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European Commission
Secretariat-General
SG. A.2 Evaluation & Impact Assessment Unit
Rue de la Loi, 200
B-1049 Brussels

28 November 2023

Dear Madam/Sir,

Response to call for evidence on the rationalisation of reporting requirements

We are pleased to respond on behalf of Deloitte[1] to the European Commission's call for evidence on the rationalisation of reporting requirements stemming from EU legislation.

We welcome the aim of the Commission to improve the competitiveness of EU businesses in global markets and support the Commission's initiative to rationalise reporting requirements. We welcome the request for feedback, ideas and input to identify further opportunities for streamlining reporting requirements in EU legislation without undermining the policy objectives. We support better regulation and encourage the Commission to undertake similar reviews on a periodic basis, to capture and share evidence publicly and allow informed debate on the development of EU policy and legislation, given its complexity, technical content and constant evolution. These reviews should be followed by streamlining of EU reporting requirements to ensure that they are proportionate and effective.

Our response focuses mainly on the need to streamline the legislation that forms part of the EU sustainable finance package including the new sustainability reporting requirements in the Corporate Sustainability Reporting Directive (CSRD) which require companies to use the recently adopted European Sustainability Reporting Standards (ESRS); the EU Taxonomy Regulation; and the Sustainable Finance Disclosure Regulation (SFDR).

Our recommendations for streamlining this legislation are intended to enable standards and regulations that support decision-useful information, encourage entities to integrate considerations of people, the environment and prosperity for society into the core of the business, and better support the flow of capital to long-term, sustainable business.

[1] Please see Deloitte Touche Tohmatsu Limited for a description of the legal structure of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee.

In relation to the CSRD, we note that its scope is far reaching, applying to both EU and certain non-EU entities. The first group of companies will be required to report under the CSRD using ESRS from the financial year starting on 1 January 2024, which will be challenging for companies. We therefore recommend that the Commission consider the following points in respect of ESRS:

(a) Timely implementation support from EFRAG and the European Commission will be critical to the success of ESRS. It is too early to assess whether the processes that EFRAG is putting in place will be adequate. This will need to be monitored.

(b) We believe that interoperability should be front of mind in relation to existing global and jurisdictional sustainability standards, including in the development of implementation guidance to support issued standards (including ESRS). Companies that operate globally have indicated that, for efficiency, it is important that their subsidiaries are able to use the same basis for sustainability reporting for their local reporting as for the group, noting that more and more jurisdictions are expected to adopt the International Sustainability Standards Board (ISSB) Sustainability Disclosure standards. Consequently, we advocate that the EU and the global organisations continue to work together to ensure that the interoperability that was achieved in respect of climate-related disclosures is maintained and enhanced going forward, including as new standards and guidance are developed at the EU and global levels. Ultimately, we think interoperability is best served if the language used in jurisdictional standards and the ISSB standards to describe requirements that serve the same audience (for example, investors) is the same.

(c) To strengthen the attractiveness of the EU capital markets to non-EU issuers and more broadly to encourage non-EU companies to do business in the EU, we suggest that the Commission permit the use of ISSB plus GRI standards by non-EU companies in scope of the CSRD as an alternative to ESRS.

Following the adoption of ESRS, we believe that there is a need for amendments to the EU Environmental Taxonomy Regulation and Sustainable Finance Disclosure Regulation (SFDR) to ensure there is consistency and cohesiveness between the different pieces of regulation and to reduce the overall reporting burden for entities.

1. EU Environmental Taxonomy Regulation – introduction of a materiality threshold and making the OpEx KPI optional

We recommend that the Commission consider introducing a materiality concept for preparing the information to be reported, as is the case for ESRS, but which currently does not, as far as we understand, exist in the Taxonomy Regulation (with the exception of the key performance indicator for operating expenses for non-financial undertakings, as well as the very limited opening in FAQ 13 released by the Commission in October 2023 in Commission Notice C-2023-305). This would alleviate the burden of collecting and documenting very detailed information which does not significantly impact the overall numbers shared with users.

In addition, it is unclear how users are considering the information provided by the operating expenditure (OpEx) KPI. It is not used by financial sector institutions in determining their own KPIs at the entity level. We suggest collecting feedback from users on whether, and the extent to which, they are using the information related to the OpEx KPI. If users are not focusing on this information, we suggest making the disclosure of the OpEx KPI optional.

