

## **Danish technical paper on ensuring a well-functioning Single Market for digital ESG solutions reducing administrative burdens for companies.**

Having a well-functioning European market of digital ESG-solutions can significantly reduce administrative burdens for companies by making it easier for them to comply with EU sustainability reporting requirements and showcase their sustainability to business partners, investors, and customers. This requires that data, system, and service providers, as well as calculation tools, sustainability certification schemes and data platforms adhere to a **set of minimum requirements on methodologies and digital functionalities for ESG solutions** making sharing of and access to ESG data easy among companies.

### **Analogue and fragmented data handling creates unnecessary administrative burdens.**

For the past years, European companies have been faced with an increasing range of comprehensive new EU-legislations requiring them to report on sustainability at both the product and company levels. To efficiently comply with these new legislations, companies will need to digitize their product information and adopt new digital systems. However, many companies currently handle data and information in an analogue and fragmented manner, creating unnecessary administrative burdens for businesses, hampering European competitiveness, and hindering the realization of a true digital single market.

As reporting requirements are still in development, companies and ESG solutions currently collect sustainability data manually across value chains from a range of sources such as spreadsheets, PDFs, different digital solutions, platforms, questionnaires, and online forms. This makes it complex and unnecessarily burdensome for companies, especially SMEs, to supply their sustainability data multiple times in parallel to their various larger customers. Different ESG solutions also use different methodologies and display varying degrees of transparency in how they calculate and measure a company's sustainability performance. This makes calculations non-transparent and results incomparable. For example, available calculation tools for GHG-emissions offered to European companies often differ in methodology, which hampers comparability.

Furthermore, ESG solutions are fragmented, using various digital and even proprietary standards, protocols, and data formats, keeping data in closed platforms. This limits the possibilities for the free flow of data, cost-effective data validation, and integration into companies' existing IT-systems and interfaces, as well as portability between different solutions. Consequently, the emerging market for ESG solutions is also fragmented and non-transparent. The Commission has recognized the risks of a fragmented market of service providers for digital product passports (DPP) and will adopt requirements for the emerging market of DPP service providers in the Ecodesign for Sustainable Products Regulation by introducing provisions to establish rules and requirements to be followed by product passport service providers, including a certification scheme to ensure compliance with requirements, if appropriate.<sup>1</sup>

### **Harmonising requirements for ESG data and solutions, creating a single market for ESG solutions.**

To counter the tendencies towards fragmentation in the emerging market for ESG solutions, we need to set minimum requirements on methodologies and digital functionalities of the ESG solutions. This is in order to ensure transparency, robust methodologies, and a minimum level of interoperability of data and ESG

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<sup>1</sup> Ecodesign for Sustainable Products Regulation (ESPR), article 10 paragraph 2.

solutions offered in the Single Market reducing administrative burdens for companies by harmonizing the requirements for ESG data. This requires striking a delicate balance between setting sufficient requirements guiding innovation and markets while not hindering innovation, distorting an emerging market, and limiting European companies' flexibility to choose solutions specific to their needs.

We recommend that the following actions are taken at the EU level to bolster market confidence in ESG solutions, supporting companies' sustainability work and enhancing digital operations and reduced administrative burdens amid regulatory complexities:

1. **Set minimum disclosure and transparency requirements for the underlying methodologies and data sources for ESG solutions** including when substantial modifications to the methodologies are put into effect. This may also include requirements for ESG solution providers to verify and document their solutions' comparability with requirements for reporting and methodologies for sustainability reporting. This action could draw inspiration from new EU-regulation underway on CO2e emission calculation tools for transport services<sup>2</sup> and existing tools such as the Danish Climate Compass<sup>3</sup>.
2. **Set minimum requirements for basic digital functionalities of ESG-solutions** such as data standards, to promote a more effective flow of data between systems and companies, ensuring transparency and security in digital ESG solutions. Minimum requirements should include:
  - a. Definition of required ESG-methodologies for digital solutions to streamline data collection, aggregation, and reporting, ensuring accuracy and efficiency.
  - b. The ability to send and receive data in standardized and structured digital data formats that correlate with international standards for electronic exchange of reliable data, making it easier to ensure compliance and transparency.
  - c. Mapping and promotion of uniform digital tagging of output formats, e.g., through standardized digital taxonomy to ensure interoperability of data and data formats.
  - d. Adherence to recognized IT security standards, including automated backup of data.
3. **Ensure broad uptake by large companies of the voluntary SME-standard developed by EFRAG**, to ensure a more standardized collection and sharing of ESG data between SMEs and large companies subject to the CSRD by requiring ESG solutions to be able to send and receive data through a standardized and structured digital format for the VSME-standard.

ESG solutions should be required to meet the requirements, and possibly be registered with relevant authorities, which should make an updated list of systems available for companies to get an easy overview. For inspiration on outlining digital requirements for methodology, similar requirements are made in the Danish legislation on digital bookkeeping systems.<sup>4</sup>

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<sup>4</sup> European Commission: Proposal for a regulation on the accounting of GHG of transport services. COM (2023) 441.

<sup>3</sup> The Danish Climate Compass – [www.klimakompasset.dk](http://www.klimakompasset.dk)

<sup>4</sup> Inspiration can be drawn from work done in Denmark on setting minimum requirements for digital bookkeeping systems (<https://danishbusinessauthority.dk/requirements-digital-standard-bookkeeping-systems>)