

Reducing burdens in the implementation of sustainability taxonomies

Denmark welcomes the ongoing omnibus-negotiations. To reach our sustainability goals and strengthen European competitiveness, it is crucial that we reduce the administrative burdens and simplify regulation for companies in the EU. Accordingly, we must focus on the essential information for investments in the green transition when making simplifications and reductions in sustainability reporting requirements. This is further imperative when making rules for tagging sustainability reports according to XBRL-taxonomies, which is to be used by the reporting companies before filing a digital annual report.

The purpose of the XBRL-taxonomies is to support analysis of sustainability data by making sustainability reports accessible for machine reading. Machine reading formats contribute to improving investors' ability to make informed decisions, thus financing the green transition. Taxonomies are an important part of the sustainability reporting framework, and the taxonomies must be proportionate and serve their purpose without imposing any unnecessary burdens on the reporting companies. For now, no impact assessment analyses or field tests of the new taxonomies have been performed on an international level. Denmark encourages the Commission to conduct impact assessments of the regulatory burdens before any new regulation is introduced.

In order to gain a better understanding of the burdens, Denmark has done a test in collaboration with reporting companies, a full-service tagging provider and multiple report users.

- The test confirms that the taxonomies are unnecessarily complex and difficult to use for both reporting companies and the full-service tagging provider, which results in mistakes and reduces the quality of tagged disclosures.
- The test estimated that time spent on tagging the full reports may vary between 70 and 225 hours, which is up to 3 times what ESMA assumes.

- 1/3 of the time was spent by the reporting company, thus adding additional administrative burdens on businesses, as tagging presupposes detailed ESG-knowledge, judgement and decision.
- The time estimates are conservative, as tagging was not pursued until a complete and flawless tagging was attained.
- International data providers estimate that only around 20 percent of the sustainability disclosure is usable in a machine-readable format. Around 80 percent of the sustainability reports are narrative information which is primarily unstructured and thus has limited value in a machine-readable format.

The conclusion is that significantly reducing the level of tagging of sustainability information can reduce burdens on European businesses without materially changing the benefits of tagging for users. If the burden is restricted to tagging information of benefit to the users, the costs of tagging may be reduced by 80 percent compared to ESMA's proposal.

To avoid any unnecessary burdens on companies in the EU, our recommendation is:

- *Simplify the taxonomy* to reduce both tagging errors and costs.
- *Only tag what is valuable for machine analysis, i.e.:* The material impacts, risks and opportunities, as well as numerical information and accounting principles.
- *Evaluate tagging* as part of the revision of the reporting standards and extend tagging requirements only if it is beneficial to report users and proportionate in terms of costs.

If the applicability of sustainability XBRL-taxonomies is expected to be reduced following omnibus-reductions in the reporting requirements, the Danish recommendations for implementation of the XBRL-taxonomies remain the same.
