FIT FOR FUTURE Platform Opinion

Topic title	Automated sustainability reporting
	AWP 2024
	Legal reference
Date of adoption	17 October 2024
Opinion reference	2024/1
Policy cycle reference	☑ Contribution to ongoing legislative process
	CWP 2024
	Commission work programme reference
	The 2024 Commission work programme, adopted on 17 October 2023, puts a strong focus on simplifying rules for citizens and businesses across the European Union. This follows up on President von der Leyen's commitment to reduce burden from reporting requirements by 25%, in line with the Commission's strategy to boost the EU's long-term competitiveness and to provide relief for SMEs. With this programme, the Commission is putting forward rationalisation proposals to reduce administrative burden without lowering social, safety, consumer protection, environmental or economic standards. They will streamline reporting requirements that are of limited use, for example by consolidating overlapping obligations, reducing the number of businesses concerned and increasing digitalisation. The Commission will also put the development of artificial intelligence tools and large language models at the core of this exercise, aiming to allow technology to identify reporting requirements in EU legislation, based on standardised means, and support in analysing their effect in a certain sector. It will also work on the expansion of the use of e-platforms for collecting and sharing data. In addition, the Commission will carry out evaluations and fitness checks to assess how legislation can be simplified and made less burdensome. The evaluations of programmes and funds of the multiannual financial framework, due in 2024, offers another opportunity to assess how to reduce burdens linked to the EU's financial programmes
	Contribution to the (ongoing) evaluation process

	☐	-
		Title of the (ongoing) evaluation
		Please specify
	☐	Included in Annex VI of the Task force for subsidiarity and proportionality
		-
	☐	Other
		Please specify
Have your say: Simplify!	*No relevant suggestions on this topic have been received from the public.*	

SUGGESTIONS SUMMARY

Suggestion 1: Quality of data that companies need for reporting is low and/or it is even unavailable – we need structured and standardized digital data to flow in the value chains

Suggestion 2: Certain data need to be made available from public authorities

Suggestion 3: Many digital ESG-solutions are opaque and immature with limited integration – a European open data exchange infrastructure is needed

Suggestion 4: Methodologies and standards for some areas of sustainability are still lacking (e.g. on biodiversity)

Suggestion 5: Digital product passport by default

SHORT DESCRIPTION OF THE LEGISLATION ANALYSED

On 16 March 2023 the Commission issued the communication Long-term Competitiveness of the EU, outlining how the EU can build on its strengths and thrive under a forward-looking, well-defined and coordinated EU framework.

To foster competitiveness, the Commission proposed to work along nine mutually reinforcing drivers to ensure a functioning Single Market, access to private capital and investment, public investment and infrastructure, research and innovation, energy, circularity, digitalisation, education and skills as well as trade and open strategic autonomy.

Accompanying these nine drivers, as a second leg of action, the Commission announced to work actively towards a regulatory framework more suited for competitiveness and growth, fit for the future and fit for purpose. More specifically, complementing the 'one-in, one-out' approach and the competitiveness check, the Commission gave a new push for the **rationalisation of reporting requirements across the EU's green, digital and economic legislation**, with the aim of a 25% reduction in burden. The SME relief package has further outlined the next steps towards achieving that objective, including the identification of priority areas for rationalising reporting requirements in cooperation with a representative set of companies, sectoral associations and national authorities.

The EU acquis in the financial services area requires companies and financial market participants to publish documents, particulars and datasets in order to increase the transparency and reduce asymmetry of information. These datasets concern entity's financial performance, environmental, social or governance matters, products and services provided. The **European Single Access Point (ESAP)** creates a single access point for public financial and sustainability-related information about EU companies and EU investment products. This gives more visibility towards investors, opening up more sources of financing. This is particularly important for small companies in small capital markets, as they will more easily be on the radar screen of EU, but also international investors.

Digital financial reporting has been already adopted by the Commission with inline XBRL being chosen as **the European Single Electronic Format (ESEF).** The ESEF is the electronic reporting format in which issuers whose securities are admitted to trading on EU regulated markets must prepare their annual financial reports to facilitate accessibility, analysis and comparability of annual financial reports. ESEF is also the format retained in the Corporate Sustainability Reporting Directive (CSRD) for making corporate sustainability reports machine readable. The European Securities and Markets Authority (ESMA) publishes annual updates of the ESEF.

