



# Sustainability (ESG) in the EU: new European standards and SMEs

October 2023

Salvador Marín PhD. President EFAA for SMEs

(Article published on 2 September 2023 in the newspaper "El Economista" [www.eleconomista.es](http://www.eleconomista.es) )

## About EFAA for SMEs

The European Federation of Accountants and Auditors for small- and medium-sized enterprises ([EFAA for SMEs](#)) is an umbrella organisation for national accountants' and auditors' organisations whose individual members provide professional services primarily to SMEs in Europe. EFAA has 15 members throughout Europe representing more than 380 000 accountants, auditors, and tax advisors. EFAA is a sectorial member of [SMEunited](#), a member of [EFRAG](#), an [IFAC](#) network partner and a member of [Early Warning Europe](#).



EFAA - European Federation of Accountants and Auditors for SMEs  
International Non-Profit Organisation  
4, Rue Jacques de Lalaing, B-1040 Brussels - Enterprise number: 0524.824.834  
Transparency Register Identification Number: 002077217226-17  
T +32 2 736 88 86 - W [www.efaa.com](http://www.efaa.com)  
E-Mail: [secretariat@efaa.com](mailto:secretariat@efaa.com) Twitter: [@EFAAforSMEs](https://twitter.com/EFAAforSMEs)

The non-financial information or sustainability reporting has experienced an exponential interest and increase. Contrary to what one might think, this is not just a question of ecological profiling, nor is this merely a matter of ideological debate. Sustainability is an issue that is simply inherent to the economy, to companies, entities, institutions, and to civil society itself. The impetus that led to a sustained and intensive effort on this topic was the so-called "[Green Deal](#)" which the European Commission announced in 2019. Since then, the information to be prepared and published by corporations, companies, and entities (on a compulsory or voluntary basis) is no longer confined to traditional financial information but also includes non-financial or sustainability information. All this implies that we must think about how to adopt sustainable management practices within the so-called ESG (environment, social and governance), and thus how to improve our sustainability performance and, subsequently, to disclose it properly on the basis of common standards. That is the situation we are in. We may protest or not; depending on our opinions and priorities; but the political decision being taken, it is better that this be achieved according to common and comparable standards.

Undoubtedly, we all, especially our small-and medium-sized practitioners (SMPs), have a crucial role in supporting the quest for sustainability and a sustainable economy in the EU. In this area, two new facts have been vital recently, which demonstrate the momentum and decisive leadership of the EU: on the one hand, the approval in November 2022 of the so called CSRD ([Corporate Sustainability Reporting Directive](#)) and, on the other, the elaboration of the first set of European Sustainability Reporting Standards (ESRS) that has been adopted on 31 July by a delegated act by the European Commission. The Delegated Act is awaiting the final scrutiny of the European Parliament and of the Council. The first set of ESRS are already available in 23 official languages. The Delegated Act will not enter into force until it has gone through the usual procedures of the European Parliament and the Council and is published in the Official Journal of the EU, which must be before the end of December at the latest for its application from January 1, 2024. The Delegated Act consists of, specifically, a set (Set 1) of 12 standards, technically well developed by EFRAG, specifically by its new Sustainability Reporting Board, which aim to efficiently cover the general areas for any company or entity of the ESG, including by shedding light on the concept of double materiality, on information on the value chain (of high interest to SMEs), on forward-looking information to be included, as well as on the concept of sustainability due diligence (developed in turn by its own directive).

But, in this whole process, *what about SMEs?* Insisting on this question has been one of my tasks as a member of the EFRAG Sustainability Reporting Board, so as to give voice to the specific obligations and needs of SMEs, together with those of SMPs. For, although the new standards seem not to be obligatory for most of SMEs, since the new directive is explicitly applicable only to listed SMEs (which represent a very small number compared to the total number of SMEs in the EU), in reality they will be indirectly applicable to most SMEs, for several reasons. Indeed, there are already many real cases where SMEs have received requests for information from their investors (banks, lenders or others) or from their customers. SMEs are obliged to comply in order to be able to continue to sell their products or to provide their services to public administrations, to participate in national or international tenders,

etc. That is why I (EFAA) have been asking for clarity and proportionality. We have achieved, with a considerable effort, that although SMEs are not in the scope of the directive itself, a voluntary sustainability standard for non-listed SMEs (VSME) is being developed by the EFRAG SRB. The VSME will see the light at the same time as the Standards for listed SMEs (LSME). A draft is expected for discussion next October or November.

To achieve this, the support of the high representatives of the European Commission -Commissioner McGuinness herself- was essential, as well as that of other member of the EFRAG SRB, despite some initially did not consider the VSME as a priority, perhaps because they forgot the *“Think small first”* principle which should guide any new EU action, as more than 90% of EU companies are SMEs.

I would also like to stress that I abstained from voting on the study that was done during the development of the general standards of information on sustainability (set 1). I abstained not because the study did not cover the cost-benefit analysis of companies in the scope of the CSRD, but because I considered the cost-benefit analysis incomplete due to the lack of data on SMEs, especially in view of their importance in the EU economy. Now we're working on it.

I take this opportunity to remind that sustainability does not only relate to the environment, no matter how much you want to important, to the 2030 Agenda, to the SDGs, to the Paris agreement or to the global compact, etc. It is something more, it is a culture with several components and influence, which must necessarily be introduced gradually, proportionally and faced rigorously. Finally, I do not want to conclude this article without mentioning that for this process to be complete, it would be necessary to delimit the corporate reporting requirements on sustainability for the entire broad spectrum of non-profit and public sector entities at all levels. Reporting on environmental, social, and governance (ESG) issues is an exercise that, well focused, without “flags or trenches”, will contribute a lot to country's governance and the productive economy in the medium and long term. However, in this equation all the relevant actors that influence the economy and social development of the EU must be taken into account.