ESRS XBRL-sustainability taxonomy: Test results

25 March 2025

Danish Business Authority

Executive summary

ESMAs proposal for a *Regulatory Technical Standard* for implementation of the ESRS-taxonomies is a full implementation of the detailed taxonomy over six years, without providing documentation for user needs, field test or impact assessment.

The Danish Government supports the use of XBRL-taxonomies to increase comparability in machine analysis, but does not support increasing administrative burdens on reporting companies without clear, documented benefits.

To enhance the understanding of the ESRS-XBRL-taxonomy we have performed test tagging of two reports, while asking selected report users what they need in a machine readable format. Our test and dialogue with report users does not confirm the benefits of a complete tagging in detail. Report users only require around 20 pct of ESMAs proposed tagging. If the tagging burden is restricted to tags of benefit to the users, the costs of tagging may be reduced by 80 pct, compared to ESMAs proposal, when fully implemented.

Our recommendation is:

- *Simplify the taxonomy* to reduce both tagging mistakes and the tagging costs;
- *Only tag what is valuable for reports users in a machine analysis, i.e.*: The material impacts, risks and opportunities, as well as numerical information and accounting principles;
- *Evaluate tagging* as part of the revision of the reporting standards and extend tagging requirements only if it is shown to be beneficial to report users and proportional in terms of costs

Purpose of test

- ESMAs proposes a *Regulatory Technical Standard* for implementation of the ESRS and art. 8-XBRL-taxonomies by amending the existing ESEF delegated act.
- The new sustainability taxonomies are technically very different from the existing ESEF-taxonomy. Whereas ESEF is a simple model made for comparing primarily quantitative financial data, the sustainability taxonomies are technically complex, extremely comprehensive and detailed on narrative and semi-narrative information.
- ESMAs proposal is to implement the taxonomies without documentation of how the new taxonomies work in practice, cost of use or any analysis of which disclosures are required in a tagged format by report users.
- To qualify the Danish Government's response to ESMAs consultation on the RTS, the Danish Government has done test tagging on two sustainability report for 2024, together with two reporting companies, three report users and a full service tagging provider
- The ambition is to give ESMA, the Commission and other Member States a qualified recommendation on implementation of tagging rules, which would not impose unneccessary administrative burdens on the reporting companies, but restrict tagging to what may be of value to report users

Test: Main questions

- What does it cost to tag the sustainability report with the new ESRS taxonomy?
- What is necessary to tag in order to meet report users' needs for tagged information?
- What does it cost to tag only what is in demand from report users?
- Are there technical and/or quality challenges and any other issues which impose unnecessary costs?

Purpose of using a taxonomy: Machine reading

- XBRL is used to classify business data with the purpose of making business reporting machine readable, particularly for analysis and comparison.
- Machine reading can be used to compare companies' performance over time and across sectors and activities, and spot trends and risks, for e.g. credit rating and investment.
- Directly meaningful comparison by use of machine reading presupposses that the data is valid and clearly defined
- Most ESRS-disclosures are not numbers, but narrative information. Narrative information is not directly comparable, but may by classified according to a taxonomy, however the value for users may be limited
- Comparable information also presupposes a common understanding of the reporting requirement and what to disclose. As the regulation and ESRS standard is new, there is not yet a common understanding of how to interpret and present all the reporting requirements
- The question is therefore: **Which information in the sustainability reports may be meaningfully employed in a machine readable format? We have asked some users.**

Test design – Setup

- Two companies were asked to do a complete XBRL-markup of the 5 selected disclosure requirements in their 2024 sustainability statement, in collaboration with a full service tagging provider

- While tagging their 2024 sustainability statements, the company in question and the full service provider recorded time spent on each disclosure requirement.

- The two sustainability statements were, together with the sustainability statement of one another company, presented for one institutional investor and two data providers to assess, which information that was either:

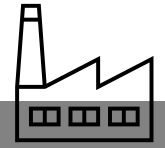
  - Need to have
  - Nice to have
  - Irrelevant

  for machine reading and analysis

Test design – Selected companies

Company A: Service company

- Approx. 7.000 employees
- Net turnover around 1 billion euro
- Operating in Europe



Company B: Production company

- Approx. 8.000 employees
- Net turnover around 9 billion euro
- Operating Globally

The selected companies are both in scope of CSRD and have submitted audited annual reports with ESRS sustainability statements for 2024.

Both companies are well-structured and with in-house capabilities and knowledge on ESRS and XBRL

Company A is the smaller of the 2 companies with a less complex business model.

Company B is the larger company with a more complex business model.

