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Position Paper

Position of DIRK[1], the German Investor Relations Association, on the Competitive Simplification of the Sustainable Finance Framework proposed by the Omnibus Proposal

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Introductory Remarks

German issuers remain fully committed to the objectives of the European Green Deal and recognize the critical importance of the green transition. However, recent developments have highlighted significant challenges within the current sustainable finance framework. Notably, the Draghi report identifies the administrative burden of sustainability reporting as a key factor contributing to the EU's declining competitiveness, particularly in comparison to the United States.

In an increasingly competitive global environment, German and indeed European companies must not be placed at a disadvantage due to excessive regulatory requirements that their international counterparts do not face. The stringent demands of the CSRD, CSDDD, and the EU Taxonomy, combined with short implementation timelines, underscore the urgent need for reassessment. It is essential to simplify these regulations in a way that balances economic competitiveness with the sustainability transition.

With the momentum created by the announcement of the Omnibus proposal, DIRK wishes to send a clear political message: reducing companies' reporting and administrative burdens is crucial to successfully achieving the green transition while strengthening Europe's competitive standing!

The European regulatory framework for corporate reporting has expanded excessively. The European Green Deal alone encompasses approximately 150 legislative acts. In the chemical and pharmaceutical sectors, 900 delegated acts and implementing measures stem from 50 legislative frameworks adopted in the Commission's previous mandate. The regulatory environment in Europe has become overly detailed, complex, and voluminous, making it difficult to implement effectively.

While reducing regulatory burdens by 25% remains a priority from the previous mandate, a shift in mindset and approach is needed. Businesses should be viewed as part of the solution rather than the problem. To maintain competitiveness and economic growth, a balanced and adaptable regulatory framework is essential. The Omnibus proposal should serve as the foundation for this recalibration, with the following key principles in mind.

[1] DIRK – the German Investor Relations Association – is the largest European trade association uniting businesses and capital markets. We give investor relations (IR) a voice and represent approximately 90% of the capital listed on the stock exchange in Germany.

Key Principles for the Omnibus proposal

1. **Design the Omnibus proposal with Businesses in Mind**

- Regulations must be practical and efficient to ensure seamless corporate implementation.
- Clarity and simplicity in legal requirements will enhance compliance and effectiveness.
- Rules should support competitiveness while promoting the transition to a net-zero economy.
- Sustainability regulations that do not contribute to transformation efforts should be eliminated.
- Regulations should deliver tangible benefits for capital allocators, including investors and financial institutions.

2. **Strengthen Business Involvement in EU Policymaking**

- Lawmakers should leverage corporate insights to create rules that align with business processes.
- Lessons from the first year of ESRS implementation should be incorporated to avoid unnecessary costs and burdens.
- The Commission's Omnibus proposal should prioritize recommendations from businesses.
- Companies should have greater representation in EU decision-making bodies, such as EFRAG's SRB and the Technical Expert Group.
- Regulatory consultations should be scheduled more effectively, avoiding peak corporate reporting periods.
- Enhanced collaboration between policymakers and businesses is essential to restore EU global competitiveness.

3. **Use CSRD as a Reference Framework for Regulatory Adjustments**

- The CSRD and ESRS provide a foundational structure for sustainable transformation.
- Materiality assessments under CSRD/ESRS should be the guiding principle for sustainability regulations.
- Disclosure requirements should focus on essential financial and sustainability topics, with climate at the core.
- The Commission should recognize CSRD/ESRS as a strategic tool for corporate governance.

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Policy Recommendations for Regulatory Improvement

- Eliminate the iXBRL tagging obligation under the ESEF Regulation for both financial and non-financial reporting, as it is complex, time-consuming, and unnecessary given modern AI-driven data analysis tools.
- Align interlinked regulations such as SFDR with the Omnibus proposal to rectify inconsistencies stemming from premature SFDR adoption ahead of the Taxonomy and CSRD.
- Reduce ESRS data points significantly from the current 1,100 to approximately 500, as reflected in the LSME standard, ensuring equal applicability to large listed and non-listed companies.
- Safeguard strategically sensitive corporate information to prevent European businesses from facing competitive disadvantages due to excessive disclosure requirements.
- Avoid redundant disclosure obligations by harmonizing definitions across regulations (e.g., value chain in CSRD/CSDDD, double materiality in CSRD/SFDR, and independence criteria in governance directives).
- Streamline entity-level reporting by consolidating such disclosures under CSRD, thereby eliminating duplication in SFDR.
- Discontinue sector-specific standards under EFRAG, as existing frameworks such as SASB (incorporated into IFRS S2) provide sufficient industry-specific guidance.
- Introduce a regulatory pause to allow companies to implement existing rules before introducing new legislative changes, ensuring compliance and regulatory stability.
- Ensure full alignment with ISSB standards as this would reduce regulatory complexity and create transparency and comparability, promote legal certainty and avoid double reporting.

We will be happy to answer questions about this position paper and to discuss it further.

Best regards,

Kay Bommer

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