

## **Danish response to the proposed XBRL-taxonomies**

The Danish Government supports the common European efforts towards standardised sustainability reporting and welcomes XBRL-taxonomies for this purpose. Standardised sustainability reporting is vital in order to provide a well-functioning market where valid and comparable sustainability data are transparent in order to make informed decisions and investments. But it is of utmost importance to keep in mind that the taxonomy must not become too complex and burdensome for European businesses, or we run the risk of finite resources being used on compliance rather than the green transition the taxonomy is supposed to help facilitate.

Consequently, the Danish Government wants to stress the importance of starting out with a simple, transparent and user-friendly taxonomy, considering companies' administrative burdens, as well as ensuring focus on reliable data.

The Danish Government is concerned about some approaches used by EF-RAG, which has resulted in an overall design that:

- Uses complex technical solutions that might result in redundant or adverse features, without the prerequisite skills available among affected stakeholders, rather than starting simple and adding complexity in line with a maturing market. Moreover, the XBRL-competencies are limited, which increase the risk of disproportionate costs for the businesses;
- Risks creating mismatches between the machine-readable and human-readable versions of reports, damaging trust, validity, comparability and opportunities for controlling data, both internally in corporations, audit and government control. This directly contradicts the XBRL-strategy in Denmark, as well as in other European countries, where the machine-readable and human-readable versions of reports must converge.

*Keep it simple and structured*

Denmark has been an international frontrunner on the application of XBRL for annual reports. Previous successful XBRL-implementations have shown that good practice is to keep it simple. In order to assure that the human-readable and the machine-readable data are the same, European Single Electronic Format (ESEF) mandates the use of the ESEF-guidelines, which encompass inline-XBRL.

It is tempting to ensure a high degree of flexibility for the reporters, which EFRAG has enabled. However, the purpose of standards – both sustainability standards, ESEF and taxonomies – are to ensure transparency in the market supported by comparable, structured data.

In our experience, XBRL-technology should ideally gradually evolve together with market developments, as well as developments of standards and/or legal requirements. There are many XBRL-stakeholders directly or indirectly involved in the process of compiling and using the reports, meaning a successful transformation is dependent on stakeholders being able to use the taxonomy correctly.

The general European expertise in XBRL is relatively limited, so it is also necessary to ensure there are capabilities available to support the implementation of the XBRL taxonomies.

An overly complex XBRL-taxonomy may have two major unintentional consequences. First, it will increase the financial, and hence administrative burden for the affected companies – and the increase may be substantial. In our view, it is crucial to a successful green transition that companies focus on investing in sustainability, rather than locking in resources in compliance due to unnecessarily complicated technical requirements.

Secondly, an overly complex taxonomy risk compromising the quality and usability of the sustainability data, and thus the complexity may be counterproductive to the overall goal.

The transformation towards a more sustainable Europe is a long-term process where sustainability reporting will be implemented gradually. It is desirable that the XBRL-taxonomies are designed in a way that is less complex and less flexible, with a clear focus on the reliability and validity of the data. This is essential to have comparable sustainability data, at least in the initial stages of sustainability reporting.

For these reasons, the Danish Government is very sceptical towards supporting the proposed XBRL taxonomies from EFRAG regarding Article 8 and ESRS, unless further technical simplifications are made.