

VSME [draft] Supporting guide on Disclosure C3 – GHG reduction targets and climate transition plans

DRAFT FOR EFRAG SRB AND EFRAG SR TEG AFTER TARGETED CONSULTATION

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***THE CONTENT OF THIS SUPPORTING GUIDE IS NOT
COMPULSORY AND SERVES TO GUIDE THOSE SMES THAT HAVE
DECIDED TO ADOPT AND DISCLOSE GHG EMISSIONS
REDUCTION TARGETS AND CLIMATE TRANSITION PLANS***



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Disclaimer

The European Commission in the Omnibus proposal released on 26 February 2025 proposes, to use the VSME Standard as the basis of a future voluntary standard for undertakings up to 1000 employees. The VSME Standard has been developed for use by non-listed SMEs including micro-enterprises and has not been tested for use by other larger and more complex companies. It is important to note that on 30 July 2025 the European Commission officially adopted EFRAG's VSME as a [Recommendation](#). With regard to the endorsement of the VSME as a Delegated Act, at the moment, no information is available on the proposed Delegated Act of a voluntary standard to be used by companies with 250 to 1000 employees, besides the European Commission's 26 February Omnibus proposal. The VSME supporting guides currently being developed are to be understood as supporting the application of the VSME Standard for undertakings with less than 250 employees. The content of the VSME supporting guides under discussion has been developed in line with the scope of the VSME. Should the VSME be destined to a different group of undertakings, their current content could be different and less simplified.

Background on the VSME Ecosystem Supporting guides

1. EFRAG aims to produce support material to facilitate the adoption and reporting process for the VSME, within the context of the VSME ecosystem.
2. This Supporting guide is divided in two sections:
 - **Section 1:** this section consists of guidance for small and medium SMEs **setting GHG emissions targets** (including relevant actions/practices to achieve them).
 - **Section 2:** this section consists of guidance for small and medium SMEs operating in high climate impact sectors that have decided to adopt a climate transition plan (see section 2 for high climate impact sector classification). **Section 2** builds upon and complements **Section 1 (setting GHG emissions targets)**. **Section 2 guidance is therefore to be read conjunctively with Section 1.**

Introduction and aim of the supporting guide on Disclosure C3 – GHG reduction targets and climate transition plans

3. This supporting guide provides step-by-step guidance on how to structure and report GHG reduction targets and climate transition plans according to disclosure C3 of the VSME Standard, see extract below:

<p>C3 – GHG reduction targets and climate transition</p> <p>54. If the undertaking has established GHG emission reduction targets, it shall disclose its targets in absolute values for Scope 1 and Scope 2 emissions. In line with paragraphs 50 to 53 above and if it has set Scope 3 reduction targets, the undertaking shall also provide targets for significant Scope 3 emissions. In particular, it shall provide:</p> <ul style="list-style-type: none">(a) the target year and target year value;(b) the base year and base year value;(c) the units used for targets;(d) the share of Scope 1, Scope 2 and, if disclosed, Scope 3 that the target concerns; and(e) a list of main actions it seeks to implement to achieve its targets. <p>55. If the undertaking that operates in high climate impact sectors⁶ has adopted a transition plan for climate change mitigation, it may provide information about it, including an explanation of how it is contributing to reduce GHG emissions.</p> <p>56. In case the undertaking operates in high-climate impact sectors and does not have a transition plan for climate change mitigation in place, it shall indicate whether and, if so, when it will adopt such a transition plan.</p>
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4. Scope 3 GHG emissions fall outside the scope of this guide. However, companies that intend to include Scope 3 should apply the same logic used for Scope 1 and Scope 2, while setting GHG emission reduction targets, and, where relevant, integrate this into their transition plans.

Introduction to GHG reduction targets and transition plans.

5. Adopting **GHG emission reduction targets** is an important response to the need to transition to a sustainable economy, as they allow companies to manage the change in a systematic, controlled and organised way.
6. For companies active in **high impact climate sectors**, where investments to decarbonise are likely to be higher, or where some activities are difficult to decarbonise, achieving targets might benefit from the implementation of a comprehensive **transition planning** process that supports change management and internal decision-making.

