

Simplifying the EU sustainability agenda

1. Introduction by the Chair

The Chair opened the panel by commenting on the importance of the topic. Some have had a tendency to oversimplify the idea of simplification. The panel presents an opportunity for public authorities and business representatives from different markets, with different perspectives, to debate this in the context of the EU sustainability framework and omnibus directive proposal. At the European level and worldwide, current efforts, including the Task Force on Climate-related Financial Disclosures (TCFD) and the Taskforce on Nature-related Financial Disclosures (TNFD) encourage disclosure on issues not taken into consideration in many companies' business models. For a long time, businesses have used capital and human resources without thinking of the impact on and dependencies from nature and the climate.

2. Views on the omnibus package

An official characterised the omnibus package as a stepping stone and part of the European Commission's new approach, which focuses on simplification, coherence and speed. Where there is political will, the EU can move quickly and effectively. Many actors might have seen the debate on the simplification of the corporate sustainability reporting directive (CSRD) coming, given the reports of past years on EU competitiveness and how it might be improved. One criticism of the EU's sustainability framework is that it increases companies' compliance costs, burdening the value chain.

In Latvia, the sustainability framework has been transposed, meaning that, if changes are made, a review will be required. There is a tension between complexity and comprehensiveness. Simplifying the framework could make it more accessible, particularly for smaller companies with limited resource. On the other hand, simplification may exclude part of the reporting chain, reducing the volume of useful data available. There is a continuing debate around standardisation and how the EU might help companies adopt the framework. In the current geopolitical context, it is also vital to reference the EU's defensive capacity. An aligned sustainability taxonomy might incentivise private sector investment into defence initiatives.

The Chair highlighted that Austria is yet to transpose the sustainability framework, perhaps suggesting that the European Commission should focus on developing regulations (that are directly applicable), rather than issuing directives (that require to be transposed in each Member state). An official noted that, despite lack of transposition in Austria, the directive remains applicable. The first wave of Austrian companies have reported under the European Sustainability Reporting Standards (ESRS), but ongoing negotiations have

complicated the situation. Politicians are reluctant to transpose directives and frameworks that may no longer be viable.

The journey towards the CSRD has been fraught with challenges, starting with the non-financial reporting directive (NFRD), within which various flaws were identified. The CSRD was intended to be an evolution of NFRD but, since then, there have been headwinds. The European Commission sought to address this, following consultation with the European Financial Reporting Advisory Group (EFRAG), though downsizing the volume of datapoints and changing the thresholds for small and medium-sized enterprises (SMEs). Fewer companies are required to report under ESRS and the development of sector-specific standards has been paused.

These efforts were insufficient, resulting in the omnibus directive proposal, which is a mess. The first wave of companies have reported under ESRS. The second wave of companies are preparing to report at significant cost. Now, the discussion centres around 'stopping the clock', with the entirety of the CSRD reopened for consideration. Those in the first wave are unsure they will remain in scope when the debate concludes. They will likely be required to apply different standards in future. Effective regulation must be aligned with a strategy. At the moment, the EU's strategy remains unclear. If sustainability is the goal, regulation must be evidence-based. The European Commission's impact assessment of the omnibus proposal is worth reading for everyone who relies on science.

The timing of the CSRD was also wrong from the start. Putting in place the sustainable finance disclosure regulation (SFDR) ahead of the CSRD was unwise. Coherence with complementary legislation and financial sector practice is vital if the sustainability framework is to succeed. Stability is needed for business.

An official agreed on the importance of stability. The German Federal Ministry of Finance welcomes the omnibus package and 'stop the clock' proposal. The latter makes clear that second wave companies will not be required to apply the ESRS. In the interim, the European Commission, Parliament and Council can formulate simpler, consistent rules.

If the EU's goal is to achieve a green deal, channelling funds into the green transition of companies, money and resource should not be wasted on reporting standards and increasing companies' regulatory and compliance burdens. Money must be invested in the green transition itself. The CSRD and corporate sustainability due diligence directive (CSDDD) should be simplified and made consistent with other international standards.

There are various examples to demonstrate the CSRD's inefficiency. The ESRS consists of 12 standards, 150 EFRAG questions and answers, 40 pages of European Commission frequently asked questions and 100 further pages of guidance. This is neither pragmatic or simple.

The CSRD also does not achieve its ambition of having companies report the most material risks. For example, for a cement company, the water-intensive production process is a material concern. According to the current ESRS framework, the company is obliged to collect data and report on the water consumption of the entire group, including in the restrooms of all office buildings. This is complex and does not contribute to the CSRD's goal.

