

POSITION

Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS): Focus on real objective of regulation and meaningful reporting

Introduction

By extending the reporting obligations, the EU Commission wants to contribute to improving the availability of information on the sustainability performance of companies on the capital market. Based on such information, capital market actors should be enabled to better assess the sustainability performance of businesses, in order to allocate capital for a sustainable transformation and to thus achieve the goals of the “Green Deal”. With this in mind, the Corporate Sustainability Reporting Directive (CSRD) creates the framework for reporting, while the European Sustainability Reporting Standards (ESRS) define the specific requirements.

BAVC and VCI support the goals of the Green Deal. Therefore, we welcome a level playing field on the European market, as a matter of principle. At the same time, the currently demanded form of sustainability reporting brings major challenges for companies. One of the European Commission's intentions is to reduce the reporting burden for EU companies by 25% and by 35% for SMEs, with a view to increasing competitiveness. This is also highlighted in the report by Mario Draghi (former president of the European Central Bank) that was mandated by the Commission, with Draghi describing his personal vision for the future of Europe's competitiveness. The report gives emphasis on the excessive strain on EU businesses, inter alia, due to the new regulatory requirements for sustainability reporting and stresses the need for simplification.

In response to the bureaucracy reduction plans, where the EU Commission quantifies for the first time concrete savings targets of [37.5 billion euros](#), the institution is now working on an omnibus law to make sustainability reporting easier. The forthcoming legislation is to comprise, inter alia, the EU Taxonomy, the CSRD and the Supply Chain Directive (CSDDD); its presentation is scheduled for 26 February 2025.

With the following proposals for adjustments to sustainability reporting according to the CSRD, we wish to help build an economy that is fit for the future while contributing to the overarching goals of the Green Deal:

Proposals for adjustments to the CSRD

Merging of ESG reporting: A core problem in sustainable finance consists of the multitude of reporting obligations, many unclear, ambiguous or even contradictory definitions and non-legally certain demarcations. For this reason, a merger of all sustainability-related reporting obligations into only one single report should be pursued. This approach would bring simplification and make an end to duplicate or comparable reporting requirements (once-only principle). The sustainability report under the CSRD with its materiality principle would be perfectly suited for this. Up until now, information disclosed pursuant Article 8 of the EU Taxonomy has not brought the response on the capital market that regulators had expected, even though it involves great effort by those reporting. Therefore, such reporting should not be mandatory but voluntary, especially for undertakings whose business activities are not covered by the EU Taxonomy.

Raise thresholds for the scope of application: Large companies in the meaning of the ESRS are businesses that meet two of the three following criteria: balance sheet total of \geq 25 million euros; net sales of \geq 50 million euros; number of employees \geq 250. It is not workable that already these undertakings need to do reporting according to the comprehensive set 1 ESRS. This is because the prerequisite structures and resources (e.g. hiring new staff in times of skills shortage for ESG or audit costs) generate expenses and workloads that are disproportionate or unaffordable in the lower segment of the company size criteria. Therefore, the size threshold for large companies should be raised to the existing CSDDD thresholds (net sales: 450 million euros, [currently 50 million euros CSRD], employees: 1,000 [currently 250 CSRD]).

Postpone reporting obligation for large companies: Reporting brings major challenges, especially for undertakings that are reporting for the first time. Postponing soon the reporting obligation by two years would give enough time for first-time reporters to prepare for the reporting obligation and to learn from the implementation experiences of businesses with a capital market orientation. For the latter, the CSRD reporting obligation should not be postponed.

Replace set 1 ESRS by VSME: In order to reduce the reporting requirements, Set 1 ESRS should be replaced by the Voluntary Sustainability Standard for SMEs (VSME). This would rapidly ease the burden on all businesses with immediate effect. As an alternative to the above, the Standard for Listed Small and Medium-sized Enterprises (LSME) could be used to replace set 1 ESRS.

Critical reflections on the need for sector-specific standards: The considered introduction of sector-specific standards – and thus new comprehensive burdens in reporting – should not take place, especially against the backdrop of the reduction of reporting requirements as announced by the EU Commission. Since already Set 1 ESRS is turning out extremely challenging in practical application, introducing additional data points (e.g. in the current draft on the oil and gas sector standard) would be totally counterproductive to the aims of bureaucracy reduction and increasing competitiveness. Instead, EFRAG should focus on user-friendly support in the implementation of cross-

sector standards and a timely evaluation of set 1, including first-time users, auditors and main target groups of reporting.

Scope of sector-specific standards: We propose pausing the work on sector-specific standards until a review of the sector-agnostic ESRS Set 1 has taken place, in order to identify any need for additional standards. Should the work on such standards continue regardless of the announced reduction of reporting burdens, we are critical about the current 1:1 reflection of NACE codes for sector-specific standards. Wishing to prevent at least multiple reporting according to different standards, there should be a 1:n allocation of NACE codes. Furthermore, the principle of double materiality analysis should apply for sector-specific standards too, because there are marked differences in the business models within the sector.

