Ms Ilze Juhansone, Secretary-General
Cc: Mr Sven Gentner, DG FISMA
European Commission
Rue de la Loi 200
B-1049 Brussels
Belgium

Brussels, 8 August 2023

Subject: perspectives on plans to develop proposals to reduce existing corporate reporting requirements by 25%

Dear Director General, Dear Ms Juhansone,

PwC International Ltd, on behalf of its network of member firms (PwC IL), welcomes President von der Leyen's announcement to the European Parliament's Plenary that the European Commission (EC) plans to develop proposals to reduce existing corporate reporting requirements by 25%. We agree that corporate reporting regulations should not over-burden businesses and fully support the initiative to consider ways in which reporting requirements may be simplified. A reduction in regulatory burden for companies, while ensuring stakeholders have the information they need to make informed decisions, is important. We commend the EC for initiating this work and in doing so, helping to reduce the time and resources necessary to meet reporting requirements.

As the EC considers how they can contribute to a 25% reduction in reporting requirements - and ahead of the planned publication of proposals in September - we'd like to share with you our suggestions for where existing EU law, and current legislative proposals, could be simplified. We will submit a customary response as part of any future public consultation.

When considering proposals for simplification, we suggest the following broad areas of focus as follows:

1. **Consistency and alignment across reporting requirements**

   Regulation typically evolves by individual subject area - and as a result, associated reporting requirements are not always aligned. We suggest that proposals to reduce the corporate reporting burden should focus initially on ensuring consistency between different regulations. Existing requirements should be revisited to ensure alignment both between various pieces of EU legislation - and interoperability with any other related requirements, for example that companies reporting under the CSRD may additionally be required to report under, such as international sustainability standards.

   We recommend implementing a mechanism to facilitate this work to increase alignment across the various reporting requirements "owned" by different DGs. For example, an EC-wide Reporting Simplification Task Force could be created, with representation from each DG, to facilitate collaboration and compromise between DGs as well as to achieve interoperability with international standards.

2. **Reporting requirements that would benefit from further clarity**

   Providing more clarity around the objective, intent and scope of reporting requirements, to help companies apply the rules, both in their form and substance, is likely to be helpful in reducing the reporting burden for companies. In particular, when considering sustainability reporting, clear guidance on the objectives of the rules related to the value chain and double materiality are vital. These are potentially very broad concepts that if left uncertain as to the intent could lead companies to expend significant effort to obtain and analyse potentially relevant information. Even if this information is not ultimately included in the disclosures, considerable effort may be expended in gathering the information necessary to make the judgement as to whether to disclose the information. In our mind the reporting objective should be limited to information that a critical mass of stakeholders is interested in. This approach is also consistent with the principle of not obscuring what is truly important by reporting copious amounts of information that is relevant to a narrow set of stakeholders. To achieve this result, a clearer statement of the reporting objective is needed.

3. **Ongoing assessment**

   We understand that the EC plans for the identification of areas to reduce the reporting burden to be carried out in several stages, rather than as a one-off exercise, and we fully support this approach.

   The volume and complexity of required disclosure continues to increase, and has done so significantly in recent years. It is crucial to acknowledge that it will take time for these new requirements to settle and for corporate reporting to evolve. Post-implementation reviews will therefore be critically important and we recommend these happen on a timely basis and in consultation with key stakeholders. Post-implementation reviews should assess whether disclosures are relevant, appropriate, and achieve what was originally intended and also how they fit/complement (or overlap with) other reporting requirements. This could be an area of focus for the EC-wide Reporting Simplification Task Force we suggest above.

   Another area for such a Task Force to consider is the development of a common database for regulatory reporting, in a similar way to the European Single Access Point (ESAP) offering a single access point for public financial and sustainability-related information.

   In respect of the goal of reducing reporting requirements by 25%, it would be helpful to clarify the starting point, to develop a way to measure this target and for the EC to report progress against it over a defined time period. We believe that a simple mechanism for measuring this objective will help promote the momentum and the focus needed to achieve substantial simplification.

