european contact group

Brussels, 18 December 2024

Mr. Axel Voss, MEP
European Parliament
Rue Wiertz 60
1047 Brussels, Belgium

Dear MEP Voss,

Re: Response to call for input on bureaucratic hurdles, reporting and overlaps

The European Contact Group[1] (ECG) welcomes the opportunity to respond to your call for input on the reduction and streamlining of bureaucratic requirements across legislation and reporting standards. The ECG brings together the six largest international professional services networks in Europe (BDO, Deloitte, EY, Grant Thornton, KPMG and PwC). Your initiative is in tune with President von der Leyen's announcement to reduce reporting requirements by 25% for large companies, and more recent announcements to look into ways to streamline sustainability related disclosure requirements.

We support the goal of reducing the complexity while enhancing the practicability of corporate reporting, including in relation to sustainability reporting. We have previously shared input to this effect, for instance in our response to the consultation on the first set of the draft European Sustainability Reporting Standards by EFRAG in August 2022.

Achieving a more streamlined and pragmatic framework for reporting also depends on a stable legal framework which provides clarity for businesses and capital markets. This is particularly important given the ongoing process of CSRD transposition in some Member States. Any significant adjustments to legislation should be carefully evaluated to prevent unintended complexity or legal uncertainty.

Overall, simplifying reporting obligations could help companies, especially SMEs, to better disclose relevant sustainability information and in a way that is helpful to their stakeholders. Among others, simplification could be achieved by:

- A review of the approach and cohesiveness of the sustainable finance EU regulations,[2] to enable their streamlining with respect to the information to be produced, and allowing reporting to focus on matters that are material to stakeholders;

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[1] Transparency Register No. 0633841538-63

[2] Corporate Sustainability Reporting Directive (CSRD), European Sustainability Reporting Standards (ESRS), Environmental Taxonomy Regulation, Sustainable Finance Disclosure Regulation (SFDR), Green Bonds Standard Regulation, Benchmark Regulation, Pillar 3 Regulation for credit institutions, EU Climate Law, etc.

- A more harmonised implementation of EU legislation, as differing Member States' options increase the complexity of understanding the reporting requirements for EU and non-EU companies operating across the EU;
- Allowing sufficient time between the adoption of legislation/reporting standards and the first year of reporting by preparers.
- Ensuring interoperability, and equivalence mechanisms, to the extent possible with other jurisdictions, as conflicting requirements and duplications of reporting are sources of complexity and burden for EU companies operating globally, and non-EU companies operating and investing in the EU;
- Supporting companies in implementing [or applying] the new reporting requirements through publication of guidance connected with regulations, development of databases enabling free access to shared information, and understanding how Member States have transposed the various (new) Directives related to the Green Deal;
- Initiating timely reviews of recently adopted regulations to assess whether they meet their objectives and could be simplified (in particular, the reporting requirements of the EU Environmental Taxonomy Regulation, the SDFR and ESRS). A rationalisation exercise needs to start from the public policy objectives and reflect on how these can be achieved in the most effective and efficient manner; and
- Ensuring that a robust standard-setting due process, inclusive of stakeholders' participation and that allows sufficient time for them to express their views, supported by impact analyses and field-testing, applies to the development of any new or revised reporting regulations. As an illustration, we consider that the due process applicable for the EU Environmental Taxonomy Regulation could be improved through consideration of the more recent due process approach adopted for the development of ESRS.

Companies would also benefit from more consistent language used across existing and emerging legislation. For example, there are four different definitions of "supply chains" in the CSRD, CS3D, Deforestation Directive, and the Forced Labour Directive. Consistent definitions would contribute to a more efficient and coherent legal framework, reducing uncertainty when it comes to compliance. Consistency would also be valuable when it comes to aligning the thresholds in the CSRD and CS3D for the application to EU and non-EU entities, as well as aligning the implementation timetables of these pieces of legislation that build on one another.

While the current simplification debate primarily focuses on sustainability reporting, businesses would also benefit from a comprehensive approach that addresses additional reporting requirements.

In the area of tax policy, reporting requirements and overlaps impose bureaucratic hurdles that could also be considered in a simplification initiative. There is an active debate on what can be expected from companies when it comes to public tax reporting. Whilst worldwide policy changes have led to a transformation in governments' access to cross-border information on the tax affairs of larger businesses in particular, the EU Public Country-by-Country Reporting Directive mandates these multinationals to publicly disclose certain quantitative data. We welcome the European Commission's commitment to review the functioning of the EU Public Country-by-Country Reporting Directive by June 2027. We also acknowledge that as disclosure requirements increase in a way that results in diverging standards and directional rules open for differences in interpretation, the desire for clarity, standardisation and exchange of best practices also increases. In this context, ECG members aim to explore and engage with regulatory stakeholders on the relationship between financial reporting, sustainability reporting and tax reporting. We also urge the Commission to continue the conversation with stakeholders on the feasibility of a standardised approach to tax reporting.

We highlight the need for new tax initiatives to not increase the overall administrative burden for taxpayers and tax administrations and to improve the competitiveness of the EU. As such, we recommend that each tax-related legislative proposal is preceded by an impact assessment which considers the impact of the initiative on business, and on economic growth in the EU. In addition, policymakers should ensure that initiatives do not go beyond what is necessary to achieve their objectives and are therefore compliant with the principle of proportionality. To achieve these objectives, we support early-stage involvement of the business community in the formulation of policy by providing sufficient possibility for input and exchanges on guidance, best practices, and principles that will affect businesses.

Given recent changes to the international tax landscape (e.g., the Anti-tax Avoidance Directive, the OECD's Two Pillars Solution, the Directive on Administrative Cooperation), policymakers should allow sufficient time to analyse the impact of these measures, and examine whether they are effective and efficient. This would particularly include evaluating the potential of rationalising existing measures or the need for further guidance to reduce complexity, uncertainty and administrative burden.

Our ECG manifesto published earlier this year sets out further considerations and recommendations that we believe will support building a stronger, more prosperous EU. By leveraging multidisciplinary and international perspectives, the ECG aims to share insights and expertise with key EU decision-makers as well as the wider stakeholder community, contributing to efforts to:

- Reinforce the EU's competitiveness and strengthen the Single Market.
- Build well-functioning capital markets to attract investment and support growth.
- Enable the green transition and encourage sustainable finance.
- Harness the benefits of and ensure trust in a digital world.

We hope these initial observations and recommendations are helpful. We would welcome an opportunity to further explain these ideas and provide further input into your initiative.

Yours sincerely,

Isabelle Tracq-Sengeissen
ECG Chair