1. GHG reduction targets

"A GHG reduction target is a commitment to reduce the GHG emissions in a future year compared to the emissions measured during a chosen base year"

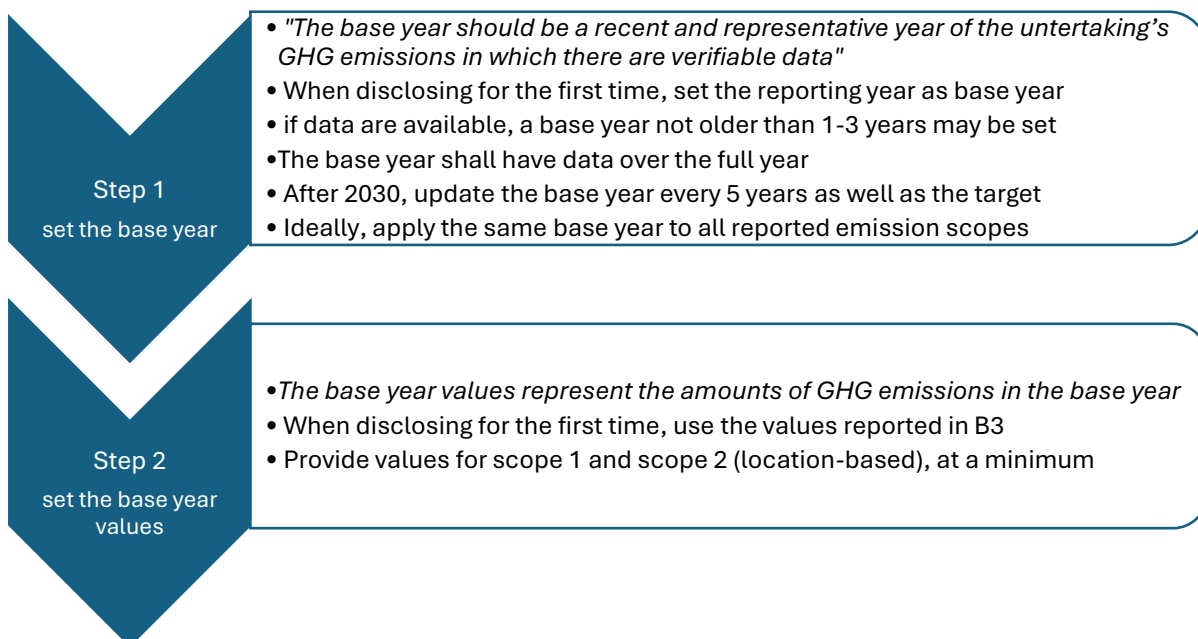
The standard does not require companies to set targets. However, it is good practice for companies to set Scope 1, 2, and (3) targets for 2030. If companies do set targets, the standard requires them to be disclosed. Guidance on CO₂ emissions sources, the definition of Scope 1, Scope 2, (and Scope 3) can be found in the guidance of the VSME. (paragraph 90-109)

7. All amounts of GHG emissions should be expressed in tons of CO₂ equivalent (tCO₂eq) as required by B3 (Disclosure B3, §30). Companies shall have disclosed their GHG emissions in B3 when disclosing targets. GHG removals (e.g. carbon credits from compensation programs like reforestation), avoided emissions (e.g. GHG emissions avoided because of selling insulation products) and offsetting through carbon credits (e.g. compensation programs outside the company's value chain) shall not be counted when calculating GHG emissions or setting the undertaking's gross GHG emission reduction targets, as specified in paragraph 218 of the VSME.

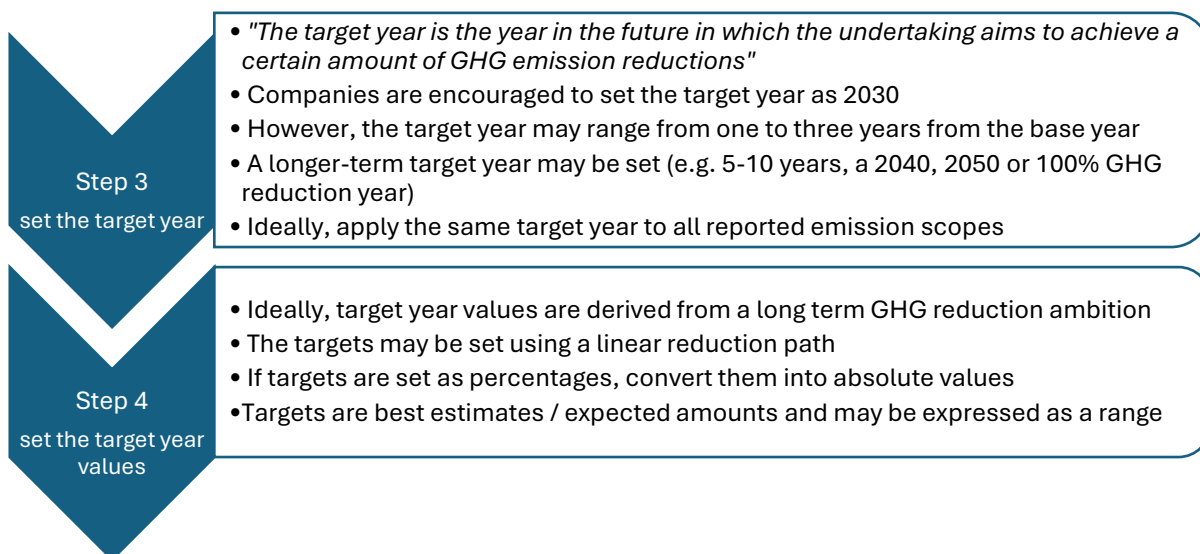
1.1. Step-by-step guide to disclosing GHG reduction targets