We would welcome the opportunity to discuss our recommendations and to share perspectives with and provide additional input to the European Commission - both at this stage and when the EC proposals are published. We also suggest further engagement with preparers, industry group representatives and the accounting profession, to better understand areas of significant burden and where there may be further opportunity to simplify legislation. We would be very happy to provide more assistance in this regard.

If you would like to discuss any points that we have raised in this letter, please do not hesitate to contact me (gillian.lord@pwc.com) or Jacomien van den Hurk (jacomien.van.den.hurk@pwc.com).

Yours sincerely,

Gilly Lord
Global Leader for Public Policy and Regulation, PwC

PwC IL is registered under number 60402754518-05 in the EU Transparency Register.

Appendix

This appendix sets out further detail on our suggested focus areas for simplifying corporate reporting by 25%, as set out in our letter of 8 August 2023. It includes some specific examples for consideration.

1. Consistency and alignment across reporting requirements

Regulation has, necessarily, developed by individual subject area - and as a result, requirements are not always consistent. We suggest proposals to reduce the corporate reporting burden should focus initially on 'de-siloing'; ensuring consistency between different regulations. Broadly speaking, existing requirements should be revisited to ensure alignment both between various pieces of EU legislation - and in specific circumstances, with other related requirements.

CSRD consistency with other regulation

Alignment should be considered between the Corporate Sustainability Reporting Directive (CSRD) (now that European Sustainability Reporting Standards (ESRS) have been adopted) and other EU legislation. Examples are as follows:

- **Sustainable Finance Disclosure Regulation (SFDR)** While the CSRD provides various reliefs for certain entities, the SFDR puts additional burden on financial entities and their suppliers/ customers. As an example, SFDR (and Pillar 3 rules) require financial institutions to provide specific sustainability data about their counterparties (e.g. GHG emissions under SFDR and amounts of asset at physical risk under Pillar 3) regardless of the materiality of that data to those counterparties. Currently, under ESRS, all data points are subject to materiality. So, there is an increased level of complexity for financial institutions that might not be able to obtain this data from their counterparties' publicly available ESRS-compliant statements. The reporting burden for these institutions is increased as they would therefore need to initiate another process to obtain that data. In turn, this puts additional burden on these financial institutions' counterparties as they are required to provide the data.
- **Financial reporting** Consistency between financial and sustainability reporting will keep processes more straightforward for companies.
    - **Consolidated reports and intermediate holding companies** We suggest revisiting the scope of requirements for consistency. For example, EU intermediate holdings of non-EU parent companies are often exempt from consolidated financial reporting but will, in most cases, not be exempt from consolidated sustainability reporting. A significant amount of work will be necessary for these entities to put processes and systems in place to collect sustainability data, consolidate it and ensure that it is assurance-ready. We recommend considering exemption in this situation, for example where the intermediate subgroup is included in the consolidated reporting of the ultimate parent and equivalent disclosures are provided at that level.
    - **Definitions** Similarly, we suggest reviewing definitions for consistency. For example, companies are required to report operating expenditure under both ESRS and the Taxonomy Regulation. Operating expenditure is not defined in ESRS; companies may choose a decision-useful definition (e.g. a KPI that they use in-house) for their external reporting. In contrast, the Taxonomy Regulation defines operating expenditure in a narrower way such that the reported figure may not be decision-useful - and most companies need to calculate this KPI manually. Therefore confusion may arise as the

operating expenditure KPI calculated for Taxonomy reporting purposes could be misleading - and in the same sustainability report, there may be a different operating expenditure KPI to fulfil ESRS reporting requirements. We therefore suggest removing the Taxonomy Regulation operating expenditure KPI given it may not be decision-useful, it could cause confusion and its calculation is likely to be resource-intensive.

