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The Big Bang in EU Sustainability Reporting

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Abstract

On January 5th 2023, the Corporate Sustainability Reporting Directive (CSRD) entered into force, significantly redesigning the landscape of sustainability reporting in the EU. This paper presents and discusses some of the major implications of the adoption of the CSRD and the related European Sustainability Reporting Standards (ESRS), as they mark a significant shift ("big bang") in EU sustainability reporting. After a broad overview of the current situation and its recent evolution, a specific focus is dedicated to EU small and medium-sized companies (SMEs), as they face several challenges in complying with the new regulations, mainly due to resource constraints and the lack of familiarity with sustainability reporting. The paper discusses the specific standards developed for SMEs, including the "light" version for listed SMEs (ESRS LSME) and the voluntary standard for non-listed SMEs (VSME). Finally, some potential limitations of these SMEs standards and their potential impact on the value chain of larger companies are also discussed.

Keywords: CSRD, ESRS, sustainability reporting, SME

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The Big Bang in EU Sustainability Reporting

Introduction

As part of the European Green Deal, a sustainability strategy launched in 2019 aiming for climate neutrality in the EU by 2050, the EU commission amended the Accounting Directive (2013/34/EU) through the Corporate Sustainability Reporting Directive (CSRD; EU 2022/2464), which is currently being transposed into national law by all EU member states. The CSRD requires a large number of companies to prepare and publish sustainability reports. Previously, since 2016, only a limited number of EU firms (public-interest companies exceeding 500 employees) were required to draw up a non-financial statement, with no specific format or detailed information requirements, leaving it up to each firm to decide on the use of an established CSR reporting framework and, if so, which one. Many EU companies have chosen to draw on the Global Reporting Initiative (GRI) standards to comply with their non-financial (i.e., sustainability) disclosure requirements.

The CSRD brings several major changes regarding the scope of companies concerned, the content and format of the CSR reports, as well as their assurance. Firstly, the scope of companies that are required to produce a sustainability report expands significantly from an estimated 11,700 to 49,000 mostly listed and/or large companies and groups across the EU, according to recent KPMG estimations. In addition, SMEs will be impacted. Secondly, the CSRD mandates the use of European Sustainability Reporting Standards (ESRS), developed by the European Financial Reporting Advisory Group (EFRAG). EFRAG was founded in March 2001 by the organisations representing preparers, users, and accountancy professions involved in the financial reporting process. The European Commission (EC) adopted a first set of ESRS in July 2023, with some modifications to the EFRAG proposal (see below). Additionally, the CSRD mandates that the EC adopt sector-specific standards by June 30th 2024. Furthermore, on October 18th 2023, the European Parliament rejected a motion for a resolution that would have compelled the EC to adopt a new delegated act including lighter reporting requirements for companies. Finally, assurance - first limited, by 2028 reasonable - is required for the sustainability information.

