



**To: EFRAG SRB Chair and EFRAG SRB Vice-Chair  
CC: European Commission, DG FISMA; BMJ**

**From: Pilot Group for SME Sustainability Reporting  
established conjointly by the  
Deutsches Rechnungslegungs Standards Committee (DRSC) and  
the Rat für Nachhaltige Entwicklung (RNE)**

## **Providing a robust framework for SME sustainability reporting at EU level**

### **Key elements for a sustainability reporting standard for SMEs**

The Corporate Sustainability Reporting Directive (CSRD) has been adopted and will bring about a comprehensive framework of reporting requirements for large undertakings regarding sustainability matters. The CSRD will directly and indirectly affect numerous small and medium-sized entities (SMEs), which will be expected to provide sustainability information. Listed SMEs are in the scope of the CSRD which, however, acknowledges the need for different sustainability reporting requirements for SMEs, as these differ from large undertakings, especially in regard to capacities and resources. From our perspective, it is pivotal that SMEs will be provided with a framework that allows them to effectively communicate about sustainability matters and in regard to their state of transformation and their resilience. To successfully achieve this, proportionate standards for listed SMEs are essential and will also provide a reference point for undertakings within the scope of the CSRD itself regarding the level of sustainability information that they could reasonably request from SMEs, e.g. SME suppliers or SME clients in their value chains. The CSRD not only mandates a simplified, proportionate sustainability standard for listed SMEs. As indicated throughout the development process of the European Sustainability Reporting Standards (ESRS), voluntary guidelines for non-listed SMEs are needed, which shall also be proportionate to reflect the nature of these SMEs. The extent to which the standard for listed SMEs on the one hand and guidelines for non-listed SMEs on the other need to differ depends on which sustainability reporting demands SMEs face. These are typically independent of a listing but should be subject to further analysis in the standard-setting process. Even though the requirements for listed SMEs will differ from those of non-listed SMEs due to legal or regulatory data requirements, these differences should not discourage SMEs from seeking financing via financial markets. The latter is the explicit goal of the measures proposed by the European Commission in early December 2022 for the further development of the Capital Market Union.

### **Characteristics and infrastructures of SMEs**

Unlike large undertakings within the scope of the CSRD, SMEs have fewer capacities and resources available to attribute to sustainability reporting. This holds true for non-listed as well as for listed SMEs. Due to these restrictions, there are often no or only marginal sustainability governance, sustainability reporting

structures and internal processes or IT systems in place. This puts many SMEs in a challenging position when trying to live up to the demands of various stakeholders regarding sustainability information. For example, SMEs which are trying to access financing will be faced with demands for sustainability information from financial institutions which need to comply with increasing regulatory requirements concerning ESG risks. In addition, many SMEs are part of complex, often multinational value chains. The many participants in these value chains currently often require their company-specific, non-harmonised sustainability information from SMEs. These business relationships might be at risk if the respective information demands are not met. SMEs are aware of the opportunities of standardised sustainability reporting at EU level which can support new strategies, e.g. towards more sustainable products, better addressing skilled workers or reducing costs through harmonised, manageable reporting standards. While many SMEs are motivated to contribute to the transformation of the economy, it will be essential that the SME standard and guidelines acknowledge their limited capacities and resources to report on governance, environmental and social matters as well as the limited ability of SMEs to collect data from the undertakings along their value chains. Typically, SMEs do not have the market power to acquire data from direct and indirect suppliers and customers.

Based on first reflections on the topic of SME sustainability reporting, the Pilot Group has compiled key suggestions essential for the development of a sustainability reporting standard and voluntary guidelines for SMEs at EU level. To ensure the successful development of an adequate and widely accepted SME standard and guidelines, the Pilot Group would like to share its findings with EFRAG. These key suggestions refer primarily to listed SMEs, assuming that they face more extensive information demands and have more advanced reporting structures in place compared to non-listed SMEs. In many respects, however, the key suggestions can also be relevant and helpful for non-listed SMEs, as they face similar sustainability information demands.

**Suggestion 1: Ensure that SME standard and guidelines are focused on minimum requirements and sufficiently adaptable to respond to information demands (modular approach)**

SMEs are facing numerous and varying sustainability reporting demands, e.g. from banks and insurance companies, or from customers and suppliers who are subject to regulatory requirements such as the CSRD or SFDR, and from other stakeholders with legitimate information interests. Often, SMEs have not yet or only just recently started their journey towards meaningful sustainability reporting and are

looking for ways to effectively communicate in this regard. So far, there is no widely accepted standard for the sustainability information required, for calculation methods to be applied or for reporting formats to comply with. This creates uncertainty and usually results in a high reporting burden for SMEs. To address this challenge and to provide a reference point, a set of widely accepted reporting specifications will be key. To cater to the immediate needs of SMEs, a particular focus should be on determining essential minimum sustainability information demands to allow SMEs to effectively communicate about sustainability matters and their transformation and resilience. These minimum requirements must be well-defined, conclusive and could voluntarily be complemented by additional sustainability information to respond to further information demands by providing further context, e.g. on governance or to provide further specific KPIs (modular approach). A modular approach for the SME standard shall not increase complexity and should minimise the administrative burden for SMEs. Minimum requirements can be derived from the sustainability information demands that SMEs already need to respond to. EFRAG should therefore focus on clearly defining these minimum requirements as an important part of the SME standard as well as the voluntary guidelines. In doing so, EFRAG needs to be aware of and limit trickle-down effects from the “full ESRS” to ensure that requirements in the full ESRS, e.g. value chain information, will not inadvertently add to the defined minimum requirements.

