



Brussels, 28 November 2023

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

Subject: Administrative burdens - rationalisation of reporting requirements

Dear Ms Juhansone,

PwC International Ltd, on behalf of its network of member firms (PwC IL), welcomes the opportunity to provide feedback on the European Commission's (EC) initiative on the rationalisation of reporting requirements. We fully support the EC's aim to reduce the corporate reporting burden and believe it is a positive move towards reducing the time and resources necessary to meet reporting requirements. A reduction in regulatory burden for companies, while ensuring users have the information they need to make informed decisions, is important. Straightforward and consistent corporate reporting facilitates greater clarity and transparency, reduces costs, and helps users identify the information they need.

In our [letter](#) of 8 August 2023, we shared suggestions for where existing EU law, and current legislative proposals, could be simplified, as well as three broad areas of focus for simplifying reporting requirements:

1. Consistency and alignment across reporting requirements.
2. Reporting requirements that would benefit from further clarity.
3. Ongoing assessment.

In addition to the points made in our August letter¹, we set out some further comments relating to each of these three focus areas in the attached appendix.

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,

A handwritten signature in black ink that reads 'Glord.'.

Gilly Lord
Global Leader for Public Policy and Regulation

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

¹ And on a related topic, our [letter](#) regarding adjusting SME size criteria.

Appendix

This appendix sets out some specific examples for consideration with regards to the rationalisation of reporting requirements to reduce the burden for preparers.

1. Consistency and alignment across reporting requirements

Alignment of sector-specific sustainability reporting standards

In an increasingly complex global environment, consistency and comparability are vitally important for users of corporate reporting. Consistency in reporting requirements is also vitally important for preparers. It is evident both from our work with clients and our wider engagement with multinational businesses that preparers are facing significant challenges as they prepare to implement new sustainability reporting requirements. Looking ahead, companies required to report under more than one set of requirements (for example, the Corporate Sustainability Reporting Directive (CSRD) and IFRS Sustainability Disclosure Standards) will face additional challenges.

Much has been achieved to date in working towards interoperability for climate reporting requirements, between EFRAG's European Sustainability Reporting Standard (ESRS E1) and the International Sustainability Standard Board's (ISSB) sustainability disclosure standard (IFRS S2).

We propose the development of a global baseline for sector sustainability reporting; the sectoral standards developed by EFRAG, GRI and ISSB should be the same (with additional EFRAG and GRI requirements with regards to impact materiality as necessary). The proposal to postpone the adoption of European sustainability reporting standards for certain sectors provides an important opportunity for EFRAG to reflect on the implementation of general sustainability reporting standards and provide additional guidance as necessary (see further section 2, on clarity, below) and consider the future of sector reporting.

In order to achieve this, and to cover both financial and impact perspectives, we suggest that EFRAG, the ISSB and GRI collaborate closely. Given that the ISSB is building on the SASB standards, there is an opportunity to ensure alignment between ESRS and GRI sector standards and the ISSB's sector guidance that is currently located in the SASB standards. In our view, specific requirements would initially be particularly useful for the following sectors: financial services; construction; real estate; oil and gas; and mining (we note that EFRAG has already prepared a draft on the latter two and GRI has one issued on oil and gas and others under development).

As sector sustainability reporting evolves in the coming years, additional guidance may be helpful for preparers.

Evolution of requirements

As part of any ongoing assessment and review process it is also important to ensure that the language used is consistent throughout existing and emerging legislation. For example, the language in the Carbon Border Adjustment Mechanism (CBAM) and the Corporate Sustainability Due Diligence Directive (CS3D) should be consistent with that of the CSRD, and assurance terminology should be consistent across all legislation where it is referenced.

Subsidiaries without public accountability

The IASB expects to publish its standard, 'Subsidiaries without public accountability: disclosures', which aims to reduce the reporting burden for preparers (and audit costs), during the first half of 2024. Adopting/endorsing this standard for use in the EU would enable EU subsidiaries to have fewer disclosure requirements whilst retaining recognition and measurement policies aligned to their group reporting, thereby reducing the administrative burden.

2. Reporting requirements that would benefit from further clarity

ESRS application guidance

In the first few years of transition to sustainability reporting, areas that preparers find challenging are likely to become apparent. New application guidance to clarify reporting requirements, or clarifications to existing guidance (for example on materiality and value chain) may become necessary.

One area that would currently benefit from guidance is that of determining materiality for sustainability reporting. Disclosure of large volumes of complex data points, derived from many data elements is challenging and time consuming for preparers and can be unhelpful for users. Notwithstanding the phasing in of various sustainability disclosure requirements, our analysis indicates that depending on a preparer's interpretation of the materiality guidance, they may need to prepare a large volume of data elements. To make a positive impact and reduce the volume of work for preparers, guidance (which we understand is in progress) to clarify the application of the materiality concept will be essential. In particular, we recommend clarifying that a metric needs to be material to a critical mass of users before it meets the definition of material, rather than being of interest to only a narrow segment of users.

3. Ongoing assessment

European Single Electronic Format (ESEF)

Currently, we observe that ESEF requires significant effort from preparers. We therefore recommend a post implementation review to achieve an effective balance between the cost and the benefits of these requirements. This may result in changes that reduce the cost/ burden - and may also result in changes that increase the benefits at a comparable cost. Lessons learned and rules around block tagging could be a particular point of focus for a post implementation review - and we suggest these be reconsidered when digitising CSRD. In addition, it would be helpful to assess the extent that ESEF is used by investors and regulators during the early years of the ESEF regulation.

