Multi-stakeholder statement December 2024

Smart implementation of EU sustainability reporting standards: make complying with rules easy

We are deeply concerned that the strategic work on standardising corporate sustainability disclosures in the EU is being wrongly portrayed as a threat to competitiveness, and particularly by the implications of President Ursula von der Leyen's recent announcement of an Omnibus proposal. This was preceded by recent debates in the EU Parliament on the *"abolition of unnecessary burdens and reports"*, and statements by representatives of the German and French governments.

This one-sided representation seems to serve a full deregulatory agenda, not a simplification initiative to support objectives of this legislation and to support companies in their sustainable transition towards more resilient and competitive business models. It undermines the European Commission's own statement that *"Sustainable finance facilitates re-orientating investment towards sustainable economic activities. It is an essential part of the European Green Deal"*, which depends on readily available, comparable and reliable sustainability information. Companies need clarity and banks and investors expect better quality and comparability of ESG data following the implementation of the CSRD next year. Instead of playing ping-pong with the legal framework, we strongly encourage focusing on smart and easy implementation and consider the current lack of key data relevant for the economic transformation.

President von der Leyen asked EU Commissioner Albuquerque in her mission letter to focus on scaling up sustainable finance. To achieve this goal, transparency and standardisation of sustainability reporting is critical. The focus should be, as noted by the President, on implementation and ensuring that rules are easy to comply with.

1. The CSRD is a catalyst for the necessary economic transformation

- This legal framework was adopted to enhance and modernise companies' reporting on sustainability matters, with the objective of addressing a market failure in providing relevant, comparable and decision-useful sustainability information. The predecessor of the CSRD (the Non-Financial Reporting Directive-NFRD) failed to deliver by not providing a standardised framework for corporate sustainability reporting.[1]
- The CSRD and EU standards are helping companies identify and address their priorities for sustainable and long-term development, effectively manage their sustainability risks, and thrive in an increasingly competitive market that demands sustainability. The EU standards are by nature a business tool for companies to address their sustainability risks and impacts from a strategic perspective.[2]
- Standardised and digital reporting[3] is critical to level the playing field in sustainability transition. The CSRD guides the market focus on what really matters, ensures comparability and curbs greenwashing. It also reduces market fragmentation[4] and requires transparency on sustainability from non-European companies, which is critical for the protection of the EU market and companies.
- According to the EU Commission, there is a need for additional investments of €620bn per year to meet the 2030 objectives of the European Green Deal and REPowerEU,[5] requiring the mobilisation of public and private finance. With more than 60% of retail investors adamant about their wish for sustainable investments,[6] the ESRS represent a major opportunity for companies to access more finance to support their transition. European supervisory authorities have been warning for years[7]: without reliable ESG data from EU companies, finance flows will not be adequately allocated to contribute to this transition.
- The Directive will help small and medium-sized enterprises (SMEs), which are not required to report sustainability information, but will benefit from a simplified voluntary reporting standard that will align information requests from banks, and unlock access to vital sustainable finance.

2. Legal certainty for companies must take precedence over short-sighted political reactions

- Any arbitrary change or cut in the standards would risk confusing the market, and demand more efforts from companies which are already investing in the application of the EU standards. EU standards provide a one-stop shop for companies to issue information needed by banks and investors (including all necessary alignment with SFDR and Taxonomy). The identification of impacts is also underpinned by the due diligence process, as reflected in the CSDDD, while all public reporting is centralised in the EU standards.

- The 25% reduction target for reporting obligations, for which the EU Commission has been acting upon since 2023, lacks precise modelling and fails to demonstrate how it aligns with the actual reporting requirements necessary to achieve policy objectives: it is arbitrary. Changing the EU reporting framework may unintentionally increase burdens on companies by creating more legal uncertainty, making it harder for them to assess performance, manage future developments, and maintain business relations and investments.
- Separately, financial reporting obligations are highly complex, and duplicative communication exercises to financial, audit or supervisory authorities can be examined to simplify companies' administrative duties. There is no rationale nor any basis in the Commissioners' mission letters to focus the simplification on sustainability only: financial reporting is arguably more costly for companies.
- Following the EC Better Regulation principles, any policy intervention must be informed from evidence. The EU standards already include a revision planned after 3 years, when any needed modification should be considered on the basis of actual implementation of the standards as of 2025.