The additional time allowed by the 'stop the clock' proposal will facilitate the simplification of reporting requirements, making it more practical for companies to comply and easier for stakeholders, including civil society, to understand the material risk related to a company's business model. The current taxonomy reporting obligations are also a duplication of the CSRD standard. The green asset ratio was designed to steer businesses towards a green transition, but is ineffective. Most companies and banks, including development banks and the European Investment Bank (EIB), have a ratio of less than 1%.

The Chair observed that, in years past, stakeholders discussing sustainability emphasised the need for reliable and comparable data. As data reporting standards have been adopted, the same stakeholders request changes to reduce the burden. Meanwhile, the practical implications of climate change are becoming known. This is both an ecology and business concern. An industry representative stated that the reporting framework must be revised. It is essential that all relevant actors acknowledge that the context has changed. Green regulation should align with a strategy of fostering sustainability, integrating climate considerations into companies' everyday operations.

Santander has seen the benefit of CSRD reporting since 2023. It allows a level of comparability with peers not previously possible in terms of materiality, signalling and the information provided. However, the company's sustainability statement is double the length of its financial report. Sustainability reporting requirements multiply risk management disclosure requirements by four. This is impractical in the long term. There must be a focus on meaningful disclosures that truly inform decision making. Significant staff time is devoted to monitoring measures such as the green asset ratio, which are not useful in discussions with internal teams or external stakeholders.

Another demonstrative example requires the company to capture information about the emissions of each vehicle it finances, as well as factors like tyre rolling noise before tagging as 'green' any vehicle for which it is responsible. Such information is not available and impedes the firm's other greening work. The taxonomy is needed, but does not usefully define significant contributions, minimum safeguards and non-significant harm, leading to inefficient allocation of resources. It is not the case that transparency will foster financial flows and transition activities. Demand is lacking because there is no convincing business case. Transparency is only part of the solution. The EU must instead seek to put into action a competitive, clean green industry deal.

An industry representative highlighted that SMBC's European operation, headquartered in Frankfurt, has

prepared in anticipation of meeting CSRD requirements. The bank was surprised to see CSRD not adopted in Germany, but continued to assume that some reporting will be required. The bank is also working to meet the capital requirements regulation 3 (CRR 3), while its Japanese head office has adopted the International Sustainability Standards Board (ISSB) framework under the Sustainability Standards Board of Japan (SSBJ). In North America, it will comply with Californian emissions and disclosure regulation. In combination, this represents a significant volume of sustainability disclosure regulation. SMBC therefore welcomes the spirit of the omnibus proposal and the speed at which the EU seeks to address the challenges identified.

There remains an overlap between CRR 3 and CSRD in terms of qualitative disclosure around governance structure, climate risk and risk management practices. The investment required on the part of non-EU headquartered banks to prepare assurance-ready disclosure is significant. Non-European Sustainability Reporting Standards (NESRS) continue to apply to SMBC's head office. Alignment and harmonisation of sustainability standards are particularly key for international players.

An industry representative remarked that Poland implemented the CSRD in December 2024. The regulation is comprehensive and has some logic, having been prepared and developed over many years. However, Deloitte's clients have a different view. Reporting is only a tool and not the goal itself. The question is whether the objective of achieving net zero by 2050 will be retained through the simplification exercise. No impact reports have been produced to underpin the proposal of amendments. The evidence-based approach taken to the CSRD has not been replicated.

First wave companies understood the importance of the new requirements. There has been more pushback from second wave companies that are less familiar with corporate reporting standards. This implies a need for further education and a reduction in information asymmetry. Regulators and consultants have not explained the regulation in a way that is accepted by all companies and this has been worsened by the current geopolitical context. Stakeholders are focused on the short-term objectives of national, regional and continental defence in a situation of high uncertainty.

The Chair suggested that the quantum of the burden represented by the EU's sustainability framework is a matter of perspective. Those acknowledging the significant risk posed to the planet may find it worthwhile to make financial and cultural investments into these efforts. There is a risk that the shifting majorities of the European Parliament might lead to the continent making a step back in terms of the green transition.

3. Priorities for the legislative process of the omnibus package

An official underscored the significant progress already made. It is vital, going forward, that there is consistency

across all three reporting waves, such that the data obtained remains accessible. There might also be a beneficial discussion to be held around materiality thresholds. There has been no impact assessment undertaken to determine if thresholds should be set at the same level for all industries. The Chair remarked that some battles ongoing behind the scenes have nothing to do with simplification. Shifting thresholds will mean that some countries are excluded, due to the differing nature of EU economies.