While the actual reporting of various information is increasingly being streamlined, the collection of required data prior to companies' reporting is most often non-structured and being shared in highly fragmented processes and through different non-interoperable data exchange networks. Hence, efforts are needed at a European level to develop legislation and reporting requirements that build on companies' needs and practices for data collection, handling and sharing.

Sources:

Long-term Competitiveness of the EU, Communication from the Commission, COM(2023) 168 final

SME Relief package, Communication from the Commission, COM(2023) 535 final

European Single Electronic Format (ESEF)

PROBLEM DESCRIPTION

Existing evidence suggests the following issues:

While reporting requirements are necessary to ensure proper implementation, monitoring and evaluation of EU legislation and can also be economically efficient when they replace 27+3 different requirements from EU and EEA Member States, some reporting requirements can be considered as cumbersome or costly by businesses or Member States. Such requirements are not only included in primary legislation, but also in implementing or delegated acts or even operational arrangements. If well designed and standardized across the EU, the costs of reporting requirements are largely offset by the benefits they bring. Standardization can decrease the reporting burden on companies but also on their suppliers who are often located outside of the EU. However, some reporting requirements can be inefficient and the Commission should therefore be committed to **rationalize** them by removing redundant, duplicating, or obsolete obligations, inefficient frequency or timing, inadequate methods of collection accumulated over the years, etc. Such work should not undermine the policy objectives of legislation.

The lack of uniformity creates complexity and inefficiencies for companies that operate across multiple jurisdictions. To resolve this, it is essential to streamline and harmonize these requirements to create a more cohesive and manageable reporting framework. This can be achieved through the development of unified reporting standards and guidelines that are recognized and adopted internationally. Such harmonization would reduce the compliance burden on companies and enhance the comparability and reliability of sustainability reports.

Sources:

Call for evidence: Rationalisation of reporting requirements

SME Relief package, Communication from the Commission, COM(2023) 535 final

The Fit for Future Platform has acknowledged the issues raised by the legislation concerned as follows:

In line with the European Green Deal objectives, the ambitions laid out in the Communication on Long-term Competitiveness of the EU and the Communication on the Single Market at 30 and to contribute to the Commission's ambition to reduce administrative reporting burdens for companies by 25 %, this opinion proposes concrete suggestions to further streamline reporting obligations, particularly sustainability reporting. However, the suggestions to improve sustainability reporting requirements through digitalisation, standardisation and automatization are likely to be relevant within other types of reporting obligations as well. For example, to make business reporting more efficient through a seamless and secure exchange of business data by underpinning EU legislation with common minimum standards and a robust, decentralised data infrastructure.

It is of utmost importance to ensure, that the transformation of the European societies resulting from the twin transition, will simultaneously strengthen the competitiveness of European companies, without limiting the sustainability ambitions of Europe. This opinion will aim to provide suggestions to reduce administrative burdens related to compliance with sustainability reporting legislations while at the same time maintaining high ambitions for the green, sustainable, and circular transitions of European companies.

Regarding: modernisation and future proofing of existing laws, including via digitalisation, the efficient labelling, authorisation and reporting obligations, the simplification of EU legislation

Without proper and coherent policy measures in place, the result of the various sustainability regulations risks becoming a mere compliance exercise, where the burdens resulting from the reporting requirements could take away the allocation of resources from improving and ensuring a sustainable transition and promoting European companies' competitiveness. Status quo, i.e., companies handling their data in analogue and manual processes, limits the potential for automatization of processes and activities, including those related to reporting obligations. Several digital systems and solutions are being developed to address this. Yet, to avoid a fragmented and non-interoperable landscape, there is a need for harmonised standards and common protocols for data sharing principles. To enhance the knowledge of these principles, training and education among stakeholders should also be conducted to enable stakeholders to acquire, interpret and report more accurate and reliable sustainability data.

This opinion aims at correcting the following issues:

1) Sustainability reporting requirements should be further streamlined across the various legislations imposing or planning to impose new reporting requirements to ensure coherence and avoid overlapping and/or duplicating requirements.