- **Duplication** There are duplicative requirements between various reports (management, remuneration, governance, sustainability) provided by listed companies, as well as different scopes for each report. This results in duplication or cross-referencing between reports and adds complexity. It would be helpful to assess requirements in overview in order to address this issue. For example, governance disclosures under ESRS create some overlap with governance disclosures that listed companies are already required to provide. Rather than governance disclosures appearing within both a separate governance report and as part of ESRS disclosures, they could be limited to one place within the annual report.
- **Decision-useful requirements** A further consideration is that as corporate reporting evolves over time, some requirements may no longer be decision-useful. Using the governance example mentioned above - with ESRS setting the current standard, longer-standing governance disclosures should be reviewed to assess whether they continue to be relevant.
- A specific example combining our points about duplication and decision-useful reporting is in relation to remuneration disclosures, where listed companies report director remuneration compared to average employee remuneration (Directive 2007/36/EC, Article 9b). ESRS contain a similar, but not identical, disclosure requirement that uses the median instead of the mean. This lack of alignment could cause confusion. If current users of corporate reporting are seeking this data based on the median, we suggest reviewing whether it is helpful for listed companies to present this data based on the mean as well.

The goal should be to achieve coherence and consistency across all information that companies are required to report.

Alignment between forthcoming sector-specific ESRS and general ESRS
Looking ahead, the reporting burden will necessarily increase for some entities, as sector-specific ESRS are developed. We recommend an ongoing review process as this happens, to ensure that the metrics in sector-specific ESRS contain only incremental disclosures and do not unnecessarily duplicate disclosure requirements already included in the general standards (ESRS 1, General requirements and ESRS 2, General disclosures).

In addition, if sector-specific disclosures do touch on general requirements, the standards should state explicitly that duplication of a particular disclosure is not required (that is, there should be confirmation that the same data point only needs to be provided once to fulfil both the general and specific requirement).

Experience of entities reporting under other standards has shown that

- Many companies operate in multiple industries, so care needs to be taken to ensure that the introduction of sector-specific standards does not lead to excessive reporting requirements.

- Sector guidance should only include additional requirements that are truly unique to the industry. We recommend disclosures that impact many sectors should be included only in the general standards.
- Procedures should be in place to encourage interoperability with industry standards from other standard setters (for example, industry-based Sustainability and Accounting Standards Board (SASB) as they are taken forward by the International Sustainability Standards Board (ISSB) as well as GRI's industry standards). Ongoing, open dialogue with other standard setters is important.

Tax reporting alignment

EU tax reporting requirements, such as Country by Country Reporting (CBCR) and public Country by Country Reporting (pCBCR), the Globe Information Return (GIR) for the global minimum tax and CSRD (tax being in CSRD's scope via the minimum safeguard criteria and OECD Guidelines for Multinational Enterprises, which contains a chapter on taxation), have different policy goals. Nevertheless, tax-related reporting requirements put a heavy compliance burden on business, due, at least in part, to the fact that the requirements are not streamlined. We recommend the EC investigates the extent to which various tax reporting requirements could be more aligned. In addition, the EC could consider working with Enterprise Resource Planning (ERP) system providers to understand the data that needs to be gathered in order to be able to fulfil reporting requirements.

Alignment more broadly

- Alignment with other standards that some EU entities may be required to report on will also be important to minimise the reporting burden. Companies that would be captured by double reporting (that is, under both ESRS and ISSB standards) would be European entities caught by another jurisdiction that has mandated ISSB reporting, or non-European entities with operations in Europe that are captured by the CSRD's extra-territorial rules and are also reporting under ISSB. In these instances, interoperability with the ISSB's standards and global baseline is of vital importance. We suggest that EFRAG works with the ISSB to achieve this.
- Areas to consider in relation to interoperability should also include industry-based requirements (as mentioned above). Our recent letter to DG FISMA in response to the call for feedback on the revised draft ESRS provides further specific feedback with respect to the importance of interoperability.

In summary, we recommend putting in place procedures to ensure a joined up view across the various reporting requirements "owned" by different DGs. As mentioned in our cover letter, this could be achieved by setting up an EC-wide Reporting Simplification Task Force to facilitate collaboration and compromise between different DGs and take responsibility for all areas of corporate reporting.

2. Reporting requirements that would benefit from further clarity

It may be possible to reduce the reporting burden for companies by providing more clarity around the intent/objectives and scope of reporting requirements, to help companies apply the rules.