8. This section provides step-by-step guidance on how to set targets, with special consideration of companies setting targets for the first time, for which examples of good practices are provided. The guide aligns with the VSME disclosure requirements.

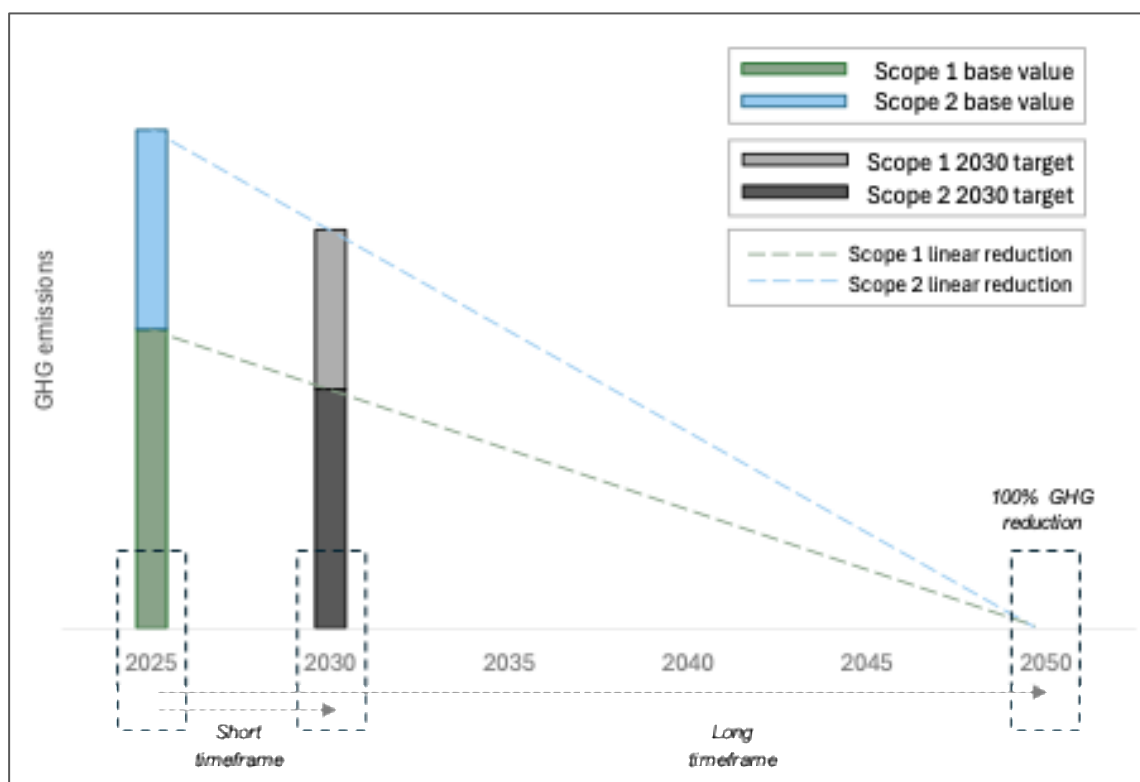
⇒ Setting the timeframes



⇒ Setting the ambition level



9. The graphic below illustrates how SMEs can set a target using a linear emission reduction path. In this approach, the undertaking defines the desired emission level ("target value") and the year by which it aims to achieve it ("target year"). The provided example shows a long-term ambition level (100% GHG emissions reduction by 2050) to help establish the linear reduction pathway. From this pathway, Scope 1 and 2 emissions can directly be derived.



