Omnibus simplification package: investors call for a credible voluntary sustainability reporting standard for small and mid-caps

EFAMA, Eurosif and PRI call for the adoption of a proportionate voluntary sustainability reporting standard for companies with over 250 employees that fall out of the scope of the revised Corporate Sustainability Reporting Directive (CSRD).

The European Commission has announced a voluntary reporting standard for these companies, based on the framework designed for non-listed micro, small, and medium-sized enterprises (VSME). While suitable for very small businesses, this standard is not adequate for larger companies, including small and mid-caps. Instead, we recommend a proportionate standard based on the revised European Sustainability Reporting Standards (ESRS), limited to a subset of the disclosure requirements.

This approach would ensure consistent, comparable, and reliable Environmental, Social, and Governance (ESG) data needed to support investments across a wide range of European companies in line with the EU's sustainability goals.

Comparable and reliable ESG disclosures are key for financial institutions to make informed financing decisions and assess their sustainability risks, opportunities, and impacts. As discussions are progressing on the Omnibus Simplification package, **we urge co-legislators to avoid further restricting the scope of CSRD beyond the European Commission's initial proposal (companies above 1,000 employees and €50 million turnover).** The proposed amendments to the CSRD scope would result in excluding a considerable number of companies that have been already disclosing sustainability information in line with the Non-Financial Reporting Directive (NFRD) and are currently applying CSRD. **This would lead to further fragmentation of the European capital markets, reduced value chain transparency, and significant gaps in the availability of financing investment-relevant decision-useful information.**

For companies that will be left out of the CSRD scope, the recently endorsed **VSME standard is unlikely to fill the resulting data gap, as it was never designed for this purpose**. Developed by EFRAG for non-listed micro and small enterprises with fewer than 250 employees, the VSME offers broad flexibility in reporting format and content. While appropriate for very small businesses, it does not capture the sustainability profile of larger companies, as it lacks the granularity, consistency, and reliability that investors and other sustainability information users need for financing purposes (see annex below). Furthermore, the proposed "value chain cap" would prevent financial market participants'

(FMPs) from requesting information beyond the VSME standard, further limiting transparency.

For users of sustainability data, the insufficient availability of sustainability information can **hinder investments in small and mid-caps and render the investment process in these companies more burdensome**, while increasing the reliance on external ESG data providers. Besides the fact that the data is not always comparable and reliable, it comes at a significant cost for FMPs. For companies, the absence of reliable sustainability-related disclosures is likely to result in reduced financing opportunities.

We believe it is timely and critical to develop a fit-for-purpose voluntary standard for small and mid-caps that is compatible with the CSRD framework. To ensure comparability with the ESRS, the standard should preserve its key characteristics in terms of structure across Environmental, Social, and Governance topics. By mandating the materiality assessment, the standard would ensure that companies report information that is relevant to users. Providing additional guidance for the materiality assessment would help ensure the requirement is adapted to the companies' size and capacities.

Such an approach offers a practical and proportionate solution for voluntary reporting. It further incentivises companies that have already reported in line with the CSRD/NFRD to continue doing so and support the transition of growing undertakings that may fall within the CSRD scope in the future.

In summary, we strongly suggest:

- *For companies under 250 employees, to maintain voluntary reporting based on the VSME standard.*
- *For companies above 250 employees and out of the scope of the CSRD, to establish a voluntary standard for small and mid-caps, based on a subset of data points present in the revised ESRS. This standard should maintain mandatory but proportionate materiality assessment to ensure relevant information for users.*
- *For all companies outside the scope of CSRD, clarify the "value chain cap" to ensure that investors and financial market participants can request additional information for investment and/or engagement purposes.*

Our associations remain available to discuss this topic further and to support the ongoing simplification without compromising the EU's sustainability objectives.

Annex: Gaps in the use of the current VSME standard for companies above 250 employees

Our organisations call to raise concerns about critical gaps between the VSME and the revised ESRS that, if not properly addressed, could result in challenges for financing out-of-scope companies with more than 250 employees:

- **Simplified ESG reporting requirements**: the VSME introduces a structure based on modules, as well as data points with definitions, tables, formulas, and detailed metrics that differ from the ESRS, hindering comparability.
- **Double materiality assessment**: materiality assessment under the VSME is optional, meaning the most relevant data points for investors may not be necessarily disclosed by reporting companies – resulting in disclosures lacking information that is essential for financing purposes.
- **Value chain coverage**: VSME focuses on companies' own operations, while the ESRS covers the entire value chain, including upstream and downstream impacts.
- **International standards:** contrary to the ESRS, the VSME standard is not interoperable with international reporting standards such as those developed by ISSB and GRI. EU companies, especially listed ones, choosing to report on a voluntary basis, may have to disclose against both VSME and these international standards, increasing their reporting burdens.