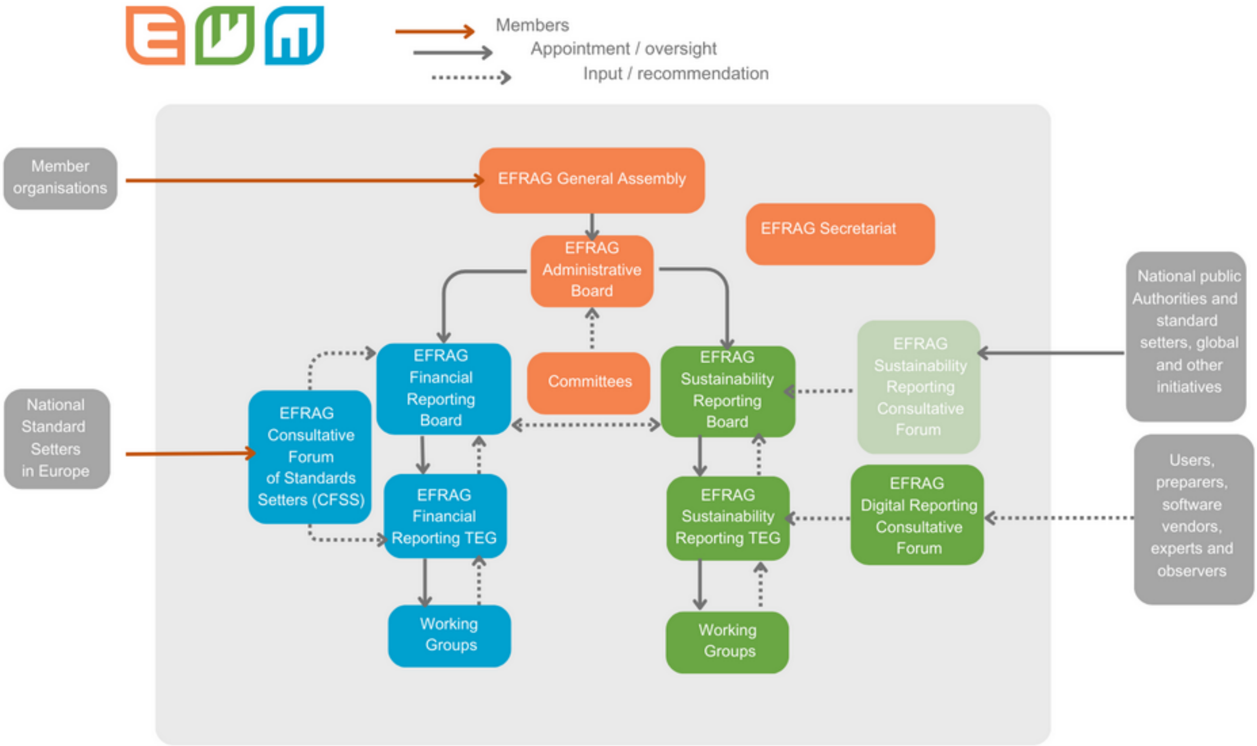
However, not all companies will have to apply this first set of ESRS, due to cost concerns. Therefore, EFRAG was also tasked with developing standards for public-interest entities that are medium-sized or small. This set of “slimmed” sustainability reporting standards, known as the ESRS LSME (ESRS for Listed Small & Medium Size Entities), is currently under development.

In this paper, we will summarise and discuss sustainability reporting requirements for European companies based on their size and capital market orientation (public vs. private).

The European Sustainability Reporting Standards (ESRS)

As mentioned before, the CSRD mandates the use of ESRS, developed by the Sustainability Reporting (SR) Board of the EFRAG. Following a consultation process involving different EU institutions, the EC adopts the ESRS in a delegated regulation.

Figure 1 - The Governance of the European Financial Reporting Advisory Group (EFRAG)



(source: https://www.efrag.org/About/Facts, retrieved on April 11th, 2024)

The first batch of 12 ESRS was adopted in July 2023, with others to follow. The first-time application of the ESRS is for the year 2024, meaning that the corresponding CSR information will be published in the spring of 2025.

The ESRS mark a significant shift ("big bang") in EU sustainability reporting because they are much more detailed and prescriptive than both prior EU requirements and other frameworks like GRI.

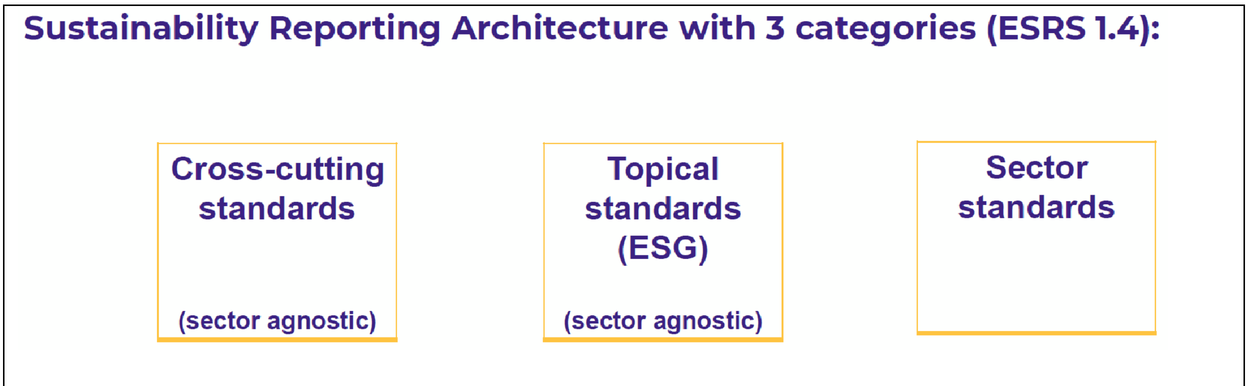
There are three types of ESRS (see Figure 2):

- Cross-cutting ESRS: these standards describe the fundamental requirements of EU sustainability reporting that apply to all sustainability information and topics. They are sector-agnostic, meaning they have to be applied by all companies, regardless of their sector of operation. We provide some more details below.