Test design – Selection of disclosure requirements

The test design matches "scenario 3" in ESMA's consultation paper, which means that the reporting company is not tagging themselves, but use a full-service provider to do the tagging

5 disclosure requirements was chosen for testing based on an assesment of the following criteria:

- Their technical complexity,
- Duplicated over multiple standards and therefore representative and
- The ability to follow the flow from IRO to policies covered, actions and targets set.

The selected Disclosure requirements for testing was:

1. ESRS E1, SBM-3 Identified IRO's
2. ESRS E1-2 Policies
3. ESRS E1-3 Actions
4. ESRS E1-4 Targets
5. ESRS E1-5 Energy consumption

How we measured

1. All datapoints that are not voluntary from EFRAG's IG3 "List of datapoints" have been included in the test. Narrative and semi-narrative datapoints were classified as "qualitative", all other datapoints as "quantitative"

2. The time spent per data point at both the reporting company and the full service tagging provider is calculated based on actual minutes spent divided by the number of datapoints for the selected disclosure requirements

3. Based on the time the reporting company and the full time service provider spent tagging the selected datapoints, average time spent was calculated and used to estimate the time it takes to tag the full report

4. For the tested disclosure requirements, the actual time spent (in minutes) was used, based on the companies' and the full time service provider's information.

5. Minimum Disclosure Requirements (MDR) datapoints from ESRS 2 are included in Policies, Actions and Targets in the topical standards.

Findings: Report users' need for tagged information

- In general, report users indicated that for the purpose of digital comparison and analysis, they required three elements to be tagged in detail:

1. Material IRO's
2. All quantitative information
3. The applied accounting policies for the quantitative information

- Qualitative information were not required as detailed tags

- Report users indicated that approximately **20%** of the datapoints in the selected companies sustainability reports needed to be tagged in detail.

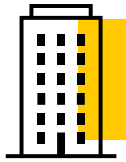
”Information must be directly comparable in order to be used by us in a machine analyse.

If data is not valid and comparable – we do not need the XBRL.”

ATP

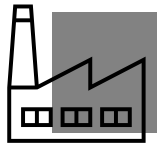
ATP is Denmark’s largest Pension Fund, and has been working with responsible investments for the past 25 years.

Findings 1: Cost



Company A: Service company

- 90 datapoints were included in the test tagging
- Approx. 7 hours were used on the test
- With a *very rough* estimate based on the extrapolation, a total of **70-90** hours is needed for tagging the full report



Company B: Production company

- 90 datapoints were included in the test tagging
- Approx. 21 hours were used on the test
- With a *very rough* estimate based on the extrapolation, a total of **200-225** hours is needed for tagging the full report

Time estimated is up to three times ESMAs assumption

- Around 1/3 of the time spent is by the reporting company, as their judgement and decision on the specific disclosure is needed by the full-service provider in order to tag
- The difference in time estimates reflects the different complexity of the companies business model.
- Audit and consultancy time is not included.

Findings 2: Complexity

Label granularity:

Long and ambigious labels are difficult to intrepret. It requires extended time to understand the label and what information is to be tagged. It can also entail that that there are two or more separate pieces of text that would be required to accurately capture the information required by the label, requiring the label to be added at multiple locations.

Example of label:

Disclosure of framework and methodology that has been used to determine GHG emission reduction target, underlying climate and policy scenarios for target, how future developments have been considered and how these will potentially impact GHG emissions and emissions reductions

“Reflecting on the maturity of, and quality of guidance provided for, the disclosures to be made we consider the current proposed tagging to be significantly more detailed and challenging to work with, than what value we identify it to have.

Netcompany is in favor of a revised and simplified ESRS XBRL taxonomy, that better aligns with the clear and workable financial reporting/tagging, e.g. through few and clearly defined regulatory standards for tables, and supplement these with BlockText tags in general.

Companies should tag only what is disclosed in the report, not the underlying facts and circumstances of the work done, and whenever possible, rather tag a full Disclosure Requirement rather than individual non-critical datapoints”

Netcompany

Netcompany is a Danish company which offers IT services from strategy and development through to maintenance and operations