2) Various systems and protocols for data sharing are being developed and implemented, risking suboptimal integration and interoperability between companies, suppliers and industries.

3) A fragmented landscape of applicable standards internationally risks suboptimal potential for structured data, hence limiting e.g., automatization of processes and innovative business models.

4) There is a lack of common European methodologies and standards for, among others, compliance with the sustainability reporting requirements.

5) There is a lack of free and accessible tools and databases to ease the compliance and calculation with the new reporting requirements and to help to assess the companies' compliance with regulations.

The REFIT potential for this initiative is first and foremost related to reducing administrative burdens connected to compliance with sustainability reporting. It is of utmost importance, that European companies can easily **identify the necessary reporting requirements** and that there is a **correlation between the requirements**, both on product and company level. Furthermore, there is also a REFIT potential in addressing the **various definitions** and thus making companies **aware of the implications** related to sustainability reporting. Ensuring **coherence** and clear definitions of various reporting requirements can lead to a simplification and better understanding of the interplay of various legislations and result in the reduction of administrative burdens related to compliance for companies. Additionally, a third REFIT potential arises in exploring measures that could potentially contribute to easing companies reporting exercises or increasing their awareness of the requirements to avoid overreporting.

Specific issues on the local and regional level:

These draft suggestions should be seen as an initial and non-exhaustive attempt to address the beforementioned risks arising from the new reporting requirements. The suggestions should ultimately allow for coherent policy measures, that keeps the ambitious rules on sustainability, while facilitating standardized, automated, digital data sharing between companies on sustainability to ease their compliance with the reporting requirements and serves as a basis for further actions to ensure a sustainable transition.

SUGGESTIONS

Suggestion 1: **Quality of data that companies need for reporting is low and/or it is even unavailable – we need structured and standardized digital data to flow in the value chains**

Description: There are number of cases where the data is lacking due to missing incentives to provide them (typically the case of sub-suppliers). For example, an absence of data also affects compliance with the Corporate Sustainability Due Diligence Directive (CSDDD). It would therefore be beneficial to adopt standards which identify, structure, and standardize digitally

ESG[1]-relevant input-data formats for the sharing of data between e.g., suppliers and customers' ERP[2]-systems in an automated manner. It would also be beneficial to test feasibility of reporting standards at the supplier-level through consultations. These standards should align to and feed into reporting standards that companies (brands) face vis-à-vis Member States and the EU. Examples of the data in mind are standardized product codes (such as UNSPSC[3] or TARIC[4]), which could be included in the development of standardized digital data formats sent and received (such as eInvoices). When developing new standards and methods, care must be taken to ensure that the system does not become even more complex as a result of new requirements, while respecting companies' trade secrets.

Efforts to standardize digitally ESG-relevant input-data formats should bear in mind that some enterprises in the value chain are micro entities. Hence, standardisation should be introduced gradually and on a voluntary basis first ensuring proper support over the way (free software available for the exchange of data, tutorials and so on).

Expected benefits: Giving undertakings better possibilities to track materials and product usage in physical units more automatically. It could also be specialized digital data formats modelled over the upcoming European Sustainability Reporting Standards (ESRS) SME-standards. Existence of such a system should also enable sharing the data with various stakeholders in an automated manner.

Suggestion 2: Certain data need to be made available from public authorities

Description: Establish a common freely accessible EU database on CO_2 emission factors, with sufficient coverage and differentiation on materials, products and geography. Map relevant other public sources of data relevant for sustainability reporting. Include professional experts in the approach in order to benefit from their experience and expertise. Examples of other data could be data from nature and environmental monitoring programs, which could be relevant for CSRD[5] reporting on biodiversity and ecosystems, as well as for assessments of climate risks for the needs of EU Taxonomy. Similarly, the potential of including social data e.g., data on the level of human rights risks, adequate/living wages, collective bargaining coverage etc. could be analyzed.

Expected benefits: Increasing the transparency and reliability of data. Provide better overview and easy access for undertakings to relevant sustainability data. Ease activities related to sustainability reporting e.g., resulting from CSRD.