Materiality

Effort and cost are highly correlated with the amount of information reported. The intent, definition and individual interpretation of materiality can result in different amounts of information being reported - and whether collecting that information is manageable for an entity. Producing vast amounts of information does not appear to be consistent with CSRD's objective but some may not interpret it this way.

Clarity is therefore needed about the ESRS definition of impact materiality and the concept of double materiality. Key to the double materiality concept is that a topic or metric needs to matter to a critical mass of stakeholders before it becomes material. Without clarity, there is a risk that impact materiality is interpreted broadly and that too much information is provided, which can be unhelpful and potentially confusing to users as well as costly for the entity. Reference to IFRS guidance could be helpful in developing guidance here, such that in making materiality judgements, entities should aim to meet the common information needs of primary users (or stakeholders, in the case of impact materiality) - but not aim to address information needs that are unique to particular users[1]. Other ways to frame this could be that there should be a reasonable probability that it will become financially material in the future or the information should be limited to what is being managed, that is, through a management lens.

Providing guidance on navigating the process to determine what should be included would therefore be helpful - so that decisions are not driven by the stakeholders who 'make the most noise'. It will be easier to make appropriate materiality judgements with a clear intent and objective for reporting. Therefore, we recommend clarifying objectives for CSRD reporting in order that reporting judgements can be made in the context of these. This would be a relatively straightforward area to focus on, rather than rewriting rules that entities already apply or are in the process of implementing.

Data points

Another area where clarity is particularly important is under the SFDR, where entities in the financial services sector are required to collect a lot of information from the companies they do business with. For example, a financial market participant is required to publish a range of information at financial product level where the financial product promotes sustainability-related characteristics (EU 2019/2088 Articles 7 to 11). We are aware of concerns that this is over-burdening businesses and suggest this area be reviewed. Providing more clarity around the objective that this data addresses could be helpful to companies in determining how much information should be reported. This links with our comments on the concept of materiality above. A really clear definition of materiality should support appropriate judgements about which information actually needs to be reported.

Value chain

Similar to the points made in relation to materiality above, the intent and scale of CSRD's requirement (in ESRS 1) for companies to report information about their broader value chain is currently unclear. Value chain reporting can yield an unmanageable quantity of information. We suggest providing further clarity around how companies can coherently determine the appropriate information to present about their value chain and the objective of these disclosures (for example, information that is in the entity's sphere of control is much more important for the user community, but not necessarily information about the customers or suppliers of a company's suppliers). It would be helpful to clarify that entities are not expected to collect information from every entity in the value chain (which could stretch to thousands or more - suppliers of suppliers). It is apparent that many companies (including those outside the EU) are likely to fall into the scope of the value chain requirement.

For the above points, please see further PwC's feedback on the revised draft ESRS. We understand that

[1] IFRS practice statement 2, Making materiality judgements, para 21.

EFRAG is finalising guidance on how to perform a materiality assessment, how to address value chain disclosure, and determining which references should be used to perform a gap analysis. We would be happy to discuss our observations when this guidance is issued.

Taxonomy

The Taxonomy Regulation (2020/852) and its delegated regulations on environmental objectives are a major cornerstone of the EU's sustainable finance framework and promise to deliver the European Green Deal[2]. However, clarity could be improved in the Taxonomy framework to allow comprehensive application in practice. With the delegated regulations in force, we suggest focus should now be on careful review of the rules - taking time to examine both clarity and quality.

Carbon Border Adjustment Mechanism (CBAM)

Our feedback to DG TAXUD (11 July, 2023) mentions that the requirements and number of datapoints in the Carbon Border Adjustment Mechanism (CBAM) Reporting Obligations Regulation are rather extensive. We would welcome the reporting detail being simplified and reduced. One way to achieve this is to use clear, uniform terms and definitions (examples being the terms 'reporting declarant' in Article 2 and 'shipped from' in Article 3) which are aligned with those definitions in existing EU customs or international trade legislation. Further detail and additional recommendations are set out in our letter.

