



EUROPEAN COMMISSION

Commissioner Mairead McGuinness
Financial Services, Financial Stability and Capital Markets Union

Brussels,

Dear Minister,

In July 2022, the co-legislators reached agreement on the Corporate Sustainability Reporting Directive (CSRD). This Directive modernises and strengthens Europe's corporate sustainability reporting rules. The deadline for national transposition of the CSRD was 6 July this year.

The centerpiece of the CSRD is a common mandatory European Sustainability Reporting Standards (ESRS) for companies in scope to report comparable and relevant information required by investors and other stakeholders.

A first set of ESRS entered into force in December 2023. Large public-interest entities with more than 500 employees are the first to apply ESRS and will publish their first sustainability statements in 2025, covering financial year 2024.

The CSRD and the accompanying ESRS will help companies in the transition to a more sustainable business. The sustainability statements will give investors information on the sustainability risks their investments may be exposed to. These statements will facilitate financial flows to companies with positive sustainability impacts and to companies making credible efforts towards transition. Sustainability reports will allow companies to understand and manage their sustainability performance and to communicate clearly with stakeholders.

The CSRD provides a single set of common standards for companies to use, rather than the current situation where companies use multiple overlapping and inconsistent voluntary standards and frameworks.

Mr Márton Nagy
Minister for National Economy of Hungary
1051 Budapest, József nádor tér 4.

CC: Mr. Mihály Varga
Minister of Finance

The application of ESRS is a challenge for companies, especially for the smaller companies in scope and those that have not previously reported sustainability information. That is why the European Commission has taken several measures to ensure the proportionate implementation of the new framework. These measures are in line with the Commission's objective to reduce the reporting burden on EU companies and to implement the existing legal framework in the simplest, fairest and most efficient way, as highlighted in President von der Leyen's recent political guidelines for the next mandate. To this end:

- We have adjusted the monetary thresholds in the Accounting Directive used to define which companies are large to take account of the effects of inflation. This has had the effect of reducing the number of companies subject to the CSRD by about 14%.
- We made a proposal, which was agreed by the Council and Parliament, to postpone the deadline for a first set of sector-specific reporting standards by two years to mid-2026. This will give companies more time to focus on the correct application of the first set of horizontal standards adopted last year.
- We have asked EFRAG, our technical advisory body on ESRS, to prioritise the development of practical guidance to support companies in implementing the ESRS. EFRAG has already published guidance on value-chain reporting, on the materiality assessment process and a list of ESRS datapoints in a user-friendly format. In addition, EFRAG has established an online Q&A platform through which companies can seek technical clarifications.
- Responding to requests from companies, the Commission has recently published a first set of questions and answers on the CSRD. These should help reduce the need for companies to seek external legal or consultancy advice.
- EFRAG is also developing a proportionate standard for listed SMEs that is required by the CSRD, and a separate, simpler standard for voluntary use by non-listed SMEs. The voluntary SME standard, requested by organisations representing SMEs, will provide an efficient tool for smaller companies to respond to requests for sustainability information. It should reduce the need for companies to respond to separate requests for information from individual banks or business customers.
- At the Commission's request, the Committee of the European Audit Oversight Bodies (CEAOB) has developed non-binding guidelines to help statutory auditors and other assurance services providers in the absence of an EU standard that should be adopted by 2026. Draft guidelines were published for consultation on 25 June and will provide clarifications as regards the work that needs to be performed by assurance providers in the context of a limited assurance engagement on sustainability information.
- The Commission has supported the process that led to EFRAG and the International Sustainability Standards Board recently publishing joint interoperability guidance on ESRS and ISSB standards. An EU company that reports against ESRS can meet the requirements of ISSB standards with minimal additional effort.
- We are exploring the potential of digital technologies to reduce the reporting burden on companies and whether EU action can help to realise that potential.

- We are organising stakeholder meetings to get timely feedback. In May we hosted a public event with stakeholders to share views and experience how to support companies in implementing ESRS, at which a number of Member States presented national support initiatives, and we are now planning our next major stakeholder event to be held on 15 November. In the meantime, we have published a description of existing national support initiatives.

In close cooperation with all stakeholders concerned we will continue to use every opportunity to ensure the proportionate implementation of the new sustainability reporting framework. I believe it is important that Member States also take practical steps to minimise the burden on companies associated with the new reporting requirements, including:

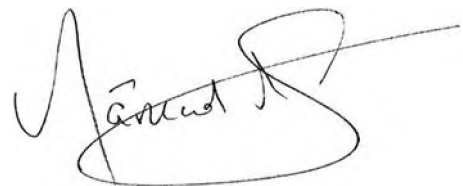
- Encouraging companies to make full use of the transitional provisions included in the ESRS to ease implementation, in particular the transitional provisions regarding value-chain reporting.
- Engaging with supervisory authorities and assurance providers to stress the need for a proportionate approach, recognising that there will be a learning curve and that reporting will improve over time as companies gain experience of applying the new rules.
- Exploring the full potential of a new flagship Technical Support Instrument that the European Commission launched to provide technical assistance to Member States for support to companies with sustainability reporting, including taxonomy reporting requirements. Member States should submit requests for support to the European Commission by the end of October.

Measures of this kind will make a significant contribution to the successful implementation of the CSRD, facilitating the transition to a sustainable economy while minimising the administrative burden on European companies.

I would be grateful if you could share the content of this letter with the members of the Competitiveness Council.

I would welcome the opportunity to discuss these issues in a future Council meeting if you would consider that useful.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Mairead McGuinness', written over a horizontal line.

Mairead McGuinness