10. Scope 2 emissions can be reported using two methods: **location-based** (grid average) and **market-based** (purchased contracts). See the glossary for exact definitions. The VSME focuses on the

location-based method, but it is useful for companies to disclose both. Using the location-based method, Scope 2 emissions can mainly be reduced through energy efficiency measures or by consuming self-generated renewable energy. By also applying the market-based method, companies gain an additional opportunity to reduce Scope 2 emissions by purchasing green electricity. This option is particularly relevant for SMEs, as it represents a low-effort, high-impact measure that can accelerate emission reductions.

11. It is important to acknowledge that fast-growing companies might face challenges in setting targets because their organic growth comes with higher uncertainties.
12. This simplified approach does not consider that different business activities likely decarbonise at different rates through 2050. A non-linear approach may provide a better representation of decarbonisation efforts and targets. For instance, for service companies, electricity use is often easier to decarbonise by choosing a green electricity provider or acquiring a renewable power purchase agreement (PPA), which could justify a more ambitious target for Scope 2 emissions.

⇒ **Target setting example**

13. An SME disclosing for the first time, sets the base year at the (current) reporting year (“2025”), and decides to set the target year in 2030.
14. It also decides to reduce scope 1 emissions by electrifying part of the undertaking’s fleet, aiming for a reduction of about 35% of its scope 1 emissions. This will shift some of the GHG emissions to Scope 2, as more electricity will have to be purchased for the electric vehicles.
15. The SME decides to procure green electricity by 2030, fully decarbonising its scope 2 emissions.
16. The total GHG reduction target indicate that the SME will reduce Scope 1+2 emissions with 110t CO₂eq by 2030, or 48% from the base year. The SME can make these calculations using simple assumptions based on current electricity bills, fuel purchase records, or vehicle mileage. These provide a practical basis for estimating progress over time and tracking future emissions.

Table 1 - Example of target setting for an SME

Target setting example	Baseline	Current report	Target (2030 encouraged)	% change
Year	2025	2025	2030	
Scope 1 (tCO ₂ eq)	185	185	120	-35%
Scope 2 location-based (tCO ₂ eq)	45	45	60	+33%
Scope 2 market-based (tCO ₂ eq)	45	45	0	-100%
Total (tCO ₂ eq) (Scope 1&2 location-based)	230	230	180	-22%
Total (tCO ₂ eq) (Scope 1&2 market-based)	230	230	120	-48%

1.2. Main actions to implement the targets

17. While disclosing information on the main GHG reduction actions to achieve the targets, companies may refer to **disclosure C2** to align with the practices, policies, or future initiatives contributing to climate change mitigation already listed in C2. In Appendix A (non-exhaustive) the list of illustrative examples for climate mitigation actions extracted from the guidance on disclosure C2 can be consulted.
18. It is expected that these actions are subsequently categorised as contributing to Scope 1 and Scope 2 reduction targets as in the example illustrated in Box 1 below.

Box 1 Example of main action to implement the SME's GHG reduction targets

Scope 1: Low-carbon transport

Our actions include retiring depreciated diesel vans and use new electric vans (e-vans) to replace them. Additionally, cargo bikes will be leased in alignment with the SME's growth strategy to further reduce greenhouse gas emissions.

Scope 1: Energy efficiency measures

We plan to upgrade machines to A-label energy-efficient models in line with the depreciation rate, ensuring a gradual transition to lower energy consumption.

Scope 2: Renewable energy – renewable electricity sourcing

To reduce reliance on fossil fuels, 50% of the SME's electricity will be sourced from renewable electricity providers (from a Power Purchase Agreement (PPA)).

2. Transition plan for climate change mitigation

IMPORTANT: This section applies specifically to SMEs operating in high climate impact sectors (see table 1, page 1 of this guide). Other companies like those operating in the services sector are not expected to draft or disclose transition plans. Those wishing to do so also may follow the guidelines below (e.g. data centres).

