



NOTAT

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MarRay

Response to EFRAG's Public Consultation on Two Exposure Drafts on Sustainability Reporting Standards for SMEs

The Danish Government would like to thank EFRAG for the work done on two drafts on sustainability reporting standards for SMEs. The Danish Government supports the objectives of the Corporate Sustainability Reporting Directive (CSRD), with the aim to enhance and standardize digital sustainability reporting, contributing to the sustainable and digital transformation of European businesses.

We see sustainability standards as an effective tool to ensure transparency and comparability of sustainability reporting, thereby supporting the transition into a sustainable economy. It is essential to create transparency and comparability regarding sustainability and make rules that are fit-for purpose and add value for the reporting undertakings and the users of the data.

However, we can only fulfil this purpose if the standards are proportional, value-creating and executable for businesses. The green and digital transition of European businesses is necessary to deliver on the global challenges facing us. However, we will not achieve the important aim if companies are unable to comply with the new requirements. This is particularly relevant for the corporate sustainability reporting. New estimates – carried out on behalf of the Danish government – show that businesses' implementation and annual costs related to the CSRD could prove more than five times more costly than initially expected based on an extrapolation of the Commission's original estimates. We must direct particular attention towards reducing these burdens or risk jeopardising support for the green transition as well as confidence in European competitiveness.

To this end, it is vital that the standards do not exceed the mandate of the CSRD. The "report if you have- approach" goes beyond the mandate of the CSRD and could give the impression to listed SME's that they need to disclose more information than required by the CSRD. We find that elements not mandated by the CSRD should be abandoned, which we elaborate on further below.

The SME standards will be crucial as these set out the reporting obligations for the SME's which are in scope of the CSRD. Moreover, they state the extent of data that larger undertakings will need from SMEs in their supply chain in order to fulfil their reporting requirements. It is therefore of utmost importance that the SME standards become proportional in scope and quantifiable in nature.

Qualitative disclosure requirements are important to provide context to the quantitative calculations, allowing for comparisons across sectors and industries. However, too many qualitative disclosure requirements will risk decreasing the value-added of the standards. Even more importantly, it risks introducing requirements that can be difficult to underpin through standardization and automation.

The Danish Government finds it very important that the SME-standards support more automated sharing and handling of data, e.g. between an SME providing sustainability information for a larger company. Ensuring that the standards are fit for digital, structured and automated data sharing between businesses, will contribute to the reduction of the substantial administrative burdens associated with reporting in line with the European Sustainability Reporting Standards. Automated sharing and handling of data will thus preserve European business competitiveness.

Connection between the different reporting standards (European Sustainability Reporting Standards 1, Listed SME and Voluntary SME)

It is important that there is a coherent and proportional system of reporting obligations. That will enable sustainability information to be shared efficiently and seamlessly between large businesses and SME's and between SME's and their lenders, investors, and corporate clients. It is also important that the system of reporting obligations across the different reporting standards is aligned. This is to ensure that the businesses do not need to provide additional sustainability information on an individual basis due to individual data requests, which would undermine the purpose of the sustainability standards as an effective tool to ensure transparency and comparability.

We support EFRAG's approach to secure a coherent and proportional system. We believe this is obtained by the Listed SME exposure draft being a simplification of the European Sustainability Reporting Standards Set 1 and by developing the Voluntary SME exposure draft as a modular standard designed based on the frequently observed data request from lenders, investors, and corporate clients of SME's.

Guidance

We welcome EFRAG's work in preparing "implementation guidelines" and the "Q&A platform". These are very important supporting measures in relation to the undertakings work on sustainability reporting.

However, there is a need for a European guidance effort targeting the SMEs - both the listed SMEs, which are directly covered by the LSME, and the non-covered SMEs, who want to use the VSME on a voluntary basis. We encourage EFRAG to take the lead and publish this guidance alongside the approval of the SME standards. Large businesses and other business partners could also benefit from this guidance when they seek information from their value chain.

We suggest that the guidance also include an overview of how compliance with the international ISO standards and environmental labels are related to the disclosure requirements in the LSME and VSME.

The SMEs have no or limited experience with sustainability reporting. Guidance should be tailored to these target groups and should be intuitive and accompanied by, e.g., illustrations, videos, templates, and graphics. It must be as easy as possible for the SMEs to get started. The smaller "large undertakings" that are subject to reporting requirements according to ESRS 1 will also benefit from such guidance efforts.

Double materiality assessment is a central concept across the ESRS 1, LSME and VSME. Given the limited resources in the SME segment there is a strong need to define more explicitly what it means for SMEs to be compliant with the concept of (double) materiality assessment. To ensure the LSME and VSME to be efficient and proportionate we suggest a clear description that sets out the expectation regarding SMEs (double) materiality assessment in both the LSME and VSME.

Standards should be made ready for further processing in XBRL

The purpose of standardized sustainability information is to be able to share, compare and aggregate data efficiently. For this purpose, XBRL-taxonomies are in preparation for the ESRS set 1 and article 8 in the taxonomy regulation.

We expect that also the two draft SME-standards later will be supported by XBRL-taxonomies, and hence we urge that this is reflected in the current development of the standards. Therefore, the standards should be developed so XBRL-taxonomies support:

- Valid and reliable data;
- Identical human readable and machine readable reports;

- Simple XBRL-tagging rules, which are easy to use and do not require specialized XBRL-skills in order to keep administrative burdens at a minimum.

To this end, the standards should focus on information that can be structured and is aligned with requirements in the ESRS standard. Moreover, it is important to start simple and with limited requirements, and rather gradually extend requirements as experience increases and maturity develops. This also in order to ensure competencies to handle the tagging, audit and validation of data, and for the market to have trust in the sustainability data provided.

Please refer to the Danish governments reply to the open consultation on the Draft XBRL-taxonomy for ESRS Set 1 and Article 8 for further elaboration on this topic.

Closing remarks

In the attached Annex 1 there are further specific comments to the listed SME and the voluntary SME standards. We look forward to following the future work on the standards. Should EFRAG need any clarification in relation to our response please reach out. We are ready to elaborate on our Danish points of view to ensure an effective market-driven transition to a sustainable economy.