- Topical ESRS: these standards cover a specific sustainability topic. They are organised into three broad categories: environmental (E), societal (S), and governance-related (G). They are also sector-agnostic, meaning that they have to be applied by all companies, regardless of their sector of operation.

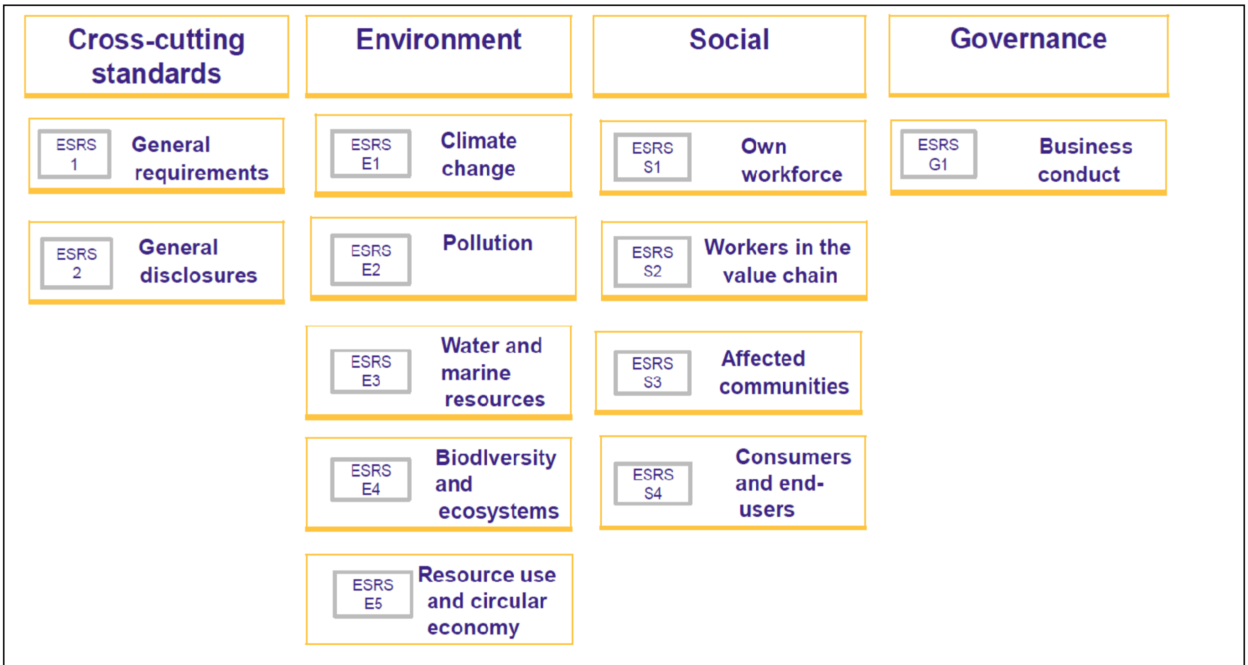
- Sector ESRS: these standards address sector specificities and are applicable by all companies within a given sector. The first batch of ESRS did not include Sector ESRS. The SR Board of EFRAG is currently working on a sector classification system and a first set of Sector ESRS (their adoption date is not yet fixed, as the SR Board is currently focusing on other priorities).

Figure 2 - The architecture of ESRS



(source: EFRAG)

Figure 3 - The first batch of ESRS



(source: EFRAG)

The first 12 ESRS (see Figure 3) contain 1,102 disclosure items, with 823 mandatory and 279 optional (company choice). Among the mandatory disclosures, 177 are always mandatory, meaning they must be provided by all companies, while 646 are mandatory only if material.

In the following, we will focus on some fundamental sustainability reporting issues addressed in the cross-cutting standards ESRS 1 "General Requirements" and ESRS 2 "General Disclosures".

ESRS 1.19 defines the fundamental qualitative characteristics (relevance and faithful representation) and the enhancing qualitative characteristics (comparability, verifiability and understandability), mirroring those for financial reporting in the IFRS framework for financial reporting. "Faithful representation" is particularly important, as it ensures balanced reporting of both positive and negative aspects, while sustainability reporting practices often exhibit a bias towards positive aspects (Hahn and Hahn, 2014), which this emphasis aims to counteract.

