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European Commission

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Consultation on Draft Delegated Regulation on Sustainability Reporting

The Danish Chamber of Commerce welcomes the development of a common European reporting framework on sustainability reporting. However, it is of crucial importance that focus is maintained on the overall purpose; to support and to solve the sustainability challenges facing all.

The draft standards are quite ambitious and make sense from a sustainability perspective. Overall, it is a very comprehensive framework and if the standards are balanced and applied proportionally, it will be able to boost many internal processes for following up on policies and standardization of KPIs. A common reporting framework will be important for increasing the coherence, consistency, and comparability of companies work with sustainability – and it will be possible to follow development over time. However, the complexity and detail of such an exercise presents significant new challenges. For many companies it will require extensive time, resources, and work to implement in practice.

We therefore welcome the adjustments the European Commission has made in the new draft of the European Sustainability Reporting Standards (ESRS) submitted to public consultation 9 June 2023 by the European Commission. We welcome the reduction in the number of mandatory disclosures and relying on materiality assessment in more areas, the additions of further flexibility through further phase-ins, and the additions to the voluntary disclosures.

Materiality Assessment
We strongly support a general rule that only material information should be reported – i.e., following a materiality assessment - and that mandatory disclosure requirements should be the exception. In that context, we welcome the revisions by the European Commission to reduce the number of "mandatory for all" disclosures. These changes reduce the reporting burden and allow companies to make more targeted and relevant disclosures.

As is also pointed out in the joint statement from the Danish National Funding Mechanism for EFRAG, there is a need for consequential changes to the reporting requirements under SFDR/CRR/CRD Pillar 3. This is needed in case the non-financial company has assessed that information that the financial institution is required to report on, is not material. In this situation the financial institution may require all reporting entities – within their lending and investments portfolio – to provide separate information through other channels for the institution to meet their reporting requirements. Such a process would be inefficient and would undermine the whole concept of the ESRS if the financial sector ends up demanding separate reporting and additional information from undertakings reporting according to ESRS.

We strongly support a solution whereby the European Commission includes a clear and unambiguous statement in the ESRS delegated act stating that the data reported under ESRS is in fact the relevant data financial institutions needed to incorporate into their reporting regarding undertakings in scope of CSRD, to fulfil their obligations. If a non-financial undertaking provides no reporting in the ESRS on a specific disclosure requirement this equals as a qualified zero or a non-existence. The financial institutions may therefore base their reporting according to SFDR, CRR/CRD Pillar 3 etc. on the information being a qualified zero.

Phase-in measures

We welcome that the European Commission kept EFRAG's phasing in of several disclosure requirements from EFRAG's draft from November 2022. We also welcome the further expanded scope on the phasing in.

To better reflect the massive challenges companies will face in collecting, analysing, and ultimately reporting the required information, we suggest that the European Commission should consider extending the phase in further in several areas:

- Extend the phase in from 1 to 2 years for both the anticipated financial effects and social indicators to allow companies time to review and implement measures to address the final regulations.
- Extend the transitional provisions regarding value chain information (ESRS1, 10.2) to report on scope 3 GHG emissions so these are only mandatory from the fourth year of reporting under the ESRS and may be omitted for all company sizes (ESRS E1, E1-6).
- Replace the limited assurance opinion with an opinion without assurance (assistance) for year 1 for reporting undertaking with less than 5.000 employees.
- Increase the phase-in threshold from 750 to 5.000 employees for non-listed companies.
- Establish a permanent phase-in option for entities that must report according to the CSRD for the first time.

Reduction in the level of detail

Requiring a huge level of granularity, particularly in entity-specific disclosures and geographic location/geocode datapoints poses an excessively onerous burden for reporting entities. Several of the datapoints require an unnecessary level of disaggregation of specific geographic locations or geocodes (far beyond requirements of financial disclosures), for instance:

- ESRS E1, AR 71:" When preparing the information on assets at material physical risk that is required to be disclosed under paragraph 66(a), the undertaking shall (...) To contextualize this information, the undertaking shall: i. disclose the location of its significant assets at material physical risk. Significant assets located in the EU territory shall be aggregated by NUTS codes 3 level digits (Nomenclature of Territorial Units for Statistics)."

- ESRS E2 AR 9: "When providing information on the outcome of its materiality assessment, the undertaking shall consider: (a) a list of site locations where pollution is a material issue for the undertaking's operations and its value chain".

Disaggregating information by geography would also provide limited value for integrating this information into other reporting formats, where information is often provided at a consolidated level. For example, the draft ESRS (continue to) require undertakings to disclose whether they have considered geospatial coordinates when assessing climate-related physical risks (ESRS E1 - AR 12 and AR 14) nor have the disaggregation requirements when disclosing locations of significant assets at material risk been reduced or when listing locations where pollution is material to operations and the value chain.

Generally, we consider that the flexibility to report on an aggregated basis (for instance on NUTS codes level 1, major socio-economic regions) and/or to utilize estimations should be afforded against all the standards, where appropriate, taking into account the quality and nature of information reasonably available to the undertaking.

Overview - data points
Throughout the process, there has been a significant focus on identifying data points in the sustainability standards. Due to very extensive reporting standards, we believe that the European Commission should publish a full list of all data points (full number and categorized within each standard). It would be very helpful for companies when mapping and organizing the collection of data for use in sustainability reporting.

Focus om guidance
Finally, we would like to encourage the European Commission and the supervisory institutions in member states to focus their efforts on preparing guidelines for companies and less focus on enforcing compliance. It is crucial for a successful implementation of the CSRD and the ESRS that it is possibly to have access to guidance and questions answered and ambiguities clarified just and timely. It will be clearly more motivating for companies to be met with support for their work with sustainability reporting rather than supervision, enforcement and sanctions.

Kind regards,

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