Commissioner Valdis Dombrovskis
European Commission
Rue de la Loi 200
1049 Brussels

13 February 2025

ECG suggestions for simplifying sustainability reporting requirements

Dear Commissioner Dombrovskis,

The European Contact Group (ECG)[1] supports the approach outlined in the Commission's communication 'A Competitiveness Compass for the EU' (the 'Competitiveness Compass') for its planned Omnibus package on sustainability reporting, which aims for far-reaching simplifications.

In our engagement with companies of different sizes and sectors, we observe transformation whilst at the same time recognising that the current legislation – including the Corporate Sustainability Reporting Directive (CSRD), the EU Taxonomy Regulation (EUTR) and the Corporate Sustainability Due Diligence Directive (CS3D) – places a high burden for companies and risks detracting from actions in support of competitive and sustainable businesses. We therefore welcome the goal of reducing complexity and enhancing the practicability of sustainability reporting requirements.

As noted in our letter of July 2023, the ambitious and overly prescriptive requirements of the European Sustainability Reporting Standards (ESRS) and the EUTR – along with the speed of implementation – pose significant challenges, especially for entities (both EU and non-EU) that have not previously prepared a non-financial statement under the Non-Financial Reporting Directive. We also see that the value and relevance of EUTR reporting is questioned by many stakeholders, particularly given its costs to business.

We concur with the aims outlined in the Competitiveness Compass, in line with the objectives of the sustainable finance framework to mobilise investment in the clean transition, to better align requirements with investor needs, to ensure proportionate timelines as well as financial metrics that support investments in transitioning small companies, and to scale obligations to match each company's size. We would also support, as a minimum, delaying reporting requirements for smaller 'Wave 2' companies and allowing such companies to report against a simplified version of ESRS.

In addition, we believe that a holistic review of the approach and cohesiveness of the EU's sustainable finance regulations should be started immediately. This should also include:

[1] The European Contact Group brings together the six largest international professional services networks in Europe (BDO, Deloitte, EY, Grant Thornton, KPMG and PwC). Transparency Register No. 0633841538-63

- a fast-tracked review of ESRS ‘Set 1’ after the first 2025 ‘Wave 1’ publications, i.e. in Q2 2025.
- an accelerated and thorough review of the EUTR, including the underlying due process.
- a revision of the Sustainable Finance Disclosure Regulation, given the direct effect it has on the level of information required under other legislative acts.

We draw attention to the need to address the interaction of the transparency requirements in the CSRD and the EUTR with the CS3D (in particular for climate transition plans).

We support all efforts to encourage dialogue between policy makers and different stakeholders on the sustainability reporting and sustainable finance framework requirements[2] and welcome the Commission’s efforts to hold regular dialogue with stakeholders in order to understand implementation challenges, hear business concerns and identify opportunities for simplification. Successful implementation and development of future standards and requirements (ESRS, EUTR), but also non-binding FAQs and guidance, must be grounded in an open, transparent and robust due process to ensure thorough consideration of feedback.

We welcome efforts by the EU and International Sustainability Standards Board to ensure interoperability of sustainability reporting standards. Globally aligned standards are essential to avoid regulatory fragmentation, impacting companies that operate globally, source through global supply chains and attract capital from global resources. Equally, investors operate globally, and it is critical for them and other users of sustainability reports, to have an aligned set of standards.

We believe the extraterritorial provisions of the EU sustainability reporting requirements need addressing. They currently place a burden on both EU[3] and non-EU companies through additional or excessive reporting requirements that can hamper the attractiveness of doing business in the EU. We therefore recommend that the Omnibus package address equivalence arrangements under which companies from a third-country jurisdiction are permitted to use global sustainability reporting standards to meet the EU sustainability reporting requirements (with supplementation if needed).

Finally, we welcome the significant work undertaken by the International Auditing and Assurance Standards Board to develop ISSA 5000 as a global baseline, and support it being used as the base for the future EU assurance standards to be adopted by the Commission.

We would welcome an opportunity to exchange further views. Additional details on how to further simplify reporting requirements in the CSRD, ESRS and EUTR are included as 10 targeted suggestions in the appendix. We stand ready to provide further input and ideas as the Commission advances with its important work in this area.

Yours sincerely,

Isabelle Tracq-Sengeissen
ECG Chair

[2] See for example the CSRD Practice Forum.
[3] For example, EU subsidiaries of non-EU parent companies.

