

## **AECM on the first set ESRS draft delegated act**

The European Association of Guarantee Institutions (AECM) represents 46 guarantee organisations in 31 European countries. Our members provide financial guarantees to small and medium-sized companies (SMEs) that have a viable business project but lack the necessary collateral to access bank financing. Since our members as well as their clients are both in the focus of Corporate Sustainability Reporting Directive (CSRD), we would like to raise the following points regarding the current European Sustainability Reporting Standards (ESRS) draft delegated act and kindly ask the Commission to take these into account.

The vast majority of our members qualifies as small and non-complex institutions (SNCI). Nonetheless, they might be affected by the current draft via the tickle-down effect, the too late finalisation of simplified standards as well as by the fact that most of their clients are very small non-listed companies whose input data will be scarce.

### **Treatment of SNCIs**

We positively note that a minimum of proportionality that allows for a simplified treatment for SMEs and SNCIs is foreseen. The SNCI reporting should be aligned with requirements on ESG disclosures under the Capital Requirements Regulation (CRR). It should not be more complex than Task Force on Climate-Related Financial Disclosures (TCFD) reporting and references to disclosures in other mandatory reports should be allowed.

### **Timing**

The allocated time for responding to this consultation was much too short, especially in view of the large size and the high level of technicity of the consultation (only annex 1 has 247 pages !). In such a short period of time it is not possible to collect detailed feedback from a large range of members.

The first enterprises will have to report according to CSRD from 01.01.2025 for the business year starting on 01.01.2024. This means that enterprises that are directly affected by this as well as others linked to them via supply chains have a very limited amount of time to comply with these complex rules. We argue that the start date of

CSRD-based reporting should be postponed in order to allow enterprises to deliver high quality reports.

Simplified standards will only be effective in reducing the burden on SMEs and SNCIs if they are available on time. An adoption by mid-2024 is in our view much too late.

### **Scope of reporting**

The foreseen reporting goes much too far. We are therefore of the opinion that the ESRS must consider proportionality more than it currently does. We advocate that information/data that SNCIs have to report need to be capped and such caps in the supply chain must be already ensured in the first set of the ESRS. Otherwise, far-reaching requirements might be reproduced in the development of the simplified standards for listed SMEs (LSME) and the voluntary standards for non-listed SMEs (VSME) and thus SNCIs could not be exempted from indirect obligations.

Regarding the development of simplified standards, we urge the Commission to take this exercise very seriously. Starting from this annex of 247 pages an enormous simplification and reduction of provisions is needed in order to allow small entities (SMEs and SNCIs) to cope with the requirements. It is furthermore paramount to make sure that these simplified standards are officially recognised as sufficient for small companies that are in the value chains of large undertakings being are subject to the current draft.

### **Value chains**

In our view the definition of value chains is much too vast resulting in a huge burden for companies to check their value chains. That is why we urge the Commission to narrow the definition of the value chain for an initial period by either only including Tier 1 suppliers or by excluding non-listed SMEs and SNCIs beyond Tier 1.

### **Data protection**

The ESRS should avoid requiring the disclosure of information that is protected by other legislative frameworks (e.g. personal information, labour law, confidentiality requirements) or information that may negatively impact competitiveness (see e.g. Article 432 CRR). Some information required by the ESRS is highly confidential (e.g. information on strategic plans and resources). We therefore call for the possibility to exclude protected and confidential data from reporting requirements.

In the following we would like to comment on specific provisions of the current draft:

ESRS E1, paragraph 1.b

*"The objective of this Standard is to specify Disclosure Requirements which will enable users of sustainability statements to understand:*

*[...]*

*(b) the undertaking's past, current, and future mitigation efforts in line with the Paris Agreement (or an updated international agreement on climate change) and compatible with limiting global warming to 1.5°C"*

We oppose this provision as it adds an additional burden on companies. Currently, national provisions as well as the draft focus mostly on CO2 reduction. Adding the obligation to refer to the 1.5°C goal does not add any additional value vis-à-vis the focus on CO2 reduction, but it creates substantial additional work. We therefore advocate that passages in the draft that refer to the 1.5°C goal should be removed.

