Creating Sustainable Supply Chains

The EU Voluntary SME Sustainability Standard (VSME)

As reporting requirements for large organisations evolve the need for transparency in the supply chain is increasingly important, especially when seeking to both identify and mitigate environmental, human rights and governance risks. The EU's CSDDD is focussed on supply chain participants and due diligence on these factors and risks.

There has been much written about the EU's Omnibus package, which covers CSRD and CSDDD, and the proposed changes were initially met with concerns that they would reduce the impact on enhanced sustainability and transition to net zero.

However, the fundamental aim of the package was to simplify reporting, reduce the scope of companies impacted, ease the burden on companies in terms of their reporting and limit how much pressure would be passed down the supply chain and create challenging workloads on SMEs.

In terms of the later point, there has been real concern that SMEs would be expected to respond to data requests from their larger customers (who are reporting under CSRD) which were onerous, complex and in many instances impossible for the SME to respond to without significant burden and risks around the data reliability.

While the final elements of the Omnibus are yet to be concluded the package of measures introduces the value chain cap and the principle of standardised approach for SMEs and micro-organisations.

This protects all undertakings that would no longer be in scope of Articles 19a and 29a of Directive 2013/34/EU (i.e. undertakings with up to 1000 employees) rather than just SMEs as is currently the case. And the limit would be defined by a voluntary reporting standard for use by undertakings with up to 1000 employees.

For these micro, small and medium entities a Voluntary Sustainability Reporting Standard (VSME) has been developed for the EU Commission by EFRAG which has now been accepted. In short, VSME will standardise the data and metrics smaller supply chain participants can reasonably be expected to report to larger companies who have broader reporting requirements.

The VSME standard operates on 2 levels: the basic module and a comprehensive module. The **basic module** is described as the "target approach" for micro-undertakings. This means that micro-undertakings do not need to apply the basic module in its entirety and are welcome to use only certain parts of it. For small and medium-sized undertakings, the basic module is described as the "minimum requirement" for reporting against the standard. This module captures Carbon Emissions and limited amount of data at a high level on E, S and G. The **comprehensive module** which includes the basic module builds upon this data disclosure and seeks to obtain data clarity around strategy, policies and operational model.

This means that there is no obligation to provide assurance to the information reported by non-listed SMEs and that a self-declaration by the SME is sufficient.

This new voluntary standard provides useful clarity, and we believe will help larger organisations determine their requirements for the smaller participants in their supply chain and this enables a consistency of approach.

While the focus of this standard is on the EU, it is anticipated that the VSME will have application in the UK and other markets, in part through exporters to the EU and as there is increasing alignment and shared recognition of sustainability reporting standards.

From a UK perspective, the voluntary approach for SMEs undoubtedly resonates with the current government. Having recently participated in a reporting workshop involving representatives from the Department for Business & Trade which discussed the forthcoming release of IFRS 2, they stated that the UK’s position is to focus on IFRS 2 and alignment with ISSB during this parliament. They advised the voluntary adoption of the IFRS/ISSB standards are likely to be the UK’s approach as the current government wishes to maintain its focus on growth and does not wish to add to mandatory reporting rules and more red tape for companies.

This voluntary approach and the amended timelines of the omnibus package help companies plan and fully consider how they create sustainable supply chains which are resilient, financially stable and meet ESG objectives while providing the necessary transparency and data to meet the needs of corporate reporting.

Asesoria's Perspective:

While the VSME standard is focused on the EU and related to the introduction of CSRD and CSDDD, the impact will be felt across supply chains and borders and will impact those businesses who operate in or trade with EU Members and EEA states.

With the VSME capturing carbon emissions data, this may assist many larger organisations with their emissions reporting, particularly in terms of Scope 3 purchased goods and services. Therefore, it may be an appropriate time to be reviewing existing or developing new supply chain strategies which clearly define reporting expectations from the value chain.

We believe the new VSME standard is a helpful step forward and supports the phased roll out of CSRD and CSDDD. However, as many organisations operate on a multinational basis, this further change highlights that the regulatory environment keeps evolving and therefore, we would recommend a regular gap analysis around reporting requirements as part of governance and ensuring compliance.