The characteristic of understandability requires the information to be comprehensible by "any reasonably knowledgeable user" (ESRS 1, Appendix B QC.16). In financial reporting, this refers to users with reasonable knowledge in the (limited) field of finance and accounting. In sustainability reporting, the "knowledgeable user" is much more difficult to define, given the variety of topics covered. Some users are more informed about environmental (E) issues, others about social (S), or Governance (G) aspects. Therefore, ensuring understandability across E, S, and G aspects presents a complex task for companies.

ESRS 1.21 requires evaluating whether a sustainability information or disclosure is material based on the "double materiality" concept, with the two dimensions (ESRS 1.37) of *financial materiality* (sustainability matters generating risks and opportunities that affect the company's ability to generate value in the short, medium, and long term) and *impact materiality* (sustainability matters generating positive or negative impacts on people or the environment). The concept of double materiality has been intensively discussed (e.g., Giner et al., 2022; Hossfeld et al., 2022).

Similar to any sustainability reporting, the materiality assessment is crucial, as many disclosures are conditional on their materiality. A "materiality assessment" is a required activity for organisations to determine the scope of "sustainability matters" that should be reported under the CSRD. ESRS 1 provides further explanations on materiality and a specific implementation guidance "materiality assessment" is currently under development.

All ESRS disclosure requirements are structured into the following reporting areas (ESRS 1.12):

1. **Governance**: the company's governance for monitoring, managing and overseeing impacts, risks, and opportunities (IRO);
2. **Strategy**: how the company's strategy and business model interact with its material IRO;
3. **IRO management**: identification, materiality assessment, and management of IRO through policies and actions;
4. **Metrics and targets**: the company's performance, including targets.

This structure draws heavily on the recommendations of the Task Force on Climate-related Disclosures (TCFD). The TCFD's guidance is currently used by many companies worldwide, both voluntarily and to comply with existing sustainability reporting regulations, where applicable.

ESRS 2 "general disclosures" lists the general disclosure requirements for all sectors and across all ESG topics. It follows the same structure of reporting areas described before: Governance (with five sub-topics), Strategy (three sub-topics), IRO management (four sub-topics), and Metrics and targets (two sub-topics).

In addition, ESRS 2 requires information regarding the general basis of presentation of the sustainability reporting: whether the sustainability reporting is on a consolidated basis or not, the scope of consolidation (which group entities are included in the sustainability report), the extent to which the up- and downstream value chain is covered, and any changes in the basis of presentation compared to the previous year.

The issued ESRS standards for environmental (E), social (S), and governance (G) topics further specify disclosures within the above structure of four reporting categories (governance, strategy, IRO management, and metrics and targets.), although not all four categories apply to all topics. For example, ESRS E2 and E3 do not contain governance-related disclosure requirements.

Which sustainability standards for which companies and when?

Table 1 provides a summary of the sustainability reporting obligations that apply to companies operating in the EU, according to the CSRD.

Table 1 - Sustainability reporting in Europe: application date and standards to be applied

Type of business *(EU Directive 2022/2464)*	**Reporting standards applying**	**1st Financial year**	**1st reporting date**
European large public-interest entities, and non-European public-interest entities meeting the 2 following criteria (Art. 5-2a): • Average number of employees exceeds 500 • Net turnover exceeds 50 m€ and/or balance sheet total exceeds 25 m€	ESRS	2024	2025
Other European entities and other non-European public-interest and private entities that are "large", defined as meeting at least 2 of the following criteria (Art 5-2b): • Average number of employees exceeds 250 • Net turnover exceeds 50 m€ • Balance sheet total exceeds 25 m€	ESRS	2025	2026
European and Non-European SMEs listed on an EU stock market, except micro-undertakings (Art 5-2c) • (micro-undertakings do not exceed at least 2 of the following criteria: Average number of employees: 10, net turnover: 900 k€, balance sheet total: 450 k€)	LSME	2026 (option to postpone to 2028 - Art 19a-7 Accounting Directive)	2027 (2029)
Non-European companies that generate more than 150 million turnover in the EU and that do have a European subsidiary or branch whose net turnover exceeds 40 m€	ESRS or ESRS for non-European entities	2028	2029
Other SMEs	VSME	voluntary	voluntary

