Joint Statement on the Exposure Draft ESRS for Listed SMEs (ESRS LSME ED)

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EuropeanIssuers, Federation of European Securities Exchanges (FESE) and Insurance Europe would like to express strong concerns on the current Exposure Draft ESRS for Listed SMEs (ESRS LSME ED), which will lead to a disproportionate burden being placed on listed SMEs with respect to the high level of reporting obligations.

Significant reduction of the gap of regulatory requirements between Exposure Draft ESRS for LSME and voluntary standard non-listed SMEs (VSME ED) is needed

If no further action is taken, the ESRS LSME standard risks disincentivising companies from considering a public listing due to the increasing regulatory burden these new standards impose. This could result in a loss of financing necessary for the sustainable and digital transitions. The proposed gap of regulatory requirements between the VSME and ESRS LSME standards is too broad, leading to potential impediments to the growth of EU capital markets, especially considering that listed SMEs currently make up for about 20% of the entities listed on regulated markets in several Member States.

The ESRS LSME standard in its current form is concerning, especially since the CSRD allows listed SMEs to report under simplified and proportionate requirements, rather than developing two separate and very different standards for listed and non-listed SMEs. The ESRS LSME ED, designed as a mere simplification of the full ESRS rather than a standard specific for SMEs, is too demanding given the practical possibilities and resources at the disposal of small and medium-sized listed undertakings.

Ultimately, the proposed VSME and ESRS LSME standards result in a gap in ESG disclosures of 300 to 400 data points. Therefore, to address this incongruency, this gap should be reduced by adding a fourth module with limited additional disclosures for listed SMEs to the VSME standard.

Risks of failure of the ESRS LSME ED and VSME ED

Maintaining the division between the ESRS LSME and VSME EDs will ultimately lead to many risks of disruption in regulated markets in the EU. These risks include potential delisting, a lack of new listings, and high compliance costs for listed SMEs, which may be forced to rely on external consultant services. Additionally, this gap jeopardises the potential success of the VSME ED to be voluntarily used by non-listed entities due to the value chain information cap currently set at the level of the Exposure Draft ESRS for LSME.

Thus, both listed and non-listed SMEs share a common goal: they are willing to provide ESG data, but at a reasonable cost of preparation and in a proportionate manner in order to be useful for users. Listed SME having to disclose about 400 to 500 ESG data points is highly impractical as only a small part of the disclosed data will be taken into account in the decision-making process of banks, investors and other users.

The Exposure Draft for the Voluntary reporting standard for non-listed SMEs (VSME ED) is the more proportionate standard

In our view, the VSME ED is a better starting point to elaborate a simplified, and proportionate standard for listed SMEs. Therefore, in addition to potential refinements to the VSME standards following feedback received by EFRAG during its consultation, our organisations advocate adding a fourth module to the resulting VSME standards with additional disclosure requirements for listed SMEs. This approach would lead to one common simplified standard for all SMEs to be issued under Art.29c of the Accounting Directive as intended by CSRD. Moreover, it would ensure the preservation of the concept of proportionality as expressed in CSRD and the one common value chain information cap. This cap would be set out in the exposure draft for the voluntary reporting standard for non-listed SMEs.

Finally, synchronising the two Exposure Drafts would align with the Green Deal's objectives, and allow companies to access the Capital Markets Union and unlock valuable capital to finance the transition, thus delivering sustainable growth.

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EuropeanIssuers' detailed opinion on the Exposure Draft ESRS for Listed SMEs is available on EuropeanIssuers' website via this link

The Federation of European Securities Exchanges (FESE) *represents 36 exchanges in equities, bonds, derivatives and commodities through 17 Full Members and 1 Affiliate Member from 31 countries.*

At the end of 2023, FESE members had 6,726 companies listed on their markets, of which 18% are foreign companies contributing towards European integration and providing broad and liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium-sized companies across Europe to access capital markets; 1,461 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their regulated market and multilateral trading facility operations, FESE members are keen to support the European Commission's objective of creating a competitive and efficient Capital Markets Union.

Insurance Europe *is the European insurance and reinsurance federation. Through its 37 member bodies — the national insurance associations — it represents all types and sizes of insurance and reinsurance undertakings. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers pay out over €1 000bn annually — or €2.8bn a day — in claims, directly employ more than 920 000 people, and invest over €10.6trn in the economy.*