2. Sustainable Finance Disclosure Regulation (SFDR) – reduction in the number of KPIs to be reported and alignment with the latest developments of CSRD/ESRS, EBA Pillar 3 and the EU-Taxonomy

We recommend:

(a) Reducing the number of mandatory and additional principal adverse impacts (PAIs) to be reported by financial market participants under the SFDR, to decrease their reporting burden (and indirectly that of investee companies) and to streamline reports, benefitting stakeholders relying on sustainable finance disclosures to make informed investment decisions. The current high level of often similar KPIs is costly to monitor and produce, and to examine. Investors should not be confronted with an overwhelming amount of information but should rather be able to rely on effective, clear, and significant KPIs to make their investment decisions.

(b) Removing or making optional the OpEx consolidated KPI (at the product level) in the SFDR periodic report, if the disclosure of the OpEx KPI is made optional for non-financial sector companies, as suggested above.

(c) Integrating the materiality approach proposed for the ESRS in the SFDR. This would reduce, at least for investee companies reporting under the CSRD, the discrepancies or gaps leading to additional problems or inconsistencies in the PAI statement. While the Commission's 31 July 2023 FAQs on the adoption of ESRS helpfully commented that financial market participants and financial advisers may assume that any indicator reported as non-material under ESRS by an investee company does not contribute to the corresponding indicator of principal adverse impacts in the context of the SFDR disclosures, we think it is important that this be reflected in the SFDR itself.

(d) Ensuring alignment of methodologies for calculating, processing and consolidating KPIs (especially regarding adverse impacts) to ensure consistency, readability and comparability between the SFDR, the CSRD and the EU Taxonomy Regulation.

(e) Ensuring consistency of implementation dates between application of ESRS and the Environmental Taxonomy Regulation. Given the proposed implementation dates for ESRS (including transitional provisions) and the Environmental Taxonomy Regulation, financial market participants should be allowed to align their own data reporting publication on the same timeline. This would mean that the absence of data should be permitted until the majority of companies start reporting under the CSRD.

3. *Single Electronic Format for sustainability reporting – one year phase-in*

Given the time needed to develop a digital taxonomy for ESRS and the Environmental Taxonomy, as well as the implementation time, once the two digital taxonomies become available, we suggest introducing an optional one-year phase-in for entities to comply with requirements to mark-up their sustainability reporting as required under that format, mirroring the approach taken for financial information. This optional exemption would be even more essential for non-listed companies lacking practical experience with the ESEF.

4. IFRS financial reporting

We suggest that the Commission consider endorsing the upcoming new International Financial Reporting Standard (IFRS) for *Subsidiaries without Public Accountability* (probably to be called "IFRS 19") that will be issued by the International Accounting Standards Board next year. This IFRS does not change the recognition and measurement principles in IFRS but would allow subsidiaries without public accountability in certain circumstances to report under a proportionate (i.e., reduced) disclosure regime. Endorsing this new financial reporting standard would not require legislative change, given the Commission's existing endorsement process for IFRS. Allowing subsidiaries of IFRS reporters, which can or have to use IFRS for separate financial statements in the Member States, to use this new standard would significantly help reduce their reporting burden for disclosures in the financial statements.

5. Post implementation reviews

We highlight the importance of the Commission carrying out regular and timely post-implementation reviews (PIR) for the recent EU sustainable finance regulations, and also incorporating in the legal texts relevant Commission FAQs developed over time. This comment applies, among others, to the CSRD, the ESRS, the Environmental Taxonomy and the SFDR.

For ESRS, we would expect that the PIR to be carried out by the Commission would still show the need to further reduce the complexity and level of granularity of the information required by ESRS. We hope that the first years of implementation will enable further understanding of what users consider to be material information (that is, information that enables users to understand the undertaking's material impacts on people and environment and the material effects of sustainability matters on the undertaking's development, performance and position), so that the requirements can be streamlined and focus further on that information.

For the Environmental Taxonomy Regulation, simplifying the language and rationalising the taxonomy criteria, while aligning the hierarchy of FAQ explanations with that outlined in the different Delegated Regulations, would enable undertakings to navigate through the criteria with greater accuracy.

We would be happy to discuss any comments or questions you may have regarding our responses and can be reached as follows: pzalba@deloitte.com or lrivat@deloitte.com.

Yours sincerely,

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