<u>Appendix</u>: ECG suggestions and/or support to EC's recent considerations for simplifying reporting requirements in the CSRD, ESRS and EU Taxonomy Regulation[1]

CSRD

1. *Split the group of large companies required to prepare sustainability reporting from 2025 ('Wave 2') into two categories of companies – larger and smaller* – by revising the companies' thresholds for the application of the CSRD disclosure requirements. The new category of smaller companies in Wave 2:
    a. Could report against a simplified version of ESRS.
    b. Could benefit from a delay in implementation, also allowing them to benefit from the possible outcome of an ESRS review (see below), should they wish to apply a revised ESRS 'Set 1' framework.
2. *Adjust the timeline of adoption of sectoral standards, if any, to at least allow EFRAG and the ISSB to work together and produce aligned sectoral requirements* (rather than working in parallel and subsequently seeking interoperability).

ESRS

We call for an acceleration of the ESRS 'Set 1' review with the objective of simplifying the requirements following robust due processes. In the immediate timeframe, we recommend the following measures**:**

3. *Extend the current transitional provisions allowed for companies with fewer than 750 employees to a greater scope of companies* (Appendix C of ESRS 1), *and/or for longer periods*.
4. *Extend reporting reliefs to the disclosure of "own operations" data points*, building on the transitional provisions in ESRS 1 in relation to the "value chain" data points, when a company is not able to provide a metric after making reasonable efforts[2][3].

EU Taxonomy Regulation (EUTR)

We call for a fundamental review and simplification of the EUTR, as it is very complex to implement and report on this regulation. In the immediate timeframe, we recommend the following measures:

5. *Introduce a materiality concept for reporting*. This is a key general principle of reporting.
6. *Revisit holistically the subsidiaries' EUTR reporting exemption.* Clarify that an EU subsidiary's exemption for EUTR reporting works similarly to that for ESRS reporting, regardless of whether the EU subsidiary is controlled by an ultimate EU or non-EU company or included in an "artificial consolidated" EUTR reporting prepared in accordance with Article 48i of the Accounting Directive.
7. *Eliminate the OpEx KPI disclosure or make it optional*, as its determination is complex, and it is not information used to determine the green asset ratio (GAR) of credit institutions or other financial institutions.
8. *Introduce an option to report an eligible activity as "not aligned", with no requirement to perform an alignment assessment, in limited circumstances* (i.e. allow nil alignment reporting rather than forcing to assess and determine alignment). This is particularly needed for:
    a. Non-financial sector: CapEx and OpEx KPIs of 'type c', such as purchases of (aligned) outputs. Screening every eligible expenditure against the EUTR criteria, in order to assess whether they qualify individually

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[1] At this stage, we do not comment specifically on the CS3D, as it is yet to be transposed and implemented.

[2] As described in FAQ 29 of Commission Notice C/2024/6691.

[3] For example, during the first 3 years of implementation of ESRS, if, after making reasonable efforts, the company is unable to collect or estimate the required data points, those data points could be omitted. Similarly, if, on an on-going basis, significant transactions and/or events take place during the year having as consequences that, after making reasonable efforts, the company is unable to collect or estimate the required data points in relation to those transactions or events, the disclosure of the required data points could be postponed by one year.

for alignment under one or more of the six environmental objectives, could be very burdensome. Many companies' management systems currently are not capable of performing such an exercise swiftly.

   b. Financial sector: collecting evidence from retail clients to support the alignment of retail exposures in determining the (banking) GAR is very burdensome, especially for the Minimum Safeguards (MS) criteria. More specifically, we suggest that the demonstration of compliance with MS of the use of proceeds by retail customers should not be required to determine alignment[4].

9. *Revise the approach for determining the consolidated KPIs of groups with mixed activities*[5]*.* They should be based on the financial consolidation, and the templates to be presented should be those that reflect the predominant nature of the group. There should be no expectation created that a complete set of templates for each of the sectors of groups with mixed activities (non-financial, credit institutions, insurance, asset management and investment firms) should be included.
10. *Scale back the EUTR reporting requirements to make them more operational*. The technical screening criteria should be revised and not include any criterion that goes beyond other existing legislative acts. For instance, with respect to the DNSH relating to pollution[6], compliance with EU laws (e.g. REACH, ROHS) should be accepted as sufficient evidence to demonstrate alignment.

[4] FAQ 37 of Commission Notice C/2024/6691 should be revisited accordingly

[5] Compared to what is described in FAQ 7 and 9 and Appendix II of Commission Notice C/2024/6691

[6] Appendix C of Commission Delegated Regulations (EU) 2021/2139 and 2023/2486