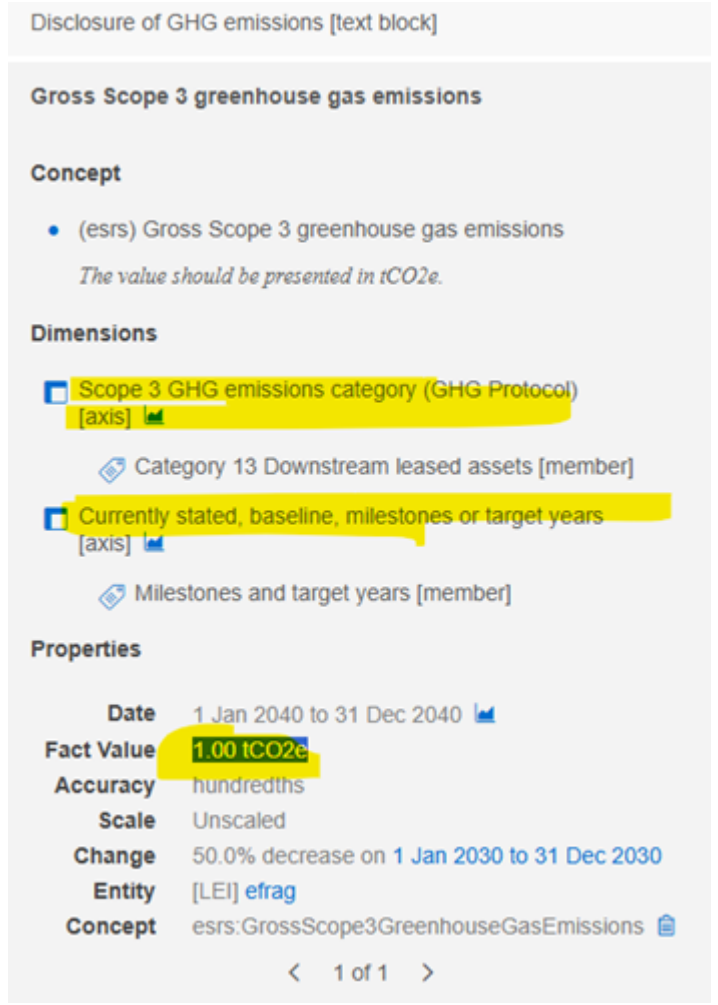
Findings 2: Complexity

Tagging of seemingly simple tables with numerical information can be complex, as they involve multiple semi-narrative tags.

Tagging the yellow no. ”1”in the table below requires all the information in the right column, where the tagger must select the multiple seminarrative dimensions, i.e. correct concept, categories, dimensions and properties

Example: Scope-3 emissions

End-of-life treatment of sold products	7	5	28,57%	4	2	0	15.04%
Downstream leased assets	6	5	16,67%	2	1	0	15.04%
Franchises	18	18	0,00%	14	6	1	11.35%



“We welcome the digitisation of sustainability statements, as it enhances transparency and supports compliance.

While tagging quantitative information is straightforward, the volume and complexity of tags for qualitative data raise concerns. Without a clearer understanding of how relevant stakeholders will benefit from tags on qualitative information, companies may find themselves tagging large amounts of information due to the granularity of the tags without a clear purpose”

Ørsted

Ørsted is a Danish energy company operating globally

Findings 3: Complexity and Quality

We reviewed the inline XBRL file from the full-service provider and identified various errors, suggesting a high complexity of the XBRL taxonomy:

- ✗ Attention to detail is needed, because of the complexity of the taxonomy and the number of different item types – often one fact can have several dimensions and concepts linked to it. Both ESG- and XBRL-competences are necessary, otherwise mistakes will be made

- ✗ Several iterations between the full-service provider and the reporting company are needed to ensure that errors are eradicated and that all information in the human readable report is included in the XBRL-file

- ✗ Design of eg. tables in the sustainability report can increase the complexity if it is not closely correlated to the design of the XBRL-taxonomy, making it more error prone

In the estimate of time spent any additional time needed to eradicate errors and ensure quality has not been taken into account.

Conclusions

The test confirms that the taxonomies are unnecessarily complex and difficult to use for both reporting companies and the full-service tagging provider, which results in mistakes and reduce the quality of tagged disclosures.

- The test estimated that time spent on tagging the full reports may be between 70 and 225 hours, which is up to 3 times ESMAs assumption. The estimates are conservative, as tagging was not continued until mistakes were eradicated.
- International data providers estimate that only around 20 percent of the sustainability report data in the two reports is usable in machine readable format. Around 80 percent of these sustainability reports are narrative information which is unstructured and for this reason has limited value in machine readable format.

- The conclusion is that by significantly reducing the level of tagging of sustainability information over-implementation can be minimise and reduce burdens on European businesses, without materially affecting the benefits of tagging for users.

- If the tagging burden is restricted to tags of benefit to the users, the costs of tagging may be reduced by 80 pct, compared to ESMAs proposal, when fully implemented.

Recommendation

- *Simplify the taxonomy* to reduce both tagging errors and the costs;
- *Only tag what is valuable for reports users in a machine analysis, i.e.*: The material impacts, risks and opportunities, as well as numerical information and accounting principles;
- *Evaluate tagging* as part of the revision of the reporting standards and extend tagging requirements only if it is shown to be beneficial to report users and proportional in terms of costs

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