3. Ongoing assessment

Post-implementation review of ESEF

We are aware that companies are finding reporting under the European Single Electronic Format (ESEF) Regulatory Technical Standard and XBRL tagging for financial statements a challenge, especially in connection with some aspects of Block Tagging notes to the financial statements. We recommend a full post-implementation review of ESEF. This could identify adjustments to reduce the reporting workload without compromising useful data. We caution that a contrary effect of such a review may prompt some to call for more detailed digital tagging requirements. Whilst in some specific instances there may be merit in expanding the dataset that is digitally marked-up, we suggest that the overall outcome should deliver simplification and that the time is right to perform a review. We would be happy to offer appropriate input.

Grace period for XBRL tagging - ESRS

Information covered by ESRS is broader and often more complex than previously and will likely result in greater complexity in the XBRL tagging than for financial information. We recommend providing companies with more time to establish the required tools and processes and to use a phased-in approach. We suggest phased implementation of digital requirements, for example in relation to implementing any digitisation requirements for ESRS data points. It would be helpful to provide issuers with a one year grace period between disclosing ESRS requirements and being required to digitally mark them up. While the overall impact may not be significant, this should provide some relief to entities as the first year of ESRS reporting and audit/assurance will likely be complex enough without late adjustments to disclosures needing to be digitally marked-up before publication.

Post implementation review - CSRD

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[2] Our recent feedback on the Taxonomy Environmental Act is attached.

As mentioned in our response to the EC's recent consultation on the draft first set of ESRS, changes already made to the CSRD should reduce the reporting burden. Gradually phasing in CSRD requirements should help to make the implementation process more manageable. Looking ahead, we encourage the EC to do an ESRS implementation review in the required time frame (3 years after implementation, therefore Q1 2027 for the first reporters) which incorporates a focus on identifying opportunities to further streamline the reporting burden whilst still achieving the original objectives.

Taxonomy

The volume of disclosures under the Taxonomy Regulation, even for an entity with a relatively straightforward business model, is substantial. Significant resources will be needed as companies begin to report under both the CSRD and Taxonomy Regulation simultaneously. We suggest the EC could initially assess how the Taxonomy climate rules work in practice, review implementation effectiveness (and make adjustments as necessary), before moving onto the development of regulation in other areas. In our response to the Taxonomy Environmental Act, we recommended that first-time application should be postponed (although we understand that these requirements are now applicable). This would allow time for management to embed current requirements before adding to the reporting burden and imposing additional workload.

Other suggested areas to review for simplification are as follows:

1. It would be helpful to introduce a materiality threshold (currently there is no threshold).
2. Operating expenditure indicator could be removed.
3. The requirement for companies to report a zero in many tables could be removed (see our response to the EC's request for feedback on the Taxonomy Delegated Act, Article 8).

Review of anti-tax avoidance measures

EU Member States are now in the process of implementing the Minimum Tax Directive (EU 2022/2523). With the introduction of minimum tax, and the level of reporting that involves, some anti-tax avoidance measures might be redundant, for example Controlled Foreign Corporation measures (ATAD1). In order to simplify the corporate income tax framework now that countries can top up the corporate income tax to 15%, we suggest the EC investigate if and to what extent these specific anti-tax avoidance measures are still necessary and proportionate.

Transposition by Member States

It would be helpful to have more specific guidance for Member States as they transpose EU legislation into national law. We are aware of a number of companies with concerns about the need to report extensive information in Member States. For example, consistency within the EU would be highly important on the following:

- How to determine the €150m threshold for reporting of a non-EU ultimate parent company in accordance with the CSRD, Article 40a.
- Where EU subsidiaries of a non-EU parent wish to benefit from the optional transitional "artificial consolidation" regime for sustainability reporting of sister companies set out in Article 48i, clarity over which entities are to be included in that consolidation.
- Whether Taxonomy-related disclosures on a consolidated basis are required in the consolidated sustainability statement, even where no consolidated financial statements are prepared (for

instance because the undertaking benefits from the exemption in Article 23 of the CSRD from preparing consolidated financial statements).

- Whether the exempting consolidated sustainability reporting of a non-EU parent can be prepared and published as a standalone report, or whether there is a requirement to include it in a similar report as the parent's consolidated management report if such a report, or a similar report, exists at the level of the non-EU parent company (e.g. MD&A).