

## **Danish technical paper on the need for developing ESG-methodologies**

European companies are increasingly required to measure and report on ESG-data due to new sustainability regulatory frameworks and growing stakeholder demands. Both large companies and SMEs spend substantial resources on understanding the new sustainability regulations and subsequently collecting, handling, and sharing the necessary sustainability related data throughout their value chain. Hence, supporting companies in their work with ESG-data is essential, both to ease the burden of compliance and enable their sustainable transition.

However, one key barrier in this regard is the substantial uncertainty and unevenness in maturity across the various ESG-elements in the ESRS and the underlying calculation- and testing standards and methodologies. It is necessary to ensure European harmonisation of ESG-methodologies and ideally subsequently also promote their recognition and applicability at international level. Standardised ESG-methodologies are crucial to ensure reliability, comparability, proportionality and transparency of ESG-data, which can be a means to alleviate administrative burdens on European companies stemming from the CSRD. The absence of well-established ESG-methodologies means that companies resort to different sustainability assessment frameworks, as well as endless surveys and initiatives on sharing data with stakeholders, sometimes with different applied methodologies.

In some areas ESG-methodologies are well developed and widely accepted among economic operators and stakeholders e.g., the GHG Protocol, that provides a standardised methodology to measure and manage greenhouse gas emissions for companies. This approach enhances accountability, consistency, comparability, data sharing and helps organizations report on topics, if deemed material.

However, there are several key areas where the absence of standardised ESG-methodologies poses a hurdle, hence tasking regulators and other relevant stakeholders to support companies in identifying and developing standardised ESG-methodologies where these are needed. One of the most prominent topics is biodiversity, which is subject to increasing public scrutiny, but where the immaturity of ESG-methodologies and the complexity of the topic makes it burdensome for companies to consistently define, measure, assess and report biodiversity impacts in a proportional manner. The lack of ESG-methodologies also poses a challenge within other sustainability related areas such as circular economy.

In order to solve the challenge of lacking ESG-methodologies we encourage the Commission to:

- Engage with companies and stakeholders to identify where standards are lacking to assess and report on the ESG-topics covered by the ESRS for large undertakings as well as the forthcoming LSME and VSME.
- Subsequently to the abovementioned identification, the Commission should facilitate, and support the development of lacking ESG-methodologies and guidance needed by companies through e.g., action grants to the relevant European standardisation organisations.
- Ensure that, when developing standards and ESG-methodologies, due consideration is given to digitalisation and automation of corporate data management.
- Recognise and promote emerging standards to ensure that the new methodologies will be widely used and are applicable among all European companies, e.g., by referencing recognised ESG-methodologies in future revisions of the ESRS. The forthcoming ESG-methodologies will only have value if they are generally accepted among companies and are easy to use in practise.

The Danish Business Authority is available to further discuss the elements proposed. For more information, please contact:

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