19. Table 1 provides an overview of the high climate impact sectors as defined by the VSME standard.

Table 1 High climate impact sectors (VSME standard, §55, NACE v2.1 classification)

Class	Description
A	Agriculture, Forestry, and Fishing
B	Mining and Quarrying
C	Manufacturing
D	Electricity, Gas, Steam, and Air Conditioning Supply
E	Water Supply; Sewerage, Waste Management, and Remediation Activities
F	Construction
G	Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles
H	Transportation and Storage
M	Real Estate Activities

20. A transition plan for climate mitigation is the part of an SME's strategy that lays out its GHG reduction targets, supported by a set of present and future actions, to ensure compatibility with the transition to a lower-carbon economy and limiting global warming in line with the **EU climate commitments**.

21. Transition planning is not a one-time effort but an ongoing process. The plan can be expected to evolve as market conditions, policies and risks change and may be reviewed periodically.

2.1. Step-by-step guide to disclosing a climate transition plan

22. A credible transition plan for climate mitigation is a list of actions to be implemented over a time horizon which takes financial planning into account.

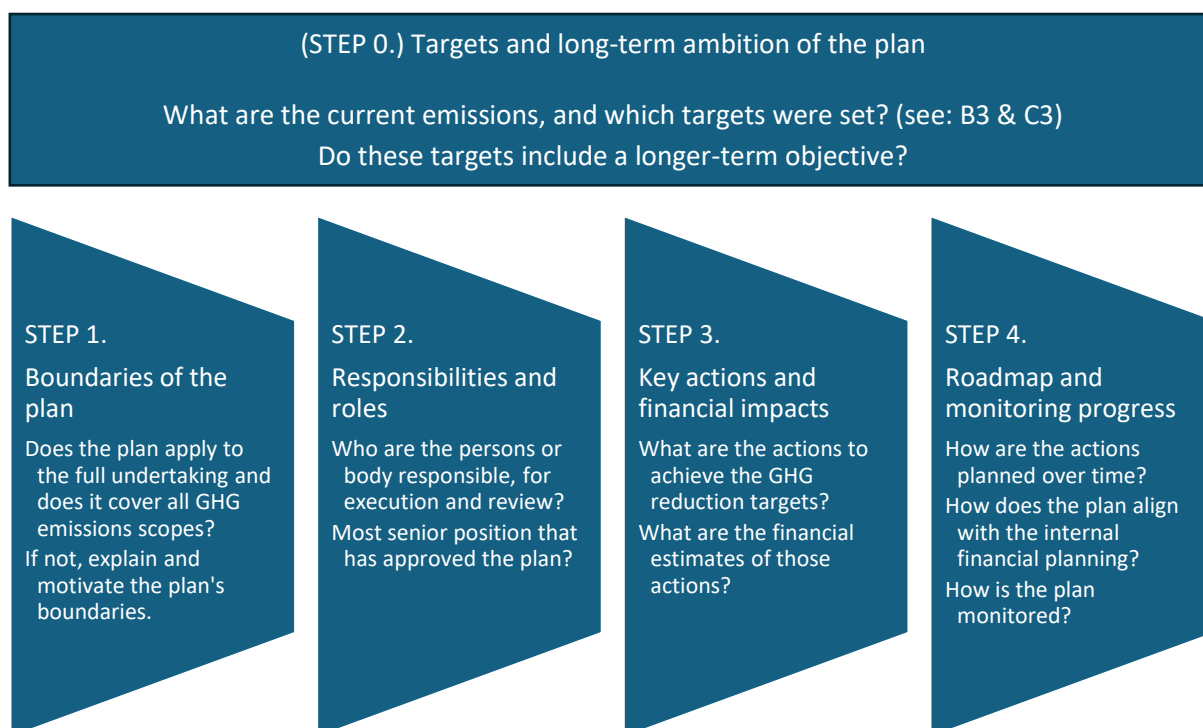
23. This transition plan will have to be updated on a regular basis as not all planned actions might be implemented, in particular those that relied on uncertain future developments (e.g. price changes, liquidity, ...).

24. It is not expected that the full plan is disclosed. A summarised understanding of the plan is sufficient as long as it allows users of the VSME report to assess GHG reductions, timeline and its financial implications.

25. The combination of disclosures illustrated hereunder ensures that a transition plan is disclosed in a credible way:

In the context of transition planning it is useful to stress that **actions refer to:**

1. **actions and plans** which ensure that the undertaking's targets are met; and
2. **decision processes** to assign financial, human or technological resources



Case study – setting the scene

To clarify the disclosure expectations, a case study of SME A, active in a high climate impact sector, is provided throughout the transition plan guidance.