An industry representative advised that the pragmatic elements of the current proposal should be preserved, given that there is an extensive negotiation process still to come. It is logic, for example, to move the scope of the CSRD into tier 1, as this could be feasibly managed by businesses. The removal of the mandate to develop sector-specific standards might also be sensible, given the current interest in simplification. The 'do no significant harm' criteria should be simplified.

The CSRD also refers specifically to the international 1.5 degree target. The scientific evidence makes clear that this is "unrealistic" in the context of national plans. The Chair characterised a focus on pragmatism as unwise in the context of a global climate catastrophe. Action is required. An industry representative agreed that action is required. However, regulation requiring companies to have 1.5 degree target-aligned transition plans when not all countries, including some in Europe, have national transition plans (NTPs) is unrealistic.

An official emphasised that it is not a matter of the EU giving up on its sustainability goal, but rather of how the EU and its companies might make best use of resources. Companies and financial sector institutions are devoting significant resource to the reporting of CO₂ emissions, rather than efforts to bring such emissions down. It is furthermore essential that European societies at large continue to accept the need for, and resulting burden of, reporting requirements. Efficient reporting requirements would be acceptable to wave one companies, SMEs and society more broadly. For SMEs, the administrative burden of the existing CSRD is around 1 billion, as calculated as part of the legislative proposal brought before the German Parliament.

The Chair reported a recent conversation with a representative of a large European insurer, who claimed that the additional cost of non-financial reporting represented only 6% of the overall cost of reporting. Efforts to increase transparency cannot be given up in service of such limited savings. Placing an unnecessary burden on companies should of course be avoided, but investment for the green transition will not come from the money saved by reducing reporting requirements. An official clarified that this is not her argument. Any burden placed on EU companies should be in service of the overall sustainability goal and limited in scope, given the challenging situation Europe faces in terms of international competitiveness.

An official confirmed that calculations have been made, and impact assessments carried out in the Austrian case, which would be released publicly at the appropriate time. Participants must be frank in admitting that regulatory reporting is always a burden, but can be necessary to

achieve a specific aim. Given the geopolitical circumstances, in some circles the sustainability goal has been deprioritised. Sustainability must either be pursued in a proportionate way across the piece or deprioritised altogether.

Sustainability is the way forward for the EU, particularly given that the continent is dependent on fossil fuels sourced from elsewhere. There must be investment and innovation in this space, while companies more closely consider their environmental impact. Sustainability does not relate only to the environment, but also to society, which is becoming a global concern. If environmental and social sustainability are European values, they should be defended through the key levers of the CSDDD and the carbon border adjustment mechanism (CBAM).

An industry representative cited SMBC's continued commitment to transparency and sustainability, which formed part of the bank's social value creation strategy. Achieving a reasonable green asset ratio this requires obtaining a level of documentation from clients that is often not available. A simplified and more principles-based 'do no significant harm' criteria would be more meaningful and require less effort from real economy actors and financiers.

There is a need to consider nature. Nature and climate are interlinked. There might also be a benefit in the EU prioritising high impact sectors, such as power and energy, in an effort to better focus the application of companies' resources. SMBC would furthermore welcome a consideration of the NESRS within discussions on ESRS and the simplification of CSRD.

An industry representative questioned how the EU can effectively decarbonise without a starting point underpinned by coherent data and consistent reporting. Companies and financial institutions struggle most to obtain data on climate change impacts. The concerns and interests of wider society must also be taken into consideration. The EU faces significant challenges, particularly in terms of its defence and the ongoing war in Ukraine. It is understandable that some are more focused on pressing, short-term concerns to this end. This argument does not stand, however, in relation to competitiveness. If Europe is to effectively compete, the price of energy must be lowered.

4. Conclusion

The Chair summarised that the EU seeks to meet a challenging goal. In the past, companies did not consider the geopolitical or environmental impacts of their business model. The sustainability objective cannot be abandoned. The logic underpinning financial disclosures, in terms of transparency in the interest of consumers and investors, can be applied to the EU's sustainability frameworks. Participants must acknowledge that some actors can promote "simplification" in bad faith, speaking against transparency in favour of continually profiting from polluting, short-termist behaviours. This cannot be accepted in a society where resources are already scarce. Both environmental concerns and the EU's defence capacity must be prioritised if societal resilience is to be increased.