3. Avoiding over-compliance

- The EU standards are built following proportionality and risk-based principles, and provide significant flexibility to companies on how to make decisions. However, lessons from early implementation show a lack of clear understanding on this matter.
- Reporting begins with companies' own materiality assessment process, which determines and narrows down the focus only to those sustainability issues that are relevant to the given company. Following a risk-based approach, the standards then guide companies to identify where severe impacts and material risks are concentrated in their operations and value chain, and focus on areas where such matters are deemed likely, rather than scrutinising every aspect. The EU standards provide basic criteria for materiality, but do not prescribe a specific process or method. Approximately 80% of the data points included in the EU standards are subject to companies' own materiality decision.
- Significant flexibility has been provided to companies.The EU standards do not require companies to get primary data from actors in their value chain if it is not feasible, if it requires unreasonable effort or if such data would not be reliable.[8] Furthermore, the EU standards do not prescribe specific value chain KPIs except for Scope 3 GHG emissions. For other material risks or impacts identified by companies in their value chain, standards leave it up to companies to determine what is material and possible to report. Standards include a 3-year transitional period during which companies do not have to report value chain information.
- It is of utmost importance to promote a pragmatic implementation of the ESRS, rooting out bad practices that have started to arise from some ESG service providers or audit firms using/selling overcompliance approaches that do not help companies to focus on what is really material.
- Standardisation is simplification: The EU standards are designed to streamline reporting processes and reduce long-term costs in the medium and long-term.[9] While it is clear that there is a learning curve, it must be recognised that these challenges will also decrease after two or three reporting cycles. Similarly, the recurring costs are expected to be significantly lower after the first-time investment.[10]

4. The CSRD focuses on large companies

- The transparency required by the CSRD and EU standards is proportionate to the company's impacts and risks. Smaller large companies which do not operate in high risk sectors can comply with reporting requirements in a much simpler way.
- The EU Commission also already included extensive phase-in provisions for companies with less than 750 employees, that postpone reporting of all social information and Scope 3 GHG emissions. Furthermore, all companies, including the largest ones, do not have to report value chain information in the first 3 years.
- The CSRD initially included 51,000 companies out of 32 million,[11] which translates into only 0.2% of all companies in the EU. The recent legislative update of the thresholds for defining large companies and SMEs in the Accounting Directives already led to a reduction of this number by 14%.[12]

5. The ESRS ensure compliance with international standards

- The ESRS were conceived as inter-operable with global reporting standards such as GRI, ISSB and SASB. To operationalise this, Memorandums of Understanding have been signed by the EFRAG with GRI, ISSB, TNFD and collaboration with the CDP has been deepened.
- The ESRS are not more complex than comparable standard-setting initiatives like the GRI or ISSB, while enabling companies to report in one go under a double materiality approach that covers both risks and impacts, as prescribed separately by ISSB and GRI standards.[13]

The way forward: supporting smart implementation

Improving the usability of the CSRD needs to focus on prioritising smart implementation, providing useful support and guidance to companies and assurance providers. Simplification and effective implementation can be achieved through the following avenues:

- **Practical guidance and implementation support:** the EU Commission and EFRAG should keep providing resources such as guidance, as well as maintain the FAQ platform addressing doubts and questions from companies. EFRAG already issued three Implementation Guidance documents on materiality assessment, value chain and list of ESRS datapoints. Good examples of how to jointly and efficiently implement CSRD and CSDDD could be provided.
- **Provision of capacity building for states:** Provide implementation support, capacity building and financing lines that empower Member States to assist all companies, in particular SMEs. The Commission's 2025 Flagship Technical Support Project "Improving Sustainability Reporting for Businesses" sets a good example.
- **Development of sector-specific standards:** Replace current requirements to determine sector-specific disclosures from a plethora of voluntary standards and sectoral initiatives with a sector-specific level of ESRS. These must be focused, and prioritise only the most important sectoral matters that are key for companies' climate and environmental transition and for addressing systemic human rights issues in the value chain, thus reducing the burden and amount of information that companies need to report. Sector-specific standards will clarify and effectively limit the primary information that large companies need from their value chain.
- **Ensure consistency across EU law:** As part of the implementation and simplification agenda, the EU Commission should assess any discrepancy in the definition or underlying methodology for transition activities. This will be highly pertinent during the planned SFDR review, the finalisation of the climate transition plan guidance (ongoing within EFRAG in connection with the implementation of the ESRS), and the upcoming guidance for the CSDDD implementation.

Coordinated by

Frank Bold
WWF EU

Supported by

AbibiNsroma Foundation
ActionAid International
amfori
Association of Ethical Shareholders Germany
ASUFIN - Spanish Financial Users Association
B Lab
BankTrack
BAUM e.V. - German Network for Sustainable Business
Biodiversity Conservation Center
BirdLife Europe and Central Asia
BlueLink Civic Action Network - Bulgaria
Bundesverband Nachhaltige Wirtschaft e.V.
Canopea, Belgium
Christian Aid Ireland
Circular Economy Leadership Canada
Clean Air Action Group, Hungary
Clean Clothes Campaign
ClientEarth
Climate & Company
Climate Action Network (CAN) Europe
Climate Focus
Climate Strategy
Climate&Strategy Foundation
Coffee Watch
Compassion in World Farming
CorA-Netzwerk für Unternehmensverantwortung
Corporate Leaders Group Europe
E3G
Earthsight
ECCO Think Tank
Eco-union
Ecopreneur.eu
ECOS (Environmental Coalition on Standards)
Electra Energy
Ellen MacArthur Foundation
Envol Vert
EU-LAT Network
Eurogroup for Animals
European Environmental Bureau (EEB)
European Trade Union Confederation (ETUC)
Fair Finance International
Fair Trade Advocacy Office
FairFin, Belgium
Fairtrade International
FEBEA - European Federation of Ethical and Alternative Banks and Financiers, Belgium
Federación de Consumidores y Usuarios CECU
Fern
Finance Watch
Finanzwende, Germany
Forests of the World
Forum Ökologie & Papier
Germanwatch e.V.