SME A is active in a climate-intensive sector and has set emission reduction targets, aiming to lower total GHG emissions from 5000 tons in 2025 (B3) to 3850 tons by 2030 (C3, targets), representing a 23% reduction. The SME has also identified a list of actions for GHG emission reductions as requested in C3, main actions to implement the targets (2.2 of this Support Guide).

⇒ Step 1. Scope of the plan

26. A transition plan for climate change mitigation developed by an SME may cover all of its emissions (disclosure B3) and targets (disclosure C3), or only a part thereof. After measuring its emissions, an SME can decide for strategic reasons to limit the extent of the plan to – for example – specific high-emitting activities or to a specific time horizon, as shown in the case study hereunder.
27. It is expected that the transition plan disclosure clearly lays out the boundaries of the transition plan, explaining what is included, in terms of undertaking sites, activities or installations, as well as in time, and whether all emission scopes are considered. The SME is also expected to provide an explanation of why these boundaries were considered (e.g. the majority of GHG emissions happen within these boundaries, undertaking did not agree on targets beyond Scope 2 yet, ...).

Case study – boundaries of the transition plan

SME A discloses that the current GHG emission reduction target for 2030 implies a further decline of the SMEs emissions by more than 90% before 2050, if it would decide to decarbonize at the same rate. It clarifies that it currently does not set a long-term target however, as first more experience with reducing GHG emissions needs to be built. The SME also discloses that the plan focuses mainly on the electrification of its production process, as the current production process causes the bulk of the known GHG emissions (80%) via its gas-fired dryers and furnaces and as it represents the largest financial challenge. SME A further states that Scope 3 emissions are currently not disclosed in the plan as no reduction targets have been set for Scope 3.

⇒ **Step 2. Responsibilities and roles**

28. For a successful transition plan for climate mitigation, leadership commitment is crucial. Responsibility for the plan usually lies with the most senior level of the undertaking accountable for implementing the plan. Depending on the size and complexity of the SME, the governance and execution of the plan can lie with one or multiple persons, or even with working groups. This means that the owners, or key decision-makers like a management board, or specific climate governance groups can set the ambition level of the plan. The implementation of specific actions can be assigned to similar roles, or to specific experts like the environmental manager, or project leads.

Case study – governance of the plan: who does what?

SME A discloses that the plan has been approved by the management of the undertaking. The managing director takes responsibility for setting and monitoring the SME's climate transition priorities, the operations manager will ensure effective implementation. The SME has asked its accounting service provider for support with the annual financial risk assessment of the plan and the eventual review of the plan's priorities.

⇒ **Step 3. Disclose key actions and financial impacts**

29. In this step, companies should discuss the GHG reduction potential and the financial impacts of the key actions they identified for GHG reductions (see 2.2 of this guide).
30. In the case that an SME has identified a long list of actions, it may aggregate these actions into **decarbonisation levers**. Examples of such levers are the climate change mitigation categories in the C2 support guide [link to be added].
31. A credible transition plan has to consider the financial planning cycle of SMEs. If there are planned actions which are expected to take place after the horizon of the financial planning, the undertaking may provide approximations of GHG reductions and the financial resources necessary to implement in the future.

32. Note that GHG removals (e.g. carbon credits from compensation programs like reforestation) and avoided emissions (e.g. GHG emissions avoided because of selling insulation products) cannot be included in the list of actions to reduce GHG emissions and achieve targets.

CONSIDERATIONS ON CAPEX/OPEX AND OTHER FINANCIAL INDICATORS

CapEx represents upfront investments, such as purchasing energy-efficient equipment or installing renewable energy infrastructure, which may require significant funding but can lead to long-term cost reductions and improved efficiency. OpEx, on the other hand, includes ongoing costs such as maintenance, energy procurement, and operational adjustments, which companies must manage to ensure financially viable implementation of their climate initiatives.

Other financial indicators can also provide useful information. The payback period, for example, shows how long it takes to recover the initial investment. A more advanced measure is the internal rate of return (IRR), which expresses the annual return an investment is expected to generate. Both indicators can help evaluate how attractive an investment is and guide decisions about which projects to prioritize.

Case study – disclosing key actions and financial impacts

This part of the case study has been further simplified to avoid lengthy explanations of decarbonisation efforts. In reality, a company will most likely combine a broader portfolio of large and small actions to optimise costs and reduce risks.

