption.
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5. Strengthening the Role of SMPs/SMEs

- Ensure that organisations representing SMPs/SMEs are always involved in consultations and decision-making processes related to SME regulations and support programs.
- Establish partnerships between SMPs/SMEs, national organizations, and EU institutions to support SMEs in navigating complex regulatory landscapes.

Conclusions

1. With these actions, the ESRS VSME can serve as a cornerstone for regulatory compliance, streamlining processes, minimizing unnecessary burdens and enhancing efficiency in regulation and sustainability. To ensure effectiveness, the standard should be given binding and enforceable nature, and the "Think Small First" principle should be at the core of its application
2. To achieve effective simplification, the voice of the organisations representing SMPs is key, as they interact with SMEs daily throughout the regulatory management and monitoring process.
3. Thinking small first must be measured with verifiable figures. We strongly recommend that for any future regulatory proposal a bottom-up approach is followed rather than top down, which, as we have been experienced, does not work for our SMEs.
4. The application of the one-in-one-out principle shall be enforced at every step of the decision-making process.
5. To ensure the successful uptake of the ESRS VSME, the standard should be accompanied by the needed ecosystem, including relevant tools, online platforms, capacity building and guidance.