

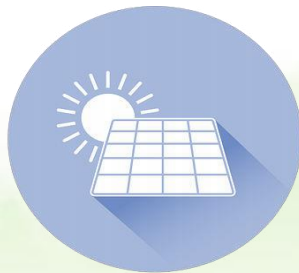


## EFAA POSITION STATEMENT

### Voluntary Sustainability Reporting

### Standard for Non-listed SMEs

March 2024



## INTRODUCTION

The past few years have witnessed the rapid emergence of sustainability reporting and assurance. Sustainability reporting and assurance is going from margin to mainstream. In 2024, the primary focus is on small- and medium-sized enterprises (SMEs). This is vital since without SMEs there can be no sustainable transition. On 22 January 2024 EFRAG [launched the public consultation](#) on its Exposure Drafts (EDs) on simplified sustainability reporting standard for listed SMEs (LSME) and voluntary sustainability reporting standard for non-listed SMEs (VSME). The consultation will run for 120 days ending on 21 May 2024. This paper sets out EFAA's *preliminary* position focused on the VSME as this most impacts our constituents. In due course EFAA will respond in full to the [consultation](#) and the position set out below may change. EFAA is committed to robustly representing, protecting, and promoting the interests of SMPs and their SME clients.

## EFAA Calls on SMPs and SMEs to Respond to the Public Consultation

EFAA calls on SMPs and SMEs to respond to the consultation so that they can shape the form and content of the standards, especially the VSME, and simultaneously get ready to use them. Read the [Exposure Draft VSME](#) and [Basis for Conclusions](#) then complete the [VSME ED - Consultation online questionnaire](#) (see the [PDF version](#)). **The deadline to respond is 21 May 2024.**

## IMPORTANCE OF STANDARDS TO SMALL AND MEDIUM-SIZED ACCOUNTANCY PRACTICES (SMPS)

These standards are important to SMPs since SMPs are a key preparer group. SMEs often look to their external accountants, typically SMPs, to prepare their financial reports and SMPs are perfectly placed – given their in-depth understanding of the SME client, given their expertise preparing their financial reports, given that they are SMEs themselves (operating in the accountancy sector), given their compliance with high ethical standards, and given that many are also assurance providers - to help SMEs prepare sustainability information and reports. In short EFAA believes it is likely, highly likely, that many non-listed SMEs that publish sustainability reports in accordance with the VSME will elect to have their SMP prepare their sustainability reports. Since SMPs are independent and expert they can help ensure the quality and reliability of the sustainability report. Indeed today, in many European countries, this is already the case: SMPs are the ones that are mainly advising and accompanying SMEs on their sustainable transition.

## ROLE OF EFAA FOR SMES AND ITS MEMBERS IN THE DEVELOPMENT OF THE SME STANDARDS

EFAA for SMEs welcomes the consultation and looks forward to helping EFRAG finalize the draft standards, especially the VSME. Now the draft standards are published, it is vital that as many SMPs and SMEs are made aware of them, so that they can respond to the consultation, and so help shape its form and content, as well as to start preparing for their eventual finalization and issue.

EFAA for SMEs aims to ensure SMPs can shape the form and content of European sustainability reporting standards, especially the VSME. After all SMPs will be one of the main users of these standards. EFAA for SMEs, and ultimately its members that are professional accountancy organisations (PAOs), also wants to help SMPs build the capacity and capability to prepare and provide assurance on sustainability reports and information. To help shape the standards it is vital we ensure the maximum possible participation by SMPs and their PAOs in this consultation. SMPs and SMEs do not traditionally respond, so extra effort, a special effort, to garner their get their input, insights and ideas is essential.

Accordingly, on 22 January 2024, the very day [EFRAG launched its public consultation](#), EFAA for SMEs held a joint outreach event on the VSME exclusively for its members. Access the slides [here](#) and watch the session recording [here](#).

EFAA for SMEs will respond to the public consultation and is encouraging its member organizations and SMPs to do likewise. EFRAG has developed the draft standards. Now it is time for us to help finesse them.

### FIELD TESTING OF THE STANDARDS

EFAA for SMEs welcomes EFRAG's [field testing](#) of the draft standards. Indeed, we have helped EFRAG identify suitable small and medium-sized practices (SMPs), many of whom will likely help SMEs prepare their sustainability information, to participate. EFRAG has stressed that service providers, such as SMPs, can be considered as a proxy for SMEs.

## EFAA'S PRELIMINARY VIEW OF THE FORM AND CONTENT OF THE DRAFT VSME

EFAA for SMEs has had the opportunity to help shape the form and content of the draft VSME. [EFAA for SMEs President, Salvador Marin](#), serves on the EFRAG Reporting Board (SRB), representing SMEs and SMPs, and [EFAA for SMEs Special Advisor Esther Ortiz](#), has served on the EFRAG Permanent Task Force ESRS that laid the foundation for the VSME. They receive and have received support and advice from EFAA's technical staff and its expert groups who have reviewed and discussed all EFRAG papers and proposals. Hence, not surprisingly, EFAA for SMEs has a generally positive view of the draft VSME.

