

## Position Paper on the first set of Draft European Sustainability Reporting Standards (ESRS)

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The Austrian Federal Economic Chamber is the legal representative of the entire Austrian business community and represents all Austrian businesses drawn from the areas of Crafts and Trade, Industry, Commerce, Banking and Insurance, Information and Consultancy, Tourism and Leisure, Transportation and Communication. 99,6% of our members are SME.

The Austrian business community is committed to sustainable and responsible economic activities in order to be fit for future challenges. In this sense, it supports the approach of creating a legal framework that is as coherent as possible with Sustainable Finance. However, any proposed regulatory framework must be practicable and proportionate. Companies must not be put at a competitive disadvantage by excessive additional administrative burdens. It is crucial that any reporting requirements serve as an actual driver for sustainable development without creating unnecessary administrative burdens and additional costs.

The following comments should therefore be considered:

### I. General Remarks

Under the CSRD, significantly more companies in the EU will have to prepare comprehensive sustainability reports as part of their management reports. What is particularly challenging for companies is that the ESRS introduce the concept of double materiality and extend the boundaries of a company's reporting to its entire value chain. The proposed requirements are extremely detailed and require the disclosure of a large amount of new data on a wide range of topics.

The draft standards burden our members insofar as the proposals developed are overly complex in design and expansive in their current form. The scope, volume, and granularity of the sustainability-related information to be collected and disclosed by the companies is too extensive. The excessive complexity of the standards jeopardizes effectiveness and information quality. The level of detail and granularity requested will likely lead to less focused reporting and less decision-useful information for investors and other stakeholders. Moreover, no prioritization was carried out. Radical simplification, in the sense of clear and efficient standards, is required so that it is actually possible for companies, including SMEs, to implement and comply with these standards in practice.

In their current form the drafts present companies with a practically insurmountable task. There are several competitive disadvantages for EU companies. On the one hand, EU companies will be burdened with additional bureaucratic and financial expenses. On the other hand, there is a risk that the publication of data will lead to conclusions being drawn about the state of technical development or process innovations. Better care must be taken to safeguard that no sensitive company data is published in the course of reporting.

Furthermore, in terms of democratic principles, EFRAG's role in the legislative process is called into question. The European Commission has to consider EFRAG's technical opinion when adopting the ESRS as delegated acts and so EFRAG alone and exclusively is entitled to submit comments requiring consideration. This wide influence of EFRAG - which it effectively enjoys as a private organization - leads to a privileged role in the legislative process. This cannot be reconciled with the principle of democracy that underpins EU law. We would like to note that this very consultation of EFRAG makes it difficult to engage constructively in the process of drafting the standards, due to its length and level of detail. In relation to the development of the ESRS, the question of verifiability arises. To actually bring about a positive change, the standards must be clearly and efficiently designed and, above all, verifiable. With the flood of data we are confronted with, however, verifiability can hardly be guaranteed.

The WKÖ therefore advocates a practical and realistic approach. The following key points should be taken into due consideration by the legislator in this complex matter:

## **II. Key Points**

- **Alignment with international standards**

The CSRD requires ESRSs to take into account, to the greatest extent possible, global standardization initiatives for sustainability reporting. However, there are areas where they are not aligned.

In general, there is significant room for improvement when it comes to aligning and converging the ESRS with the already existing and widely used standards such as GRI (Global Reporting Initiative) or the ISSBs (International Sustainability Standards Board) proposed comprehensive global baseline of sustainability disclosures. Current GRI users need to be sure that EFRAG means the same thing when using the same term. Furthermore, EFRAG should make clear references to the GRI Standards within the ESRS whenever concepts, disclosures, guidance, and definitions have been taken over from the GRI Standards. Such a reference will indicate which GRI contents have been adopted in the ESRS, thereby facilitating their implementation. The proposed ESRS are more prescriptive and the number of disclosure requirements significantly exceeds those in the proposed ISSB Sustainability Disclosure Standards. These discrepancies will create practical challenges for companies trying to design coherent and consistent reporting that meets the needs of both global investors and jurisdictional requirements.