To achieve its GHG reduction targets, SME A has identified that the electrification of its production processes would contribute to the strongest GHG emission reductions. Two decarbonization levers were identified: “electrification” and “renewable energy generation”.

Investments in electrification by 2030 are estimated at 1,5M€ (Capex) for a reduction of 26% of total GHG emissions (-1300t CO₂eq), to be spread over time and sites. The electrification will require more power consumption and increase the emissions coming from the grid (the Scope 2 location-based emissions). After considering the price trend of grid electricity, and strategic issues like cash flow and energy security risks, investing in renewable energy generation was identified as a priority. The SME therefore plans an expected 1M€ investment cost (Capex) for a 1MW solar PV farm. The approach allows for an initial decrease of overall costs (OPEX) which provides SME A with some time to build liquidity to attract additional future investments.

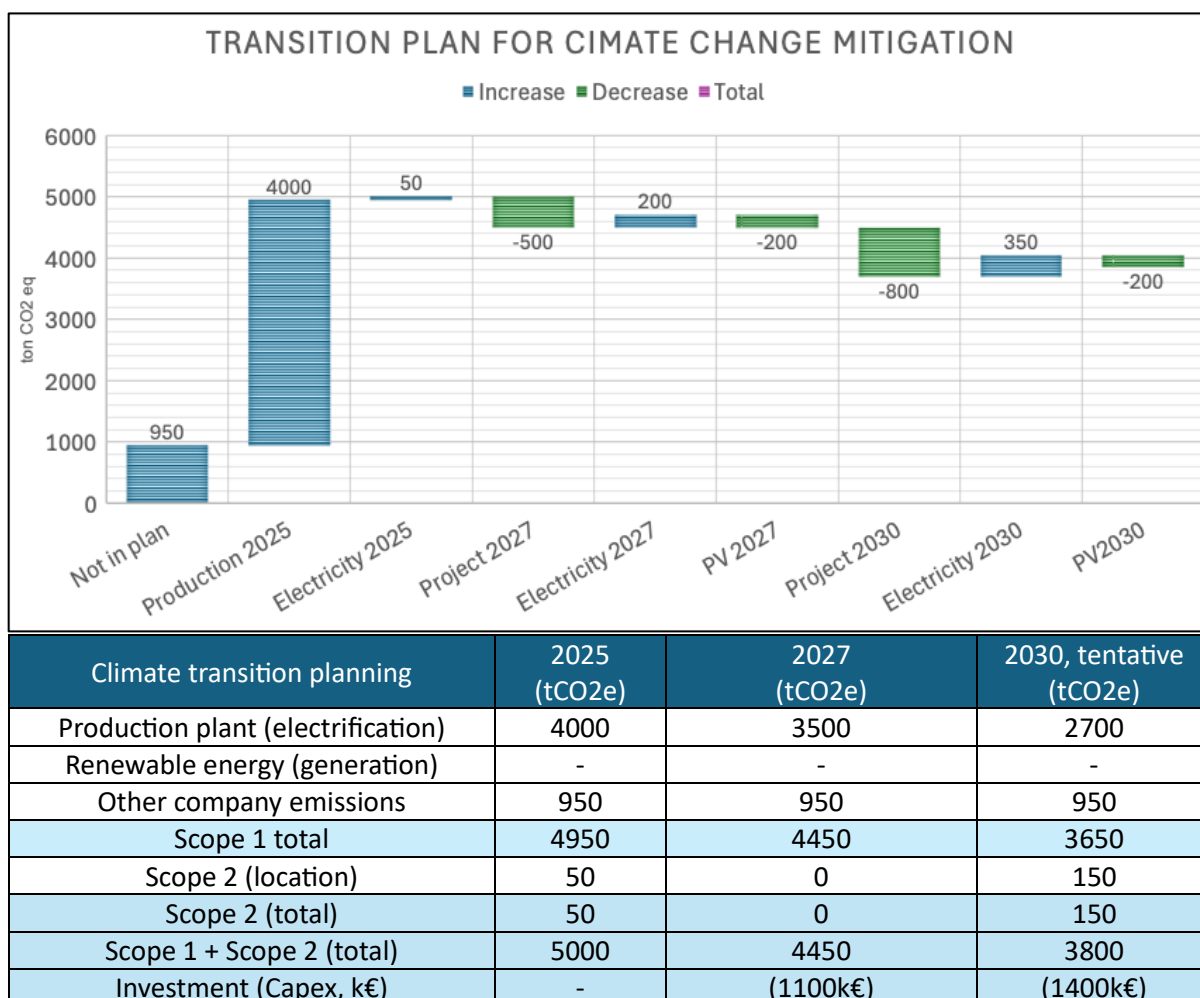
A key uncertainty in the financial assessment is the expected return on the 1MW solar PV farm which depends on the realized value of grid services.