Sustainability reporting requirements have already been relaxed for large companies

ESRS "operationalise" the disclosure requirements set out in the CSRD, and thus, they also build on double materiality. Consequently, companies must assess and identify what is material from both a financial and an impact (i.e., environmental and societal) perspective. This requires a comprehensive understanding of how sustainability issues affect their business and how their business, operations and activities impact the environment and society. The materiality assessment process is complex, and commonly involves stakeholder and employee surveys and expert panels. In addition to disclosure information on the topics identified as material, companies need to collect and analyse a wide range of data on both their financial performance and their environmental and social impacts. This often requires new data collection methodologies, increased data granularity and the ability to link financial and non-financial data.

The final version of ESRS issued by the European Commission in July 2023 differed in some ways from the EFRAG draft, for example by reduced disclosure requirements, delayed application of certain ESRS provisions, and the removal of the requirement for entities to justify their assessment of immateriality.

Since the publication of the first ESRS, several new changes have been introduced. As part of the EC's strong focus on simplifying rules for citizens and businesses across the EU, the EC has introduced several measures to reduce burdens on SMEs, including some provisions on sustainability reporting. These will also benefit large companies. In February 2024, the European Parliament and the Council agreed on the EC's proposal to postpone the deadline for the adoption of sector-specific ESRS by two years (from mid-2024 to mid-2026).

Roadmap for the LSME

Capital market-oriented companies are always deemed "large" due to their capital market orientation (Accounting Directive, Art. 40). However, the EC clarifies that capital market-oriented small and medium-sized (SME) companies "should be given the possibility of reporting in accordance with standards that are proportionate to their capacities and resources, and relevant to the scale and complexity of their activities" (CSRD, recital 21). Conversely, large non-public-interest entities in the EU will need to apply "full" ESRS.

Hence, capital market-oriented SMEs do not need to apply "full" ESRS and EFRAG currently develops standards for listed small- and medium-sized enterprises (ESRS LSME, or in short, LSME). However, the number of capital market-oriented SMEs in the EU is rather small: Most capital market-oriented companies are large based on the size criteria; hence, the LSME will only be applicable by a relatively small number of companies in the EU. According to an EFRAG estimate, in 2023 there are 699 capital market-oriented SME (523 medium-sized, 176 small).[1]

The "proportionate reduction" in the sustainability disclosure requirements for SMEs is going to be achieved in two ways.

Firstly, capital market-oriented SMEs are not required to prepare their sustainability report on a consolidated basis, but "only" on an individual basis (i.e., no consolidated sustainability report), unless the capital market-oriented SME is a parent of "large group". Secondly, compared to the "full" ESRS, the LSME are intended to come with a reduced number of disclosure requirements and data points. Many data points are only required to be disclosed "if applicable", and some "may" be disclosed. According to EFRAG, the reduction is -48%, compared to "full ESRS and assuming that none of the "if applicable" and "may" data points are considered.[2] That still leaves around 600 data points and fairly complex standards for SMEs to cope with. EFRAG argues that most disclosure requirements and data points are either mandated by the CSRD or other EU laws, or are relevant for the users and/or the value chain dimension.[3]

Nevertheless, this approach would seem questionable (see, e.g., Beiersdorf et al., 2023). On the one hand, the broad reporting boundaries that comprise upstream and downstream value chains, in effect, require activities related to the SME's subsidiaries to be considered and included anyway. While the difference between individual and consolidated reports

[1] See EFRAG (2023), Input Paper basis for conclusions LSME ESRS, agenda paper 03-02 prepared for the EFRAG SRB meeting of 28.6.2024 (available at www.efrag.org, retrieved 11. April 2024), par. 15.

[2] See EFRAG (2024), LSME and VSME Overview. Overview for the CFSS Meeting on 17. January 2024 (available at www.efrag.org, retrieved on 11. April 2024), p. 20.

[3] See EFRAG (2024) LSME and VSME Overview for the CFSS Meeting on 17. January 2024 (available at www.efrag.org, retrieved on 11. April 2024), p. 8.

may be substantial in financial reporting, they are less pronounced in sustainability reporting. Sometimes, it will be merely a matter of classification. For example, subsidiaries' emissions would be classified as "own" (scope 1) in a consolidated report, but likely as scope 3 in an individual report, assuming that subsidiaries' activities are part of the SME's value chain. Or subsidiaries' workforce would be considered "own workforce" in a consolidated report, but "workers in the value chain" in an individual report, again assuming that subsidiaries' activities are part of the SME's value chain. Although the number and type of data points required to be disclosed for workers in the value chain are lower than for one's own workforce, taken together, there is only some "proportionate reduction" in the disclosure requirements.

