

Ursula von der Leyen
European Commission
President

Mairead McGuinness
Commissioner for Financial Services, Financial Stability and
Capital Markets Union
European Commission

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Submitted electronically by email

Dear President von der Leyen,
Dear Commissioner McGuinness,

Simplification of Corporate Reporting Requirements

EFAA for SMEs welcomes the EC proposal to simplify reporting requirements as expressed in the speeches by the European Commission (EC) President Ursula von der Leyen and Commissioner Mairead McGuinness (15 March and 21 March 2023) on the simplification of corporate reporting requirements.

About EFAA

The European Federation of Accountants and Auditors for SMEs (EFAA) represents accountants and auditors providing professional services primarily to SMEs both within the European Union and Europe as a whole. Constituents are mainly small practitioners (SMPs), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g., audit, accounting, bookkeeping, tax, and business advice) to SMEs. EFAA currently represents 15 national accounting, auditing, and tax advisor organisations with more than 380,000 individual members. For more information on EFAA please read our [2022 Annual Report](#) and '[EFAA Key Positions and Recommendations](#)' (November 2022).

EFAA has been actively involved in the sustainability area for some time with a primary focus to represent and support SMEs and SMPs. Back in July 2021 we issued a [Call to Action: SMPs Supporting Creation of the Sustainable Economy](#) urging SMPs and their professional accountancy organisations (PAOs) to step up and support sustainable transition. We have contributed to the development of the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS) by raising awareness and stimulating debate via social media and events, through participation on EFRAG project task forces and representation on the EFRAG Sustainability Reporting Board (EDRAG SRB), by providing input to public consultations, and by developing guidance for SMPs. Read more on [our sustainability webpage](#).

General Comments on Simplification

In view of EFAA's position as the voice of small- and medium-sized accountancy practices (SMPs) in Europe, we wish to contribute to the discussion and set out some general comments and follow with some preliminary recommendations. The recommendations are framed as matters for the EC to consider, focus on sustainability reporting and assurance by SMEs, and are by no means exhaustive. In due course we will refine and respond to the anticipated public consultation on the proposals.

EFAA is concerned to ensure that policy, regulation, and professional standards are scalable and **both** proportionate to the capacities of SMPs and their SMEs clients **and** tailored to the needs and characteristics of SMPs and SMEs. We strongly prefer a 'Think Small First' approach, developing straightforward regulation and standards for SMEs and SMPs and then scaling up to suit larger more complex companies and practices.

EFAA's main concern is to ensure that the quantum of corporate reporting obligations imposed on SMEs, spanning financial and sustainability reporting and assurance, is cohesive, clarified, and contained. Any additional new or revised reporting requirements, whether direct or indirect via the value chain, need to be carefully examined using a 'Think Small First' lens. Reporting must not place SMEs at a competitive disadvantage vis-à-vis larger companies nor non-EU companies.

While we welcome the fact that the scope of the CSRD excludes non-listed SMEs, many if not most of these non-listed SMEs essentially get scoped in indirectly. The application of impact materiality by companies required to report means they will 'chase' non-listed SMEs in their value chain for sustainability information so they can meet their own reporting obligations.

Preliminary Recommendations on Simplification

We encourage the EC consider the following:

- Making consistent and rigorous implementation of EU law a higher priority. In the past, for example the most recent Audit Reform, we have seen a smorgasbord of Member State options in legislative proposals that has resulted in a wide diversity of implementation approaches. This diversity can undermine the original intent of the initiative and increases the reporting burden.
- Expedite the development of the SME sustainability reporting standards, especially the voluntary sustainability reporting standard for use by non-listed SMEs (VSME). It is vital that these standards set a cap or limit on what information larger companies can demand of SMEs in their value chain. Similarly, these standards ought to be sufficient for fulfilling information needs of financial institutions investing in or extending credit SMEs.
- The VSME needs to be developed from first principles using a 'Think Small First' approach. We must avoid the VSME being a simplification of the ESRS developed for larger companies falling within the scope of the CSRD. The VSME can also serve to help those SMEs that are motivated to voluntarily report as well as serve as a sustainability performance management tool. The VSME should ideally be drafted using a vernacular that is readily understood by the SME owner-manager and their accounting staff or/and principal advisors (SMPs). This may demand departing from the precise technical language and sentence construction of the ESRS.
- Value chain reporting presents, both for the large companies within scope and the non-listed SMEs within the value chain of these large companies, a significant challenge. We urge the EC to consider various measures that might ease the burden on SMEs, for example: restrict, at least initially, the reporting boundary to Tier 1 suppliers (that is, partners that a company directly conducts business with); phase in disclosure requirements


and the application of impact materiality starting with the most time critical issues such as climate change and biodiversity.

- Independently assess the possible impacts of the ESRs on the various SMEs in the value chain. An impact assessment specifically dedicated to SMEs would make it possible to identify more precisely which modifications would most effectively reduce the reporting burden for SMEs.
- Increase the resources available to EFRAG to ensure it has the necessary independence, and hence free from undue influence from any one stakeholder, and expertise to develop and maintain high quality sustainability reporting standards on a timely basis.
- Increase the representation of SMEs and SMPs on the EFRAG reporting boards and their technical expert groups (TEGs), especially the SR TEG and SRB given their pervasive impact on SMEs and the fact SMEs collectively account for the majority of private sector GDP and ESG ‘footprint.’
- Facilitate and encourage the development of implementation support by EFRAG and others including guidance and technological tools. We are hopeful that high quality affordable technological tools will be made available to help non-listed SMEs voluntarily prepare sustainability reports as well as respond to requests for information from companies in their value chain. We wonder whether the EC might have a role to play in promoting the development of such tools for example, accreditation / certification of tools that are ESRs compliant, creating a catalogue of suitable tools, running a competition for the best tools, or seeking collaboration agreements amongst PAOs in this area.
- Ensure maximum possible alignment and interoperability with international initiatives, in particular the standards issued by the International Sustainability Standards Board (ISSB). Without this alignment there will be duplication of effort and risk of misunderstanding. Larger companies, including larger EU SMEs that are engaged in trade or operate outside the EU, will be especially adversely impacted. Ideally alignment needs to extend to language, terminology, and definitions as well as to the various transitional and other reliefs offered by the ISSB standards.
- Ensure, through robust input and engagement, that the international standards for sustainability reporting and assurance (under development by the IESBA and IAASB) are scalable and suited to SMEs and, if they meet this test are adopted on a timely basis.
- Promote and encourage the use, in part or wholly, of international standards of reporting and assurance for SMEs either at pan-EU or Member State level to enhance the consistency and comparability of reporting and assurance by SMEs across the EU. For example, the IFRS for SMEs (in process of revision) and / or ISA on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCEs) (under development).


Concluding Comments

We trust that the above is clear but if you have any questions, please do not hesitate to contact us.

Yours faithfully,



Salvador Marin
President



Paul Thompson
Technical Director