Technological developments such as Generative artificial intelligence (Gen AI) are moving fast. As this technology continues to develop, we recommend that regular, explicit evaluations take place to ensure that the latest technology is being used in the most efficient way. Regarding the potential to use digitised information that is embedded within AI technology, it would be helpful to monitor related and complementary technology. We recommend that as EFRAG develops an ESRS taxonomy and ESMA finalises rules to include ESRS-related requirements within the ESEF Regulatory technical standard, the potential for Gen AI to draw upon, or possibly circumvent, the digital information that is required by ESEF is monitored.

EU taxonomy reporting

The EU taxonomy also requires significant effort for preparers. We provide a number of suggestions to address this below.

(i) Comparative figures when entities apply the taxonomy for the first time

Entities under the CSRD's scope have to apply both ESRS and the EU taxonomy. While comparatives are not required for a first time reporter of ESRS, there is no such exemption in the taxonomy system (other than for companies who entered the taxonomy system when it first became applicable in 2022) - companies who apply the taxonomy from 2024 onwards cannot use an exemption from providing comparatives. This is at odds with the ESRS comparatives exemption and it seems strange that the sustainability statement in an annual report would have comparative figures in one section but not in another. We therefore suggest there should be a similar exemption for those applying the taxonomy system for the first time.

(ii) General materiality considerations

Materiality is not generally considered in the EU taxonomy (unlike for EU sustainability (existing under the NFRD and coming under ESRS), and financial reporting). The taxonomy contains only one exception related to materiality; where operating expenditure (opex) is not material because of a company's business model. If opex is considered immaterial, an analysis of eligibility and alignment towards the EU environmental objectives is not required, however a compilation of the total opex figure still needs to be performed and reported.

Analysing activities of a smaller nature is time consuming and costly for preparers, and we observe that users are unlikely to consider items such as non-material turnover, capex and opex as either eligible or aligned as relevant. We would encourage a reporting environment that is similar across the board so that materiality in general is applied as a foundational concept, thus also under the EU taxonomy. This would save cost for preparers and increase the benefits of the reporting since users can easily find relevant information (compare this, for example, with IFRS and recent developments in IAS 1 where it has become even more explicit that immaterial matters must not obscure material information). The recently added FAQ² on materiality considerations (for turnover and capex) is a good starting point but these considerations seem to be rather narrow in scope and could be explained in more detail.

(iii) Operating expenditure

From our conversations with stakeholders, we have identified some specific examples of where requirements could be rationalised - relating to operating expenditure (opex). We understand that it takes time to gather and assess information for the opex KPI, yet the information is not widely used and has limited relevance. In addition, we believe that the concept of opex is somewhat misleading; for many, the term means operational expenses in the day to day running of a business while in the taxonomy it refers to maintenance investments or R&D costs that are not capitalised in the balance sheet. We therefore suggest that the opex disclosure requirement could be removed.

² [Commission notice C/2023/305](#), no. 13.



Tax reporting

We welcome the evaluation of the Directive on administrative cooperation (DAC) in the field of taxation (Directive 2011/16/EU) set out in the EC's 2024 work programme. The Directive continues to expand in scope with the latest adjustments in Tax transparency rules for crypto-asset transactions (DAC 8), and potentially more to come (e.g. DAC 9 with a new reporting requirement regarding shell-companies in the EU, and DAC 10 to implement the Global Anti-Base Erosion Rules (GloBE) information return). An analysis of the costs and benefits of sometimes onerous reporting obligations might help identify where EU Member States can use the reported and exchanged information effectively and efficiently, and limit the requirements accordingly, particularly in light of the requirements in DAC 8 for Member States to put in place an effective mechanism to achieve this. The breadth and complexity of some of the hallmarks that determine reporting of specified cross-border arrangements (DAC 6) might be an example in point.

Further, the level of reporting under DAC should be considered alongside the additional reporting being imposed under the Minimum tax directive (EU 2022/2523) and the geographically broader OECD Inclusive framework Pillar Two rules. A global minimum effective tax rate might make some specific anti-avoidance measures redundant. We reiterate our call, set out in our letter of 8 August 2023 linked above, for the EC to investigate if and to what extent various rules are still necessary and proportionate, and which policy choices could be made to simplify the overall corporate tax system.

Under the proposed Business in Europe: Framework for income taxation (BEFIT) directive, another reporting requirement is introduced - the BENEFIT information return. This return requires a number of different data compared to the GloBE information return.

PwC suggests the Commission works on alignment and simplification of tax reporting rules, including the reporting rules under the public country-by-country reporting directive and the possible tax related reporting under the CSRD. A robust, yet simplified and aligned tax reporting framework will enhance the ease of doing business in the EU.

Periods of change vs stability

Finally, corporate reporting requirements necessarily evolve in a constantly changing world and we observe preparers embrace such change. However, a continual stream of new reporting requirements presents significant challenges for preparers and stakeholders across the reporting ecosystem. Periods of stability, without the publication of new requirements, allow preparers more time to focus on and improve their reporting. We recognise that even within more stable periods, and in order to reflect the evolving environment and/or real experience of implementing new requirements, agile improvement programmes do at times become necessary to make specific adjustments to requirements quickly.