On the other hand, it is questionable that individual sustainability reports will suffice for investors. Take, again, the example of "own workforce" vs. "workers in the value chain", with fewer information required for the latter. Recall further that the CSRD required sustainability reporting by capital market-oriented SMEs, inter alia, to make them eligible and attractive investment opportunities in order to ease their access to financing (CSRD, recital 21). But banks, for example, are required by European Banking Authority Guidelines to consider sustainability-related risks in their strategies and credit risk assessments.[4] Other investors, although not legally required, will likely consider sustainability-related risks as well. Last, but not least, all these investors may require sustainability information compliant with their own sustainability reporting requirements. Against this backdrop, it is very questionable that sustainability reporting on an individual basis will suffice for investors.

VSME: objective and structure

Together with the LSME, EFRAG currently also discusses voluntarily applicable ESRS for SMEs. The target companies for these Voluntary ESRS (VSME ESRS, or short only VSME) are unlisted small and medium-sized companies that are outside the scope of the CSRD. Consequently, the CSRD does not set out any requirements. However, the EC sees the need and has asked for the timely development of a voluntarily applicable standard. Furthermore, the CSRD calls for non-capital market-orientated SMEs to "have the possibility of choosing to use [...] proportionate standards on a voluntary basis" (CSRD, recital 21).

The demand for sustainability information from unlisted SMEs is manifold and include, for example, large companies that require such data points from SMEs for their own sustainability reporting given that the reporting boundaries include their up- and downstream value chain (i.e., scope 3, compliance with human rights standards; Beiersdorf and Lanfermann, 2024). As mentioned above, banks are also required to consider sustainability-related risks in their strategies and credit risk assessments.[5]

The VSME therefore intends to address both the need for harmonisation from the perspective of SMEs and the need for sustainability information from the perspective of stakeholders. This objective (mapping the information requirements of lenders to SMEs and large companies as customers of SMEs) is explicitly defined as the objective of the discussed VSME. A "harmonisation" of the demand for sustainability information from unlisted SMEs could help to reduce the burden on SMEs and improve the comparability of SME sustainability information significantly. However, this can only be achieved if the VSME manage to achieve general acceptance among both preparers (i.e., unlisted SMEs) and the

[4] See EBA (2020), Final Report Guidelines on loan origination and monitoring (EBA/GL/2020/06 as of 29.5.2020).
[5] See EBA (2020), Final Report Guidelines on loan origination and monitoring (EBA/GL/2020/06 as of 29.5.2020).

users/stakeholders of that information. It is therefore essential that the final VSME meet the needs of both preparers and users/stakeholders conceptually as well as in terms of content.

The VSME has a modular structure. The basic module may serve as the sole basis for an unlisted SME's sustainability reporting, or it can be combined with the narrative disclosures of the Policies, Actions and Targets (PAT) module and/or data points of the business partner (BP) module. The basic module can also be supplemented by individual disclosures from the PAT and/or BP module. This modular structure is intended to satisfy the heterogeneity of the undertakings (in size, employees, capacity etc.) across the different types of unlisted SMEs, ranging from companies that are just starting sustainability reporting (basic module) to companies that have already addressed the sustainability of their business and thus already have policies measures and targets in place (PAT module), and including companies that need to satisfy the demand for sustainability information from various business partners (BP module).

The basic module does not even require any materiality assessment. Instead, all basic module disclosures are required, some of which, however, only "if applicable".

Table 2: Proposed disclosures in accordance with the Exposure Draft VSME basic module.