Critical and timely examination of up-to-dateness of planned electronic tagging, against the backdrop of new AI solutions: The digital tagging/marketing of text passages, words or figures in sustainability reports is intended to make data accessible to the financial market in a machine-readable form. However, this brings great challenges for undertakings, as staff and technical capacities need to be provided, and costs arise for introducing the necessary IT tools. Already now, the rapid technical evolution of AI tools enables capital market actors to partly automate the collection, analysis and comparison of sustainability-relevant data in customised ways. Therefore, the EU Commission should soon call upon the competent EU institutions EFRAG and ESMA to pause the planned introduction of digital tagging/marketing until an evaluation of its necessity has been carried out, involving all relevant users of the data. Beside the fact that the demanded technology is highly likely to be outdated, it should be taken into consideration that the mandatory tagging of certain items of financial information, as introduced so far, is barely used by those to whom it is addressed.

Interoperability between ESRS and IFRS-S: The highest possible degree of digital interoperability between the various sets of rules on sustainability (e.g. for ISSB and GRI standards) is recommended.

Suspend sanctions and liability: Sanctions, such as fines against companies and civil liability of businesses and auditors, should be limited to intent in the first years of application of the legislation. Only later should they be extended to further forms of culpability, once a solid and thus predictable audit and administrative practice has been established.

Harmonise reporting boundaries: In order to further reduce complexity and to achieve the desired interlinking of sustainability and finance-related reporting, the reporting boundaries of sustainability and financial reporting should be harmonised. The CSRD and downstream ESRS demand to show that the “scope of consolidation” is the same. This term should be adjusted to “reporting boundaries” to achieve the pursued harmonisation. At present, auditors frequently ask businesses to include companies inside groups, which do not need to be taken into account in annual financial statements due to financial immateriality, in the sustainability report. As such companies inside groups usually only insignificantly impact the financial and earnings situation and the sustainability

performance, the potentially necessary cost and workload of additional data collection is disproportionate to the expected benefit.

Extend the exemption regime: We welcome the exemption regime for European groups of companies. Building on this, the CSRD group exemption should be extended to the effect that in future all subsidiaries of a group, without any exception and irrespective of size and capital market orientation, should be exempted from an own reporting obligation where there is group reporting – on condition that the parent undertaking prepares a sustainability report in accordance with the ESRS. Currently, large capital market-oriented subsidiaries fall under a separate reporting obligation, even if they pursue a very limited company purpose such as special purpose vehicles (SPV) for bond issuing in the EU. This causes unnecessary extra work and cost for EU businesses without any added value for the users of sustainability reports. Another need for adaptation is seen in the choice of the language. Depending on the level of reporting, the report must be submitted in German, English or local language. The choice of additional language versions should be left to the businesses, depending on those to whom reporting is addressed in the individual given case.

Review proposals for focussing the ESRS

Timely evaluation and adjustment of ESRS: The focus of sustainability reporting should be on those data points that are relevant to decision-making in undertakings and the finance industry and thus serve to fund the sustainable transformation. Such decision-relevant data points should be identified and evaluated promptly after implemented initial application from the year 2025.

Make implementation and auditing more efficient through coherent requirements: In many cases, users and auditors are faced with requirements that can be understood only with comprehensive additional implementation guidance. However, quite often the implementation guidance include – contrary to their real objective – further demands to transparency or cause legal uncertainty. Moreover, the ESRS definitions or requirements deviate from internationally recognised reporting standards or limit these (e.g. Greenhouse Gas Protocol). Partly, there are also diverging definitions between the various EU regulations (e.g. between ESRS and EU Taxonomy). Therefore, we propose to seek a dialogue with first-time users and, building on these experiences, to establish a timely review process for ESRS.

More phase-in: Some data points bring huge challenges for companies in data collection. Phase-in phases for individual reporting requirements can contribute to adequate collection in complex methods and data points. For this reason, we aim for extending the phase-in periods to three years without laying down a threshold for employees. Voluntary years of application should not be counted. The following data points should be incorporated in the phase-in phases (without limitation for the number of employees):

- Data point E2-4(28)(b) regarding the disclosure of microplastics generated or used by the undertaking. Furthermore, the data basis should be based on REACH and not exceed the REACH requirements.
- Data point E2-5 on substances of concern.

- Data points E5-4 and E5-5 on resource inflows and resource outflows.

