VOLUNTARY ESRS FOR NON-LISTED SMALL AND MEDIUM SIZED ENTERPRISES - OPEN FOR COMMENTS

A public consultation issued by the European Financial Reporting Advisory Group
Comments from ACCA to the European Financial Reporting Advisory Group

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ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We're a thriving global community of **252,500** members and **526,000** future members based in **180** countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance, and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business, and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. We believe that accountancy is a cornerstone profession of society and is vital in helping economies, organisations, and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

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GENERAL COMMENTS

ACCA welcomes the opportunity to comment on the draft Voluntary ESTS for Non-Listed Small and Medium Sized Enterprises (VSME). We have also fed into the responses submitted by EFAA and Accountancy Europe and agree with the stances taken; this written submission sets out ACCA's position on the standard, given our other joint submissions. We would like to emphasise the role of the participants in the field test and that their feedback will be most critical in the finalisation of the standard.

ACCA broadly support the objectives of the VSME. The European Green Deal and related policies have resulted in a raft of new legislation, that has the capacity to create significant compliance and cost burdens, particularly for small businesses. The operational burden has the risk of also extending to the provision of sustainability-related information. This burden, together with ongoing geopolitical tensions and inflation, create unprecedented challenges for SMEs. For the green and digital transitions to be delivered successfully, EU regulation applying to SMEs needs to be proportionate and limited to what is necessary. This includes the future EU voluntary reporting standard for non-listed SMEs (VSME).

The VSME generally delivers on meeting these challenges in an accessible and reasonable format subject to the following dependencies. EFRAG need to continually recognise that the success of the VSME depends on market acceptance by lenders, investors, and other relevant business stakeholders, which will require awareness raising of VSME. In tandem SMEs will need to undertake significant upskilling, supported by additional guidance, Q&As. A best practice example of this is the interoperability mapping between the ISSB and ESFRAG ESRS which could be extended to cover the ESRS for Listed Small and Medium Sized Enterprises (LSME) and VSME standards. ACCA has a considerable amount of educational materials both published and in the pipeline. Our sustainability reporting course is due to launch and complements our diploma in sustainability that is currently under development and which we hope to launch later in 2024. Other materials include our Accounting for a better world - our agenda for action | ACCA Global

Accessibility

Accessibility and ease of implementation is crucial, and as this is a voluntary standard ACCA believe there needs to be some form of promotion and assistance to ensure that SMEs are aware of the standard and aware of the benefits it provides with regards to supply chain requests and wider reporting. Throughout the VSME there is clear use of terminology language, and this bolsters the meeting of the objective for an open and accessible standard.

Overall, ACCA supports the modular approach and agrees with the 'and' 'or' approach with regards to the modules. We appreciate the integration of a Basic module into the standard, though cannot see it being widely applied in isolation due to supply chain requirements. The modules most commonly used together are likely to be the Basic and Business Partners Module. We therefore recommend changing the order of the modules to move the Narrative-Policies, Actions and Targets (PAT) module to third place. In addition, it is important to recognise the cost burden that the non-basic modules impose; both require reasonable expertise that will likely require external advice or services.

ACCA agrees with the Principles of Preparation. With regards to the data points within the modules, ACCA agrees with these data points especially due to alignment with the CSRD. However, we believe that a post-implementation review should be carried out at an appropriate point as this would identify gaps and overlaps between CSRD and VSME in practice and ensure that unnecessary reporting is not taking place, especially considering the comprehensive nature of the list.

Materiality

Ultimately, materiality will play a critical role in the identification of what needs reporting and therefore it is useful that impact and financial material are clearly defined. For further assistance for users, we suggest that it is worth referencing the CSRD Materiality Assessment Implementation Guidance from a contextual standpoint within the standard.

With regards to 'stakeholders and their relevance to the materiality analysis process' we believe that additional examples of stakeholders would be helpful, as well as an emphasis that the assessment should not be solely based on affected stakeholders, though they form a part of the consideration.

Summary

In summary, EFRAG need to recognise the continuous need for simplified accompanying guidance and examples. The appendices already provided are a good illustration of this. This is in the context of the level of upskilling likely to be required in SMEs and SMPs and the limited resources that they may have access to. ACCA recommends improved cross referencing of CSRD and other guidance, such as Value Chain Implementation Guidance and Materiality Assessment Implementation Guidance to provide additional context and resources to those that need it. We believe that the profession needs greater support to upskill and grow. There is a growing shortage of qualified financial audit professionals. The regulatory requirements for CSRD will significantly increase demand, and further compound that shortage. There are also considerable governance and risk culture hurdles that need to be navigated to help businesses successfully shift mindsets. Upskilling and training of the profession and SMEs requires dedicated EU financing to meet regulatory requirements.

LSME

With regard to the LSME, ACCA believe that the value chain cap should be the VSME standard, not the LSME and that the latter could indirectly negatively burden non-listed SMEs.