Decarbonisation levers	2025 (tCO ₂ e)	2030 (tCO ₂ e)	Investment (Capex, k€) or explain	Cost (Opex, k€/y)
Electrification of production plant	4000	2700	1500k€ total capex for two projects	(250k€/y) fuel savings

Electricity generation	0	0	1000k€ for 1MWp solar PV farm	(125k€/y) cost savings
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⇒ **Step 4. Disclosing the roadmap and monitoring progress**

33. SMEs may present their GHG emission reduction targets and decarbonisation levers in a table or graphically showing developments over time.



Case study – disclosing the transition plan and monitoring progress

SME A has a financial planning cycle of 2 years. It decides to set interim targets for the development of the transition plan for 2027, in line with the undertaking's financial approach. A relatively modest electrification project is selected as a first investment to prove the economic case. Also the development of half of the planned solar PV park is scheduled for 2027 due to the complementarity with the existing energy portfolio. About 1,1M€ investments are planned to achieve the interim targets.

SME A also provides a tentative outlook to 2030 to start discussion with prospective investors.

Progress of the plan can be monitored via the performance of the solar PV park as it is expected to provide sufficient energy for the operation of the first electric furnace between 2027 and 2030. The managing director will evaluate the annual progress of the plan. Additionally, considering the current growth cycle the company is enjoying, the MD will evaluate on an annual basis whether the plan has to include additional installations or sites to ensure to stay on track to achieve the target commitments.

Glossary

Decarbonisation lever	Decarbonisation levers are higher-level, aggregated types of action like “energy efficiency”, “electrification”, “use of renewable energy”, “redesign of products” that group individual climate change mitigation actions and that help the undertaking communicate key strategic decarbonisation options. Examples of such levers are the categories which organize the lists of C2 actions in the support guide (link to be added)/
Scope 1	Direct GHG emissions from sources that are owned or controlled by the undertaking.
Scope 2	Indirect emissions from the generation of purchased or acquired electricity, steam, heat or cooling consumed by the undertaking.
Scope 3	All indirect GHG emissions (not included in Scope 2 GHG emissions) that occur in the value chain of the reporting undertaking, including both upstream and downstream emissions. Scope 3 GHG emissions can be broken down into Scope 3 categories (add link to guidance).
GHG removals	Anthropogenic removal of carbon from the atmosphere and its durable storage in geological, terrestrial or ocean reservoirs, or in long-lasting products

Avoided emissions	The estimated difference in full life cycle GHG emissions that result from a scenario with a solution in place, compared to a reference scenario without the solution when reference scenario emissions are higher (ISO 14064-1). This reduction occurs in other actors' direct emissions. [WBCSD]
High impact climate sector	High climate impact sectors are those listed in NACE Sections A to H and Section M
GHG Protocol	GHG Protocol supplies the world's most widely used greenhouse gas accounting standards and guidance. https://ghgprotocol.org/
Base year	Reference year against which GHG emission reductions are measured
Base year value	Total recorded GHG emissions for the base year (tCO ₂ eq)
Target year	A future year in which the emissions reduction is to be achieved
Target year value/ GHG reduction emission targets	Expected amount/best estimate of GHG emissions to be released in the target year (tCO ₂ eq)
Location-based Scope 2 emissions	The average GHG emissions from electricity supplied via the local grid. Regardless of your electricity supplier, all purchased electricity arrives at your destination as a mix of the national electricity production. The GHG emissions associated with this mix are calculated using an emission factor regardless of any contractual arrangements. For example, if a company operates in the Netherlands, its electricity-related emissions are calculated with the Dutch grid factor. If it operates in Romania, they are calculated with the Romanian grid factor, which is currently higher related to a larger share of coal use in the electricity production mix.
Market-based Scope 2 emissions	Market-based Scope 2 emissions are calculated using emission factors from the specific electricity purchased through contractual instruments (e.g., renewable energy certificates, power purchase agreements). These emissions express how your purchases contribute to the decarbonization of the national electricity production mix. For example, if a company in a long-term power purchase agreement from wind energy, its electricity-related emissions are zero.