Proposals for potential simplifications / clarifications at data point level:

a) In terms of content

- Adjust information on objectives, concepts and measures to actual corporate steering (for example, there is usually no time horizon for measures such as process and plant safety while these are important ongoing steps to prevent accidents). Instead of formalistic, extensive and often redundant details on objectives, concepts and measures, the reporting requirements should focus on topic-specific KPIs and their development.
- A comprehensive materiality analysis across the entire value chain is an enormous effort even for large undertakings and involves many uncertainties. Moreover, the current holistic value chain approach brings unsolvable challenges for many businesses, because the required obtaining of information from sometimes tens of thousands of direct suppliers is challenging, and relevant data are partly not even available from suppliers globally. For these reasons, value chain reporting should focus on a risk-based approach. In the event of data not being available from the indirect value chain and where there are no means to obtain them, it should be possible to skip reporting on such items of information until the respective data become available.
- The requirement to state “anticipated financial effects” “should be deleted. Due to different assumptions made by the companies in their own calculation models, there is no comparability between undertakings. Even the determination of “current financial effects” is a huge challenge for businesses, because expenditure in one year must be – partly artificially – broken down by sustainability topics. Furthermore, predictions over extended periods of time invariably include a very high degree of uncertainty.
- Some ESRS are not clearly defined (e.g. ESRS E5-5 DR 37 “(d) the total amount and percentage of non-recycled waste” or S1-16 DR 97 (a)+(b) gender pay gap between female and male employees. This causes legal uncertainties. We recommend specifying these data points more closely or deleting them.
- Data points that allow conclusions regarding product volumes and market behaviour (e.g. ESRS E2-5 DR 34 on “total amounts of substances of concern that are generated or used during the production or that are procured”) should be deleted.
- Reporting according to local definitions and legal provisions should be made possible, as standardised global reporting is difficult (e.g. definition of “hazardous waste” in the ESRS glossary: “Waste which displays one or more of the hazardous properties listed in Annex III of Directive 2008/98/EC”).
- For mandatory disclosures where estimates can be made, the optional use of the “comply and explain principle” should be possible – i.e. an acknowledgment by undertakings that data cannot yet be collected at the time being.
- Data points for which no information can be gathered due to lacking access to data should be deleted from the ESRS set 1 (e.g. average number of training hours per employee by gender and employee in S1-13); non-employed in S1

14(a); remuneration figures in S1-16; collective bargaining coverage and social dialogue in S1-8; S1-11 social protection, and S1-15 work-life balance).

- The possibility to omit sensitive/unfavourable information should be extended to further items of information, e.g. disclosures of the undertaking on its risk assessments to identify corruption and bribery (G1-3; AR5) during ongoing investigations.

b) In terms of structure

- In principle, recurring data points in the S standards (e.g. on human rights issues and complaints mechanisms) should be reported centrally in standard G1, in order to avoid redundancies as well as referencing and auditing work.

Improve the scope of applicability for indirectly impacted companies

Limit data requests from large undertakings to indirectly impacted SMEs: Data requests from large undertakings to indirectly impacted SMEs should be voluntary and subject to the company's own assessment. This is likely to reduce the trickle-down effect. Furthermore, the European Commission should clarify that data, which companies not subject to reporting make available to companies falling under the reporting obligation, are not subject to auditing. We support the following recommendation from the Voluntary Sustainability Reporting Standard for non-listed SMEs (VSME): "If the undertaking is a parent company of a group, it is recommended that it prepares its sustainability report on a consolidated basis, including information from its subsidiaries". Moreover, we call to interlink the requirements with existing legal obligations, wherever this is possible. Also, certification systems such as ISO certifications, which are used by many SMEs, should be included in the considerations under the VSME.

Contact persons

Kathrine Link

Division Sustainability, Energy und Climate Protection
Department Sustainability – Initiative Chemie3
P +49 69 2556-1503 | E link@vci.de

German Chemical Industry Association

Mainzer Landstrasse 55
60329 Frankfurt, Germany

www.vci.de | www.ihre-chemie.de | www.chemiehoch3.de

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The VCI and its sector associations represent the interests of around 2,300 companies from the chemical-pharmaceutical industry and areas related to chemistry vis-à-vis politicians, public authorities, other industries, science and media. In 2023, the VCI member companies realised sales of ca. 245 billion euros and employed over 560,000 staff.

Mechthild Bachmann

Lawyer
Sustainability and Innovation
P +49 611 7788152 | E mechthild.bachmann@bavc.de

German Federation of Chemical Employers' Associations - BAVC

Abraham-Lincoln-Straße 24
65189 Wiesbaden

www.bavc.de | [LinkedIn](#)

Identification no. in the EU Transparency Register: 3474944849-83

The German Federation of Chemical Employers' Associations is the head organization for collective bargaining and social policy in the chemical and pharmaceutical industry, as well as large parts of the rubber and plastics processing industries in Germany. It represents the interests of its 10 regional member associations, with 1,700 companies and 585,000 employees vis-à-vis trade unions, politics and public.