- **Significantly reduced complexity**

We are concerned with the level of detail and granularity of the draft ESRS. Such depth of detail and granularity means that even the most experienced reporters with sophisticated reporting and data collection systems will have difficulties meeting all the requirements of the draft ESRS. This will significantly increase the cost of reporting.

The technical quality, feasibility, and usability of the ESRS should be improved. At the same time the complexity of all ESRS (environment, government, and social standards) should be significantly reduced as they currently are disproportionate, too rigid, and prescriptive. Hence, the present approach of EFRAG is not workable in practice for many organisations.

Moreover, reporting standards for SMEs must be significantly simplified and reduced to take account of the opportunities in small companies.

- **Sensitive information and information quality**

The release of commercially sensitive data must be clearly rejected, as this is to the detriment of European companies. In many cases, the standardization proposals presented make use of confidential data, which is thus made available to a broad public.

Regarding the quality of information, it should be noted that fewer data points mean that higher quality can be expected, and this also leads to better comprehensibility and traceability of the report. A particular problem is the requirement for "comparability" of the data, as each company is individual and subject to different framework conditions. For many data, there is also no generally applicable data basis or collection methodology, which is why comparability cannot be achieved. It is therefore suggested that only the most important data is collected, which serves to understand the sustainability efforts of the respective company, and only in a second step are further requirements standardized.

- **Structure of standards**

The structure of the standards needs to be revised. The internal structure of the draft ESRS is too complex and results in the unnecessary duplication of content between the cross-cutting and the topical standards. There is a need for clarification on issues such as: what is a principle, what is a heading to a topic, what is a definition of terms and what is mandatory to report, or a recommendation to report. Greater clarity is needed around the relationship between key concepts/principles/definitions like materiality, relevance, significance, matters, topics, sub-topics, sub-sub-topics, and impacts/risks/opportunities. It is impossible for the user of the standards to work with them efficiently if this is not done. GRI has improved its structure over the years and could therefore be a good model.

The proposed structure is complex and many of the terms are used interchangeably despite each having their own distinct meaning and definition. This makes the ESRS very hard to read and understand (from a structural point of view). In addition, using multiple terms for one concept should be avoided (e.g. material, relevant and significant). Often, the principles and concepts of the ESRS are very abstract and hard to understand. For example, in ESRS 1 (General Principles) Nr 43 the principle of "information materiality". Whenever such a concept or principle is set out in the ESRS - for the sake of practicability and understandability - it is necessary that EFRAG provides a concrete practical example in the ESRS in order to illustrate the respective concept or principle.

- **Approximations and ambitious timeline**

Under the new regime the reporting boundary would be expanded to cover material sustainability matters that are connected to the company by its direct or indirect business relationships regardless of its level of control over them. If collecting data is impracticable, then a company would use approximate data using all reasonable and supportable information. The requirement to shed light not only on the company itself, but also on the entire value chain, creates massive difficulties. This applies to dual

materiality, which requires not only the impact on the company, but also an assessment of the company's impact on the environment. Reporting requirements over short-, medium-, and long-term periods are also problematic, based in large part on estimations or scenarios that many companies do not have access to.

The problems described above are exacerbated by the ambitious timeline proposed by the European Commission, which does not allow sufficient time for organizations to set up the necessary reporting and data collection systems, and because information may not be omitted in justified cases. Furthermore, organizations must be given sufficient time to implement the ESRS in all relevant EU languages once it is published.

We advocate that some of the prescribed requirements may be omitted in justified cases. For example, if data is unavailable or incomplete, using the ESRS becomes unrealistic and impractical. The fact that none of the requirements allow data to be omitted for one's own business activities is impractical and does not reflect the real challenges of collecting such data. In addition, requiring companies to provide missing information in cases where data for upstream and downstream value chains is not available contradicts the goal of truthful representation. Approximating data that is not understood is not good practice.

### III. Conclusion

The WKÖ advocates a radical simplification of reporting standards and demands:

- Less complexity - reduced and clear requirements
- Higher information quality - fewer and more comprehensible data points
- Consideration of proportionality of requirements
- Alignment with international standards
- No disclosure of sensitive and confidential economic as well as technical data
- Rethinking the focus on the entire upstream and downstream value chain
- No unnecessary additional burden due to massive flood of data
- A realistic and practicable timeline

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