ESRS 1, paragraph 133

*"Paragraphs [1]131 and 132 apply irrespective of whether or not the relevant actor in the value chain is an SME."*

This paragraph should be removed and these paragraphs should not apply in case an entity in the value chain is an SME.

ESRS 1, paragraph 134

*"Starting from the fourth year of its reporting under the ESRS, the undertaking shall include value chain information according to paragraph 67. In this context, the information required by ESRS to be obtained from SME undertakings in the undertaking's value chain will not exceed the content of the future ESRS for listed SMEs."*

We advocate that this provision should refer to the VSME, as LSME are still too complicated for many SMEs and especially for microenterprises. Setting the limit at the LSME would discourage enterprises from using the VSME.

ESRS 1, section 5.2, paragraphs 68-72

We very much welcome that the ESRS recognise circumstances where the company cannot collect the information about its upstream and downstream value chain required by paragraph 63 after making reasonable efforts to do so and in these circumstances the company can estimate the information to be reported about its upstream and downstream value chain, by using all reasonable and supportable information, such as sector-average data and other proxies.

In our view, the Commission should provide suitable proxy data. This is important in order to grant legitimacy to the use of such data. It would ease the reporting burden of companies, and foster greater consistency of reporting as many companies use the same source of data.

ESRS should encourage the use of proxy data. Companies should be made aware of the fact that the ESRS provide the opportunity to use proxy data. This is important in order to prevent companies pressuring non-listed SMEs in their value chain to provide direct data even though that would be extremely complicated and costly to them.

ESRS 1, section 3.4, paragraphs 43-46

We welcome the fact that all disclosure requirements and data points within each standard, except for ESRS 2, will be subject to materiality assessment by the undertaking. This will allow for a significant reduction in the burden of reporting.

## Conclusion

Reporting under CSRD will constitute significant additional work for small companies as well as for their financiers, in our case the guarantee institutions. In order not to discourage entrepreneurship and investment, disclosures should be as easy as possible, avoiding overlaps with other legislation and proportionate to the size and the capacities of an undertaking. It is furthermore important, that standards are clear and that they are available in time, leaving companies sufficient time to implement them before reporting becomes imminent (either legally or via the tickle-down effect).

## About us

The 46 members of the **European Association of Guarantee Institutions (AECM)** are operating in 31 countries in Europe. They are either private/mutual sector guarantee schemes or public promotional institutions or banks. Their mission is to support SMEs in getting access to finance. They provide guarantees to SMEs that have an economically sound project but do not dispose of sufficient bankable collateral. This so-called SME financing gap is recognised as market failure. By guaranteeing for these enterprises, guarantee institutions help to address this market failure and facilitate SMEs' access to finance. The broader social and economic impact of this activity includes the following:

- Job creation and preservation of jobs by guaranteed companies
- Innovation and competition: crowding-in of new ideas leading to healthy competition with established market participants
- Structure and risk diversification of the European economy
- Regional development since many rural projects are supported
- Counter-cyclical role during crises

SME guarantees generally pursue a long-term objective and our members, if public, private, mutual or with mixed ownership structure, have a promotional mission.

AECM's members operate with counter-guarantees from regional, national and European level. At the end of the year 2022, AECM's members had about bEUR 267 of guarantee volume in portfolio, thereby granting guarantees to around 5.2 million SMEs. AECM's members are by far the most important counterparts of the EIF concerning EU counter-guarantees, handling EU (counter-)guarantees from the very beginning in 1998.

Have a look at our [AECM brochure](#) and at our most recent publications:

[AECM brochure on Ukraine measures](#)

[AECM Statistical Yearbook 2021](#)

[AECM members' support programmes beyond standard debt guarantees](#)

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