[1] Environmental, social and governance – a set of criteria/framework used to screen investments based on corporate policies and to encourage companies to act responsibly;
[2] Enterprise resource planning;
[3] United Nations Standard Products and Services Code: a global classification system of products and services
[4] Integrated Tariff of the European Union: a multilingual database integrating all measures relating to EU customs tariff, commercial and agricultural legislation;
[5] Corporate Sustainability Reporting Directive;

Suggestion 3: Many digital ESG-solutions are opaque and immature with limited integration – a European open data exchange infrastructure is needed

Description: Establishing a common European open data exchange infrastructure for the sharing of standardized ESG-relevant data between companies' and suppliers' ERP-systems in an automated manner, that will be introduced gradually and on a voluntary basis. Examine the possibilities of setting minimum requirements for ESG systems, solutions, and software (inspiration can be found in the Danish Bookkeeping Act). Analyze the market for ESG data platforms and service providers focused on the collection of ESG data from undertakings' sub suppliers and other business partners, to evaluate whether a possible policy initiative on ESG data platforms and service providers is needed, as has been the case with the financial ESG ratings providers.

Expected benefits: Reducing the administrative burdens for both SMEs and larger undertakings related to more widespread sharing of sustainability related data. Further reducing the burden for EU companies due to standardization in the lower tiers of the supply chain. Avoiding vendor-lock in and outdated legacy systems. Ensuring minimum compatibility for companies relying on 3rd party ESG-solutions.

Suggestion 4: Methodologies and standards for some areas of sustainability are still lacking (e.g. on biodiversity)

Description: Development and adoption of authoritative common methodologies and "calculation" standards currently lacking, which is needed for undertakings to determine relevance and materiality of subtopics, what data to collect, how to aggregate data in a meaningful way, what metrics to use taking into account the availability of data, etc. Ensure broad representation of industry and other relevant stakeholders, also from third countries, in the development of common methodologies and calculation standards.

For example, the double materiality assessment has got several guidelines though all of them very general. It results in the need to deploy consultancies to perform and deliver the action needed. More guidance on both relevant methodologies and the double materiality assessment is needed, why considerations towards an increase in EFRAG's budget should be made.

Expected benefits: Greater comparability within and across industries and sectors. Metrics used in methodologies and standards should be selected and defined with a view to provide for the sharing of structured, standardized, and digital data between companies, as described above.

Suggestion 5: Digital product passport by default

Description: The proposal for the Ecodesign for Sustainable Products Regulation introduces provisions on the Digital Product Passport which is a prime example of EU legislation that emphasizes the need for businesses to be able to efficiently handle and share their product data with actors in their value chains, public authorities, consumers etc. The ESPR framework introduces requirements on governance structure, the IT-infrastructure, obligations on the various economic actors and access rights, all of which harmonised standards are expected to provide for presumption of conformity. Taking note of the concrete development and implementation of the various digital product passports provided for in existing EU legislation, the Digital Product Passport should be considered across all new product legislations, including revision of existing legislations. This could be achieved by introducing the provisions as part of the New Legislative Framework, which is going to be revised in the next EU Commission cycle.

A clear reporting standards for the product pass should be established, aligned with the delegated acts from the Ecodesign for Sustainable Products Regulation. Inclusion of social standards in line with ESG reporting requirements should be piloted to assess feasibility for inclusion in the future.

Expected benefits: Interoperability between digital product passports stemming from various product specific legislations. Ease of compliance for European undertakings.

DISSENTING VIEWS

Ms Véronique Willems (SMEunited) has a dissenting view regarding Suggestion 5 “Digital Product Passport by default” where it is proposed to pilot the inclusion of social standards in line with ESG reporting requirements to assess the feasibility for inclusion in the future.

The necessary steps of the digital product passport with regard to ESPR have neither been finished on a technical level (the CEN/CENELEC norms do not exist yet) nor on a product level. Only two product groups have yet started preliminary work so there is no knowledge about the challenges or learnings. It is uncertain whether the Commission’s goal of releasing up to three product groups per year under the ESPR will be possible. With so many uncertainties regarding the system it is too early to ask for a pilot phase of inclusion of social standards in the DPP. Furthermore, the ESG reporting has not yet been fully established.