↓

Global Witness
Informationsstelle Peru e.V.
Initiative Lieferkettengesetz
Institute for Sustainable Development, Poland
Institute for Sustainable Finance, Canada
Interfaith Center on Corporate Responsibility
International Federation for the Economy for the Common Good
Investor Alliance for Human Rights
JARO Institute for Sustainability and Digitalization e.V.
Lithuanian Consumers Alliance
MATERIALITY
Milieudefensie - Friends of the Earth Netherlands
Naturefriends International
New ERA (New European Reuse Alliance)
Observatorio de Responsabilidad Social Corporativa
Oxfam
Polish Chamber of Commerce
Polish Ecological Club in Gliwice
Polish Zero Waste Association
Profundo, Netherlands
Publish What You Pay
Rainforest Alliance
Rainforest Foundation Norway
Reclaim Finance
Romero Initiative
SANNAS Asociación Empresas Triple Balance
ShareAction
Stowarzyszenie Ekologiczne EKO-UNIA, Poland
Südwind, Austria
Sustainable Banking Coalition
Sustainable Finance Observatory (formerly 2° Investing Initiative)
Sustentia
Sustentio GmbH
Transport and Environment (T&E)
Trócaire
Veblen Institute for Economic Reforms, France
WaterAid
World Benchmarking Alliance
ZERO - associação sistema terrestre sustentável

---

[1] See studies published by the Alliance for Corporate Transparency, and Frank Bold research on the sustainability disclosures of 100 EU companies in 2024.
[2] Read article from London Stock Exchange "*Why CSRD is becoming a strategic game changer*" or B Lab Global "*The only way is forward on sustainability*".
[3] Leverage all initiatives that make digital safety information, permitting and digital reporting the norm - allowing tracking of progress and benchmarking of industry performance including permit writers / authorisation bodies to deliver on the Sustainable Development Goals (see https://euelections.eeb.org/industrial-blueprint/)

[4] Greenwashing is weakening EU laws and EU credibility, allowing free-riders, creating an unlevel playing field (market fragmentation), creating more sust.-related financial risks for financial institutions" (Commission's 'SME relief package, Sept 2023).

[5] European Commission, July 2023, 2023 Strategic Foresight Report

[6] A BNP Paribas' survey found that 64% of retail investors in Europe are willing to invest in sustainable finance Source: BNP Paribas (2019); See also : A 2019 Morgan Stanley Institute for Sustainable Investing survey of high net worth investors found that 95% of millennials were interested in sustainable investing. Source: Morgan Stanley Institute for Sustainable Investing: Sustainable Signals -- The Individual Investor Perspective (2019); French think tank 2° Investing Initiative showcased that even though 2/3 of retail investors express a desire for sustainable investing, most of them face major obstacles to do so. (Source: 2DII, report 'Please Don't Let Them Be Misunderstood! How financial advisors consider clients' sustainability motivations before the upcoming MiFID II Delegated Act', 2022).

[7] See for example: European Securities and Markets Authority (ESMA)'s response to the European Commission's consultation on the renewed sustainable finance strategy (2020); EBA, EIOPA, and ESMA's joint letter to the European Commission (2020); EIOPA's report on the insurance and occupational pension sectors' contribution to financing the transition to a sustainable economy (2021).

[8] See the latest FAQ published by the EU Commission, p. 28.

[9] The impact assessment carried out by the EU Commission in preparation of the CSRD: "The market on its own has also not so far been able to ensure adequate convergence and consolidation between the different frameworks and standards (...). This is a significant driver of the reporting burden for preparers, and of the problems faced by users in terms of limited comparability and relevance of reported information." (p.11).

[10] In general, ESG-related costs remain a fraction of other administrative expenses, between 0.007% and 0.015% of companies turnover and representing between 0,01% - 0.02% of operating costs (CEPS study).

[12] Eurostat (2024), Business demography statistics.

[13] Commission's Delegated Act of 17.10.2023 amending Directive 2013/34/EU as regards the adjustments of the size criteria for micro, small, medium-sized and large undertakings or groups.

[13] The European Central Bank has stated that any international standard should cover all aspects of sustainability. Furthermore, a group of Chief Financial Officers urged the ISSB to move quickly to "*move quickly to other topics after climate to capture the interconnectedness of all sustainability topics*".