

BETTER FINANCE responds to European Commission's revised sustainability reporting standard for voluntary use (VSME)

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Executive Summary

BETTER FINANCE supports efforts to reduce disproportionate reporting burdens and recognises the importance of ensuring that sustainability reporting frameworks remain proportionate and operationally feasible. Simplification can contribute to the competitiveness of European businesses and reduce unnecessary administrative costs.

However, following the Omnibus changes, the original Voluntary Sustainability Reporting Standard for SMEs (VSME) - initially developed as a voluntary framework for smaller companies with fewer than 250 employees - has effectively become the reference point for a significantly broader population of companies with up to 1,000 employees. This substantially expands the importance and practical implications of the VSME beyond its original design and purpose.

BETTER FINANCE is concerned that additional changes introduced by the European Commission, particularly regarding the operation of the value-chain cap, may unintentionally reduce the completeness, consistency and comparability of sustainability information available throughout reporting chains. While reducing reporting burdens remains important, simplification should not create information gaps that ultimately reduce decision-useful information for investors and end users.

BETTER FINANCE therefore considers that, at minimum, datapoints classified as both "**necessary**" and "**necessary if applicable**" should remain within the value-chain cap, while datapoints categorised as "**voluntary**" may be excluded.

About BETTER FINANCE

BETTER FINANCE — the European Federation of Investors and Financial Services Users — is the voice of European citizens as savers, investors, and financial users at the EU level. Working independently from the industry, BETTER FINANCE serves as an independent hub of financial expertise for the direct benefit of individual shareholders, investors, savers, life insurance policyholders, pension fund participants, and mortgage borrowers across Europe. Their work aims to promote research, information, and training on investments, savings, and personal finances to lawmakers and the public. BETTER FINANCE counts 40 independent, national, and international member organisations, sharing similar objectives from the EU Member States as well as Iceland, Norway, Turkey, Lebanon, and Cameroon.

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Implications of the proposed value-chain cap data exclusions

Under the Commission's approach, only datapoints classified as **"necessary"** automatically fall within the value-chain cap. Datapoints categorised as **"necessary if applicable"** or **"voluntary"** would not be included.

Several excluded datapoints concern information frequently used in sustainability analysis and reporting, including:

- Scope 3 emissions;
- GHG reduction targets;
- climate-transition information;
- climate-risk and adaptation information;
- biodiversity and water-related information;
- governance-related indicators;
- selected human rights and social datapoints.

While simplification objectives remain important, restricting information requests to a narrower subset of datapoints risks reducing the availability of information that may remain relevant for sustainability analysis and long-term decision-making.

Potential implications for investors and end users

Although the VSME was not originally designed primarily as an investor-facing reporting framework, its expanded role following the Omnibus changes may increase its relevance for users of sustainability information. As the framework now effectively serves as the reference point for a broader population of companies with up to 1,000 employees, including larger and more economically significant companies, changes to its scope and content may have wider implications for the availability and quality of sustainability information throughout reporting chains.

Sustainability information increasingly flows through broader reporting chains - smaller companies increasingly provide information to larger reporting ones, which in turn rely on this information to produce sustainability disclosures used by financial institutions and investors. Consequently, limitations at the value-chain level may ultimately influence the consistency and completeness of information available throughout broader sustainability reporting systems.

From an investor perspective, this raises questions regarding:

- comparability and consistency of sustainability information;
- availability of climate and transition-related information;

- long-term reliability of sustainability information used for investment decisions.

Consider a smaller company with fewer than 1,000 employees supplying products or services to a larger company subject to mandatory sustainability reporting requirements.

The larger company may need sustainability information from that supplier to:

- assess climate-related risks;
- monitor progress against transition plans;
- calculate value-chain emissions;
- identify environmental or social risks.

Under the current proposal, the larger company may request only datapoints classified as **"necessary"**.

However, information categorised as **"necessary if applicable"**, such as climate-transition information, Scope 3 emissions, sustainability targets or climate-risk information, falls outside the practical scope of information requests.

In practice, this could create situations where companies have sufficient information to identify a potential issue, but insufficient information to properly assess, compare or prioritise sustainability risks and impacts.

Over time, this may reduce the completeness and consistency of information flowing through reporting chains and ultimately affect the quality of sustainability information available to investors and end users.

Recommendation

BETTER FINANCE considers that, at minimum, datapoints categorised as **"necessary if applicable"** should remain within the value-chain cap alongside datapoints classified as **"necessary"**, while datapoints categorised as **"voluntary"** may be excluded.

This approach would continue to support simplification objectives while reducing the risk of unintended information gaps and preserving the usefulness of sustainability information throughout broader reporting ecosystems.

Given the expanded scope and practical relevance of the VSME following the Omnibus changes, maintaining an appropriate balance between simplification and the continued availability of decision-useful sustainability information becomes increasingly important not only for preparers, but also for investors and end users.