**Suggestion 2: Alignment with ESRS and International Frameworks – but reduce complexity compared to large undertakings / Particular consideration of sector-specific disclosure requirements and data points**

While the minimum requirements are an important part of the SME standard, they nevertheless need to be based on the CSRD and ESRS and incorporate their features such as the double materiality concept or stakeholder engagement. It is important for SMEs that ESRS and the SME standard are aligned regarding the basic principles, the definition of the identified minimum disclosures as well as the specific wording. This will allow SMEs to develop their sustainability reporting and adjust it according to the information demands of their stakeholders. However, in defining the specific requirements regarding reporting on governance, environmental and social matters, the limited resources, and rather basic reporting systems of SMEs have to be the primary consideration. While it is useful to define in the SME standard the underlying principles and the objective of each principle, for SMEs it is equally important to clearly define the KPIs that are expected and how to determine these KPIs. To ease the reporting burden during

a phase-in period, SMEs could be allowed to meet reporting objectives with similar KPIs or data points if these are already being determined or reported elsewhere in the undertaking, e.g. due to other reporting demands.

A substantial reduction in complexity is needed. The disclosure of underlying policies and, to the extent feasible, processes, e.g. regarding stakeholder engagement or governance structures, should be prioritised over a high level of granular information. In addition, EFRAG should make more use of voluntary sector-specific information. This could facilitate a less complex materiality assessment. In this context, topics for which a solid data basis is already available or can be built up in the short term should be prioritised at the beginning. Sector-specific disclosure requirements are essential for sustainability information from SMEs that often operate in very specific sectors. But again, it will be imperative that these are proportionate to SME characteristics and therefore of limited complexity, clearly defined and harmonised.

The burden for SMEs to prepare sustainability information can effectively be reduced if the minimum requirements at the same time allow for relevant disclosures in line with other European requirements such as due diligence regulations, the principle adverse indicators of the SFDR or the EBA's guidelines on loan origination and monitoring. It would also reduce complexity if at the same time the minimum requirements were in line with international frameworks such as the ISSB's Global Baseline as long as the complexity of the SME standard is not significantly increased. EFRAG should strive to align the minimum requirements in the SME standard and guidelines with these existing reporting requirements wherever possible. Unnecessary duplication or reporting of similar, yet different datapoints and KPIs needs to be avoided. In support of that and to identify current requirements, it would be helpful to provide a mapping and reconciliation for existing European and national sustainability reporting requirements for SMEs on the one side and the future sustainability reporting standard and guidelines for SMEs on the other.

The overall goal of an appropriate sustainability reporting system for SMEs must be to create transparency around sustainability performance on all relevant sustainability topics. This includes all key stakeholders and information based on the double materiality concept. However, even though the general goal is comparable to full ESRS, the SME standards should provide guidance on a simplified materiality assessment. Such an assessment allows a focus on sustainability information demanded from SMEs while taking into consideration limited capabilities and resources compared to large undertakings. A simplified materiality assessment could include reduced requirements for stakeholder

engagement. It will also be necessary to provide guidance on the application by SMEs.

**Suggestion 3: Provide additional support tools and address limited data availability**

As laid out above, SMEs would greatly benefit from standardised minimum requirements, a simplification and harmonisation of those requirements, as well as a simplified approach to identifying the sustainability information demands. In addition, due to the limited resources, it will be necessary to provide easy-to-handle tools in the SME standard and guidelines. Therefore, a support structure should be promoted that helps build up robust processes to collect relevant data (semi-automatically), prepare sustainability information which does not overburden the reporting SMEs, and helps to apply the requirements and guidelines. In particular, supporting tools with regard to risk-reporting guidelines, data collection tools, sample forms and good practices can enable SMEs to independently conduct simplified stakeholder and materiality analyses. Already established tools should be taken into account when promoting such support structures. The Sustainability Code<sup>1</sup>, an easy-to-use reporting tool that is currently being used by more than 900 undertakings in Germany, represents such a good-practice approach, especially for SMEs with more than ten employees. It enables undertakings to disclose relevant sustainability information on a voluntary basis as well as comply with existing regulatory requirements.

Collecting and reporting required data is much more difficult for SMEs than it is for larger undertakings. To allow SMEs to report on all material sustainability aspects, the use of valid estimations must be possible without creating additional hurdles through extensive verification requirements.

**Suggestion 4: Make active use of field tests to verify the approach to SME sustainability reporting**

Given the emerging standardisation of SME sustainability reporting, particular attention should be given to the practical implications of SME sustainability reporting requirements and guidelines. This concerns the design and volume of mandatory requirements. Field tests can provide insights on whether and how SMEs can actually cope with the requirements and guidelines laid out by EFRAG.

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<sup>1</sup> Further information on the Sustainability Code/Deutscher Nachhaltigkeitskodex can be found [here](#)

Field tests can also shed light on the question of whether users of SMEs' sustainability information are receiving relevant and sufficient information for their legitimate needs.

**Suggestion 5: Consider from an EU perspective “easy-to-comply” solutions for digitally delivering sustainability information for SMEs**

Due to their limited resources, SMEs will also face difficulties in providing such data electronically in the format foreseen for large entities. Easy-to-use application guidelines, incl. examples and FAQs for SMEs' sustainability reporting, could be provided in all EU languages. In particular, this should include easy solutions on how such data can be reported to a larger group of users, including those who have particular information demands due to supply chain information needs or based on providing financing. To further reduce the sustainability reporting burden for SMEs, a helpdesk could be implemented on a national level addressing questions around the SME sustainability standard and guidelines. In this context, the infrastructure set up in Germany in the form of the voluntary Sustainability Code could provide a good reference point for designs elsewhere in the EU, especially for SMEs with more than ten employees. SMEs could enter their sustainability information into a streamlined online database which itself could be integrated into other key initiatives at EU level, in particular the European Single Access Point (ESAP), to provide central electronic access to company data.

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