



Mairead McGuinness
Commissioner for Financial services, financial stability and Capital Markets Union
European Commission
Rue de la Loi / Wetstraat 200
1049 Brussels

Brussels, 3rd May 2023
Prot.043

Subject: EFRAG and SME standards

Dear Ms. McGuinness,

SMEUnited, the Association of Crafts and SMEs in Europe, extensively contributes to and is invested in the work of EFRAG to develop sustainability reporting standards, first as a member of the multi-stakeholder Project Task Force (PTF), later as the chair of Cluster 8 of the EFRAG Project Task Force and now as a member of the Technical Expert Group.

The European Banking Federation (EBF), together with SMEUnited, has been engaging with EFRAG on which information, useful to credit institutions, can be provided by SMEs on a voluntary basis. This was reflected in the contribution to the work of Cluster 8 of the EFRAG Project Task Force, which also included a representative from EBF.

Together, the two associations represent the interests of both the SMEs and their primary source of funding. Their strategic objective is to ensure that the sustainability reporting that is being rolled out will give the tools to all SMEs, the great majority of which are not listed and do not possess the resources to comply with EU financial sector rules, to contribute to the transition as part of supply chains and based on their collective size in the economy, as well as in the critical role played by a sub-set of SMEs as innovators. Excluding these SMEs from the framework by failing to give them a voluntary, practical and meaningful path to make sustainable disclosures would risk hindering their access to sustainable finance, undermining their green investments and creating a roadblock to innovation.

With these considerations in mind, SMEUnited, together with EBF, has taken a leading role in the work of EFRAG Cluster 8, which developed a draft voluntary sustainability standard for SMEs, in addition to (and different from) the simplified reporting standard intended for listed SMEs. Cluster 8's proposal for a voluntary standard for SMEs was moulded following the structure of the ESRS, yet incorporating simple language intended to help growing SMEs up the sustainability ladder. The main objective is to create a standard that can be used voluntarily by SMEs and give them a practical and low-cost opportunity to be part of the new disclosure framework and ultimately of the green transition.

This approach is in line with the principle of inclusiveness which is an important element of the principles expressed in the EC Impact Assessment ¹. Having a voluntary framework for SMEs, which is further

¹ 21 April 2021 - Impact Assessment amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting.

simplified with respect to the reporting standard being developed for listed-SMEs, is fundamental to ensure the onboarding of SMEs in Europe.

In your letter dated 16 June 2022, you expressed your support for the development of a voluntary sustainability reporting standard for SMEs under the condition that EFRAG's experts agreed with it. While the majority of both EFRAG's TEG and Sustainability Board approved this idea, the finalisation of the voluntary standard was postponed to a later date. However, with the recent call from the European Commission on EFRAG to prioritise its efforts on capacity building for the implementation of the first set of ESRS, we would see great benefit in including the finalisation of the voluntary standard within this priority.

In fact, while not in the scope of the CSRD, unlisted SMEs will be requested information by large companies in their value chain, by banks, as well as by public administration from day one. If they do not have a standard adapted to their characteristics and capacity, unlisted SMEs risk being overburdened by complex, multiple and likely divergent requests. It is of utmost importance to have voluntary standards available as soon as possible and that our organisations can start raising awareness and run information campaigns to millions of SMEs that will inevitably be impacted by the Directive, although not under its scope.

Consequently, **we ask you to provide further clarification to EFRAG on the re-prioritisation of activities which should include launching a public consultation on the draft VSRS crafted by Cluster 8.** As we are also aware of the limited resources of EFRAG, we consider this to be a practical solution to this key issue, which would require minimal additional work, considering the aforementioned acceptance of the majority by EFRAG's TEG and SRB.

In addition, there is another matter that we would like to draw your attention to. At present, your services are consulting different EU bodies and Member States on the draft delegated act for SET 1 of the ESRS based on the drafts delivered by EFRAG. As requested by DG GROW as well as EFRAG's Cluster 8, both during the drafting of these standards as well as more recently, it would be extremely helpful to include a mapping of the value chain disclosures for SMEs in the consultation. This mapping is essential to assess the impact of SET 1 on SMEs. **This information is essential for the public consultation in order to have a comprehensive understanding of the impact of SET 1 on all stakeholders.**

We look forward to your feedback on this matter and remain available for further questions you or your services might have.

Yours sincerely,



Véronique Willems
Secretary General
SMEUnited



Wim Mijs
CEO
European Banking Federation

Cc: Executive Vice-President Valdis Dombrovskis - Commissioner Thierry Breton