Cutting Through Complexity: A Call to Rationalise European Sustainability Reporting Standards

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Immediate action is necessary to reform the European Sustainability Reporting Standards (ESRS) under the Corporate Sustainability Reporting Directive (CSRD) to alleviate the excessive compliance burden on businesses across the EU.

Core Demands

1. **Correct implementation of the CSRD:** A balanced implementation of the directive is essential. Therefore, the Commission must apply the principle of proportionality correctly to the ESRS drafted by the European Financial Reporting Advisory Group (EFRAG). The delegated act in the current form amounts to unnecessary gold-plating.
2. **Comprehensive Revision of Reporting Standards:** An overhaul of the ESRS is necessary. This implies the complete withdrawal of the delegated act in its present form due to its excessive and complex requirements. New ESRS, revised according to Art. 29b para 1 subpara 6 of CSRD, have to comply with Art. 290 TFEU and adhere to the 'non-essential elements'-principle. These standards should minimise complexity and offer clear, navigable rules for companies. The ESRS should focus solely on the ESG factors explicitly mentioned in the CSRD. Notably, in the field of BDA's activities, social reporting standards should be based only on the 24 social and human rights factors specified in Art. 29b para 2 lit. b) of CSRD. The review of the ESRS should consider the one-off costs already incurred by the first batch of reporting companies, ensuring that adjustments do not lead to additional expenses.
3. **Application of 25% Reduction:** The Commission must honour its commitment to reduce reporting obligations by at least 25%, including social policy reporting, which has proven excessively burdensome for companies.
4. **Integration of Reporting Obligations:** Duplicate or overlapping reporting must be eliminated. A cohesive approach is necessary, e.g. in addressing gender pay gaps, where the requirements under the CSRD and the Pay Transparency Directive often lead to confusion and redundancy.

Why Reform is Necessary

The ESRS developed under the CSRD present a significant operational challenge for businesses across the EU. These standards impose excessive reporting obligations that are not only complex but also financially burdensome. As companies strive to comply with the CSRD, they are confronted with requirements that are often unfeasible and overly intricate. The current framework complicates reporting processes and diverts valuable resources from core business activities, ultimately failing to deliver proportionate value. To foster a more sustainable business environment, reassessing the ESRS and implementing a more practical, streamlined approach are essential. Art. 29b para 1 subpara 6 of CSRD provides for a review of the ESRS by the Commission at least every three years. Thus, a separate review of the reporting standards does not jeopardise any timeline for the national transposition of the directive.

Key Points of Concern

1. **Overwhelming Costs:** In Germany alone, government estimates indicate one-off compliance costs of around EUR 846 million for introducing the new reporting requirements, alongside recurring annual compliance costs of around EUR 1.58 billion for companies. This does not account for the indirect expenses incurred by non-reporting companies that must provide information to contractual partners required to submit sustainability reports, resulting in a cascade or trickle-down effect within the value chain. Current practices show that the actual costs for companies are even higher. These costs are disproportionate to the benefits of such extensive reporting requirements, highlighting the need to reevaluate the granularity of the standards.
2. **Reporting Requirement Discrepancies:** While the CSRD identifies only 24 social and human rights factors as explicit reporting obligations, ESRS S1-S4 introduce approximately 400 data points across 85 pages with regards to social standards. This creates a significant disconnect between the outlined obligations in the directive and the subsequent reporting requirements in the delegated act. As long as the sector-agnostic ESRS are not properly implemented, there should be no sector-specific standards.
3. **Legal and Operational Challenges:** Companies are confronted with legal and operational dilemmas regarding the secure and reliable collection and processing of data. The ambiguities in definitions, particularly with overlapping regulations like the EU Pay Transparency Directive, further complicate compliance efforts. EU labour and social policy standards cannot be easily integrated into established concepts and processes of national labour and social systems – as the recent German Corrigendum to the Delegated Act shows.
4. **Interference in Entrepreneurial Discretion:** Companies encounter difficulties with auditors who are reluctant to validate the individual materiality analyses conducted internally. These analyses are meant to identify reporting standards relevant to the reporting companies. The Commission should strengthen the importance of the individual materiality analysis for companies and provide clear guidance to auditors, ideally, by reducing audit obligations to key figures initially and refraining from introducing any ‘reasonable assurance’ audit obligations.

A Call to Action

In summary, the current ESRS impose an excessive and unnecessary compliance burden that undermines sustainable business practices and economic growth. To address these challenges, the European Commission is urged to **withdraw the delegated act in its present form**. New standards can be swiftly adopted by the Commission under **Articles 29b and 49 of the CSRD**, which would mitigate compliance issues. Eliminating these overly complex requirements will create a more practical and efficient framework that balances corporate responsibility with operational feasibility. Policymakers should act promptly to reform the ESRS, ensuring that they serve as effective tools for transparency without imposing undue burdens on the companies they aim to regulate.

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