If applicable	**Always to be reported on**
B2: Practices for transitioning towards a more sustainable economy	B 1: Basis for Preparation
B4: Pollution of air, water and soil	B 3: Energy and greenhouse gas emissions
B 5: Biodiversity linked to the exposure of the undertaking to biodiversity sensitive areas or land-use	B6: Water (total water withdrawal)
B6: Water (water consumption linked to production process)	B 7: Resource use, circular economy and waste management (annual waste generation by type and waste diverted to recycle or re-use)
B7: Resource use, circular economy and waste management where the "applicability" is narrowed down to the following formulation "if the undertaking operates manufacturing, construction and/or packaging processes, (...)"	B8: Workforce – General Characteristics breakdown point (a) by type of contract and (b) by gender
B 8: Workforce - General characteristics	B9: Workforce – Health and Safety
B 11: Workers in the value chain, affected communities, consumers and end-users	B 10: Workforce – Remuneration, collective bargaining and training
B 12: Convictions and fines for corruption and bribery linked to the existence of fines or convictions in the reporting period	

The most important conceptual difference between the PAT and BP modules and the basic module is the need to carry out a materiality analysis, based on double materiality as defined in the CSRD and the ESRS. However, the involvement of stakeholders is planned to be optional when assessing materiality. For specific disclosure requirements, the "if applicable" exemption is used also in the basic module.

While the PAT module requires narrative descriptions, the disclosure of Principal Adverse Impacts (PAI) Indicators is an important feature of the BP module. PAIs are particularly relevant for large companies given that the reporting boundaries include their up- and downstream value chain, and for financing institutions: According to the EU Sustainable Finance Disclosure Regulation, disclosures on investment decisions of financial market participants are based on information on PAIs in order to highlight potential adverse impacts on sustainability.

Table 3 provides an overview of PAI Indicators, excluding PAIs applicable to investments in sovereigns, supranationals and in real estate.

Table 3: Principal Adverse Impacts (PAI) Indicators overview

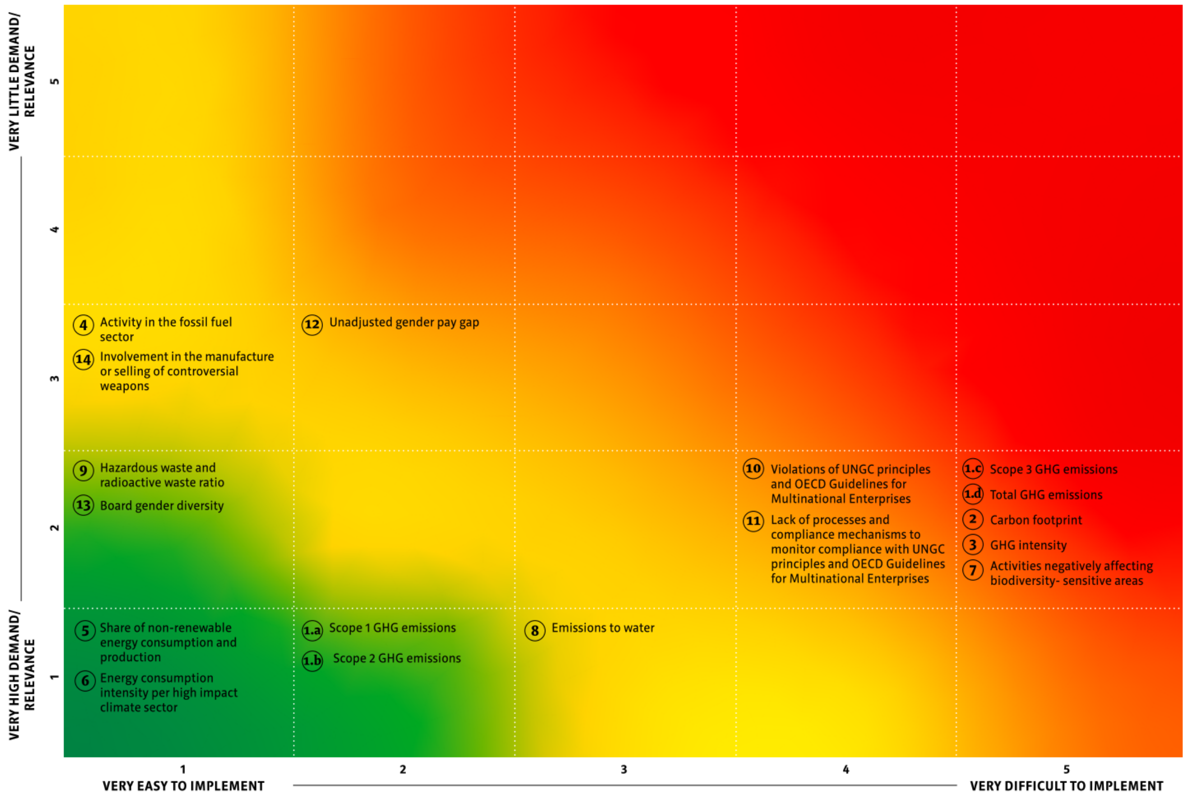
No.	CSR dimension	Sub-dimension	Adverse sustainability indicator	Metric
1	Environ-mental	Greenhouse gas emissions	GHG emissions	Scope 1-3 and total GHG emissions
2			Carbon footprint	Carbon footprint
3			GHG intensity of investee companies	GHG intensity of investee companies
4			Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector
5			Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources
6			Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector
7		Biodiversity	Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas

8		Water	Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
9		Waste	Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average
10	Social and employee matters	Social and employee matters	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
11			Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/ complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
12			Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
13			Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members
14			Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons

(Source: Commission Delegated Regulation (EU) 2022/1288, OJ L 196, 25.7.2022, p. 1–72.)

According to outreach activities conducted by the German standard-setter (DRSC) and the German Council for Sustainable Development, some of the PAIs pose significant implementation challenges for SMEs (see figure 4).

Figure 4: Potential Adverse Impact Indicator Heatmap



(source: DRSC/ German Council for Sustainable Development, 2024, p. 4.)

"Value chain cap" and interplay with ESRS

The CSRD stipulated that "full" ESRS may not specify disclosures that would require companies to obtain information from SMEs in their value chain that exceeds the information to be disclosed in accordance with the LSME. This restriction is known as the *"value chain cap"*.

Logically, it requires re-visiting and potentially revising the "full" ESRS after the LSME has been finalised. After finalisation of the LSME, all disclosures and data points regarding the value chain that are required under "full" ESRS, but not under the LSME, would need to be removed from the "full" ESRS. It follows that, the more comprehensive the LSME disclosures will be, the less relevance the value chain cap has, and consequently, the lower the potential of deleting disclosure requirements and data points from the "full" ESRS due to the value chain cap.

As mentioned above, however, the disclosure requirements and data points in the LSME are comprehensive, because EFRAG deems these disclosures to be mandated by law or to be relevant for the users and/or the value chain dimension. Hence, based on the current outline of the LSME, the value chain cap has very limited practical relevance and no major revision of the "full" ESRS would be necessary.

However, many companies in the value chain of large companies that are required to apply "full" ESRS will not be capital market-oriented SMEs, but most likely companies outside the scope of the CSRD. Hence, these companies are not required to prepare sustainability reports. They may, however, apply the VSME. In this scenario, the information to be prepared under the VSME may effectively limit the sustainability information that large companies may obtain when applying "full" ESRS. This would require large companies, i.e. customers of SMEs, to accept the VSME information as sufficient for their information needs. If that were the case, the VSME may de facto become a second (actually effective) value chain cap. If market acceptance of the LSME cannot be achieved, an alternative scenario is possible: a "trickle down" effect. This will result in the disclosures and data points required under "full" ESRS de facto defining the information that companies outside the scope of the CSRD will have to supply. If the trickle-down-effect unfolds its full impact, the market position of SMEs will worsen drastically; some of them might even be squeezed out of the market for lack of capacities to address these complex and extensive information needs. This will be the opposite of what the EU had envisioned for SMEs.

Conclusion

The CSRD introduces significant changes (a "big bang") in sustainability reporting, including a much broader scope, more detailed and specific disclosure requirements, and mandatory assurance. Among all the several companies involved, SMEs face particular challenges in complying with the new regulation, because limited resources (both financial and in terms of human capital, skills, and knowledge), but also due to their limited previous experience with sustainability reporting. The ESRS LSME offers a lighter version of the full ESRS specifically designed for listed SMEs, but the extent of reduction in disclosure requirements remains debatable. The VSME is a voluntary standard for non-listed SMEs, aiming to harmonise information needs from stakeholders and lenders in the context of non-listed SMEs. The long-term impact of the CSRD and ESRS especially on SME competitiveness and the potential unintended consequences are still unclear and will require further investigation.

The CSRD definitely represents a significant step towards more comprehensive and comparable sustainability reporting in the EU. While SMEs face challenges in complying with the new regulations, the development of SME-specific standards acknowledges their specific circumstances. Further research and ongoing dialogue are crucial to ensure a successful implementation of the CSRD that fosters transparency and sustainability throughout the value chain, while not hindering the competitiveness of European SMEs.

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