## OBJECTIVE

EFAA for SMEs supports the objective of the VSME to provide a simple reporting tool, a tool that will also serve as a performance management tool. The tool will assist non-listed SMEs in responding to requests for sustainability information that they receive from business counterparts (i.e., banks, investors, or larger companies for which non-listed SMEs are suppliers) in an efficient and proportionate manner. And, equally if not more importantly, the VSME will facilitate their participation in the transition to a sustainable economy by driving better sustainability performance. We believe the Draft VSME meets these objectives.

The VSME is expected to standardise the current multiple ESG data requests, which represent a significant burden on non-listed SMEs, by reducing or eliminating the number of uncoordinated requests they receive. Instead of responding to a multitude of different questionnaires, they can provide just one report prepared using the VSME. This is expected to support them in having better access to lenders, investors, customers, and clients. In many cases SMPs will collaborate with their SME clients when responding to these questionnaires requests and when implementing the VSME. Hence, to obtain market acceptance, it is vital the VSME satisfies as far as possible these questionnaires.

## MODULES

The draft VSME is structured into three modules - a *Basic Module*, essentially an entry-level module for micro-undertakings that comprises a set of basic metrics, and two additional optional modules, a *Narrative-Policies, Actions and Targets (PAT) Module* and a *Business Partners Module*. SME undertakings that already have PAT in place can report in accordance with the *Narrative PAT Module* and those SMEs required to complete questionnaires from business partners can use the *Business Partners Module*.

EFAA for SMEs supports this modular approach. We have advocated for a modular approach ever since sustainability reporting was first being considered by the European Commission. It provides a pathway for companies on the sustainability reporting journey starting small and simple and graduating to the more complex and detailed.

## SIMPLIFICATIONS

EFAA for SMEs believes the VSME is not a simplified version of the ESRS, but rather a standard developed from the bottom-up that is tailored to the unique circumstances, competences and needs of non-listed SMEs.

EFAA for SMEs welcomes the fact that materiality assessments, which are rather burdensome, are less prevalent in the draft VSME as compared with the ESRS. The *Basic Module* does not require a materiality assessment. Rather all 12 disclosures, including ESG topical metrics, are required where they are applicable. Similarly, the *Business Partners Module* has no materiality assessment. It requires sustainable finance datapoints that are assumed to be proxies for ESG management. Only the *Narrative PAT Module* requires the SME to perform a materiality analysis in order to disclose which of the sustainability matters listed in Application Requirement 16 of ESRS 1 are material to the undertaking.

## VALUE CHAIN CAP AND BOUNDARY

While there are not many listed SMEs, the LSME will serve as a cap on the amount of information ESRS can require for value chain reporting and as such the LSME may indirectly impact non-listed SMEs that are in the value chain of larger companies. We have no plans to submit a detailed response to the LSME ED. Suffice to say, we would prefer the 'value chain cap' to be that of the less burdensome VSME and value chain reporting be limited to Tier 1 rather than the whole value chain.

## COMPREHENSIVE IMPLEMENTATION SUPPORT

The voluntary take-up of the VSME by SMEs, the willingness of accounting firms (especially SMPs as non-listed SMEs will often look to them to prepare their sustainability reports) to promote use of the VSME, and the consistent and high-quality implementation of VSME will rest on the provision of comprehensive implementation support in the shape of Q&A, 'how to' guidance, and electronic tools. EFAA for SMEs looks to EFRAG and the European Commission to lead and coordinate the development of this support as they have the expertise, authority, and legitimacy to do so, nevertheless, EFAA is available to contribute to the development and promotion of this guidance.

## INCENTIVISE VOLUNTARY REPORTING

EFAA believes that the European Commission should consider introducing incentives to maximize voluntary use of the VSME by non-listed SMEs. These incentives might include financial support to help defray the cost of preparation (e.g., tax relief for the cost of engaging an external accountant or consultant) as well as public accolades for reporting and awards for good reporting.

## ENCOURAGE EARLY ADOPTION AND USE OF THE VSME

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We understand that EFRAG plans to finalize the standard in January 2025 but not publish the final standard until such time as the LSME is adopted as a Delegated Act in late 2025. We suggest that EFRAG and the European Commission encourage non-listed SMEs to start using the standard as soon as possible rather than wait until the LSME is adopted.

The standard is, after all, voluntary and non-listed SMEs are already having to respond to requests for sustainability information from larger companies as well as lending institutions.



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THANK YOU

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# EFAA for SMEs Member Organisations



Association of Chartered  
Certified Accountants –  
ACCA



The Association of  
International Accountants –  
AIA



Association of Professional  
Financial Managers of  
Azerbaijan – APFM



Chamber of Auditors of  
Azerbaijan Republic – CAAR



Chamber of Accounting  
Services (GZS – Zbornica  
racunovodskih servisov)



Chamber of Financial  
Auditors of Romania – CAFR



Conseil national de l'ordre  
des experts-comptables –  
CNOEC



Consejo General de  
Economistas – CGE



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Steuerberaterverband e.V. –  
DStV



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Bedrijfsrevisoren/ Institut  
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