

# Make or break

How to save +€4 billion in EU disclosure costs per year...  
with five easy steps



THEIA  
FINANCE LABS

Feedback Survey - Simplifying EU  
disclosure



# DISCLAIMER (*PLEASE READ, IT'S ACTUALLY IMPORTANT!*)

This note is part of “MAKE OR BREAK”, a briefing series from Theia Finance Labs exploring novel perspectives about key initiatives in the sustainable finance space and how to improve them. Previous reports in this series have focused on [GFANZ](#), [NGFS scenarios](#), [temperature assessments](#), and the “[tripling renewable energy](#)” goal.

Make or Break series notes are opinion pieces, authored by Theia Finance Lab staff members. They are not technical research reports, even where they cite research, and do not go through the same editorial or peer review as other Theia Finance Lab research products. The goal of these notes is to surface key issues, discuss their ramifications, and outline potential resolutions. The ideas and recommendations presented here are attempts at inputs to discussion and debate.. We hope this sometimes changes other people’s minds and sometimes spurs responses that change ours.

Where the documents focus on specific initiatives, we ensure that they are shared and discussed with the relevant initiatives prior to publication. However, for the avoidance of doubt, the research presented here is not affiliated with the initiatives discussed, nor subject to their editorial control, nor in any way implicitly or explicitly endorsed by them. The research is not affiliated with 2° Investing Initiative France.



## About Theia Finance Labs

Theia Finance Labs (formerly 2° Investing Initiative Germany) is an independent, non-profit think tank incubating research solutions for the financial sector that help solve the climate crisis. The Theia Finance Labs name is inspired by the Greek goddess of sight, the light of the blue sky, and the value of gold, Theia, and by the Greek word Aletheia, which means “disclosure” or “truth”, literally “the state of not being hidden”. The brand mirrors our goal to develop evidence-based research and tools that shed light on the intersection of finance, climate change, and long-term risks. Theia operates as a 100% non-profit organization.

## Author:

Jakob Thomä, [jakob@theiafinance.org](mailto:jakob@theiafinance.org), CEO & Co-Founder

Ilmi Granoff (Senior Fellow at the Sabin Center for Climate Change Law at Columbia Law School and a Principal at the Advisory Firm Climate Technology Group)

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# Introduction

**Simplification of the EU regulatory framework is a core objective of the current EU Commission.**

As part of these efforts, the Commission has announced omnibus legislation covering the EU Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CS3D), and the Taxonomy (Real Economy Progress 2024). Further regulatory actions can be expected.

**There is significant concern that these initiatives will have the primary purpose of ‘watering down’ the current regulatory ambition.**

Part of the challenge in this regard is the lack of clarity *how* the regulation can be revised without such an outcome. At the same time, it appears obvious that the first regulatory wave did not get everything right and reform is needed to be effective and impactful.

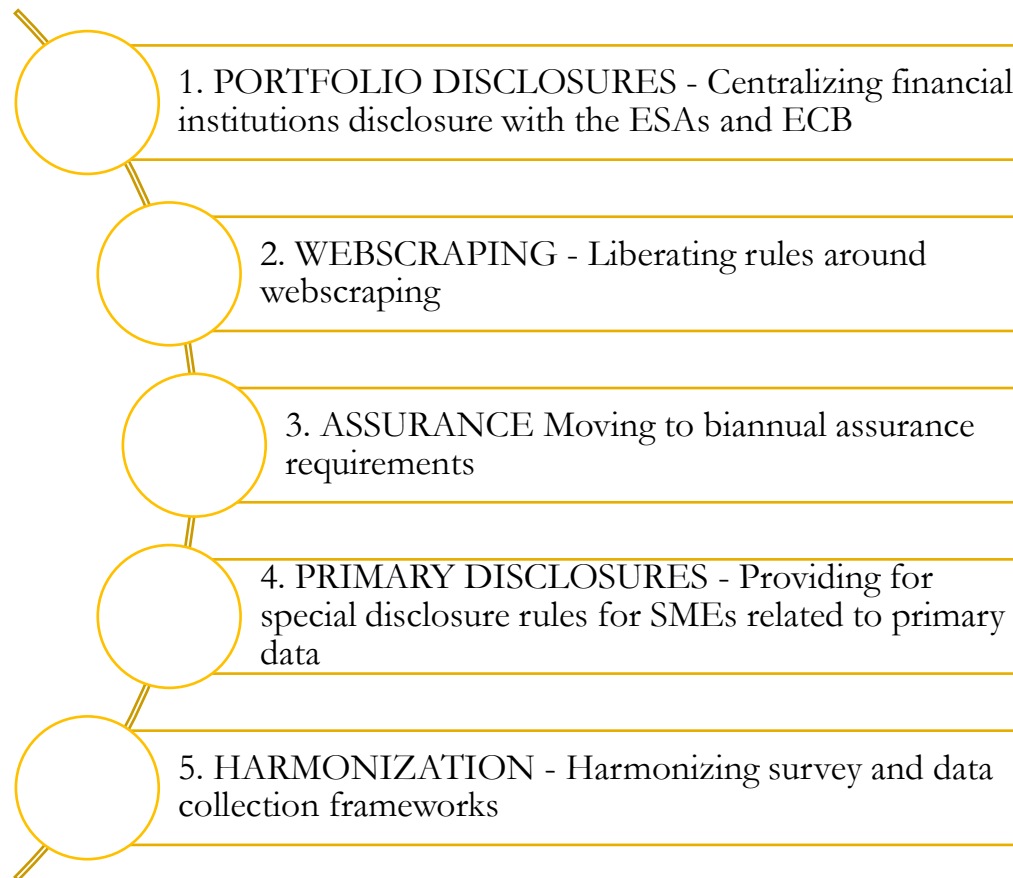
**This note proposes a set of concrete regulatory reforms linked to the omnibus legislation and beyond for the current EU parliament that can dramatically reduce the costs without impacting the core objective and targeted outcomes of the regulation – and thus the “why” of the regulation.**

The recommendations provided here have the potential to dramatically reduce the costs of disclosure, while potentially enhancing the quality, comparability, and overall transparency. In some areas, there is a ‘having the cake and eating it’ opportunity that can be seized by policymakers.

**Using the ESRS cost-benefit published by the European Financial Reporting Advisory Group (EFRAG), we estimate that the proposals outlined in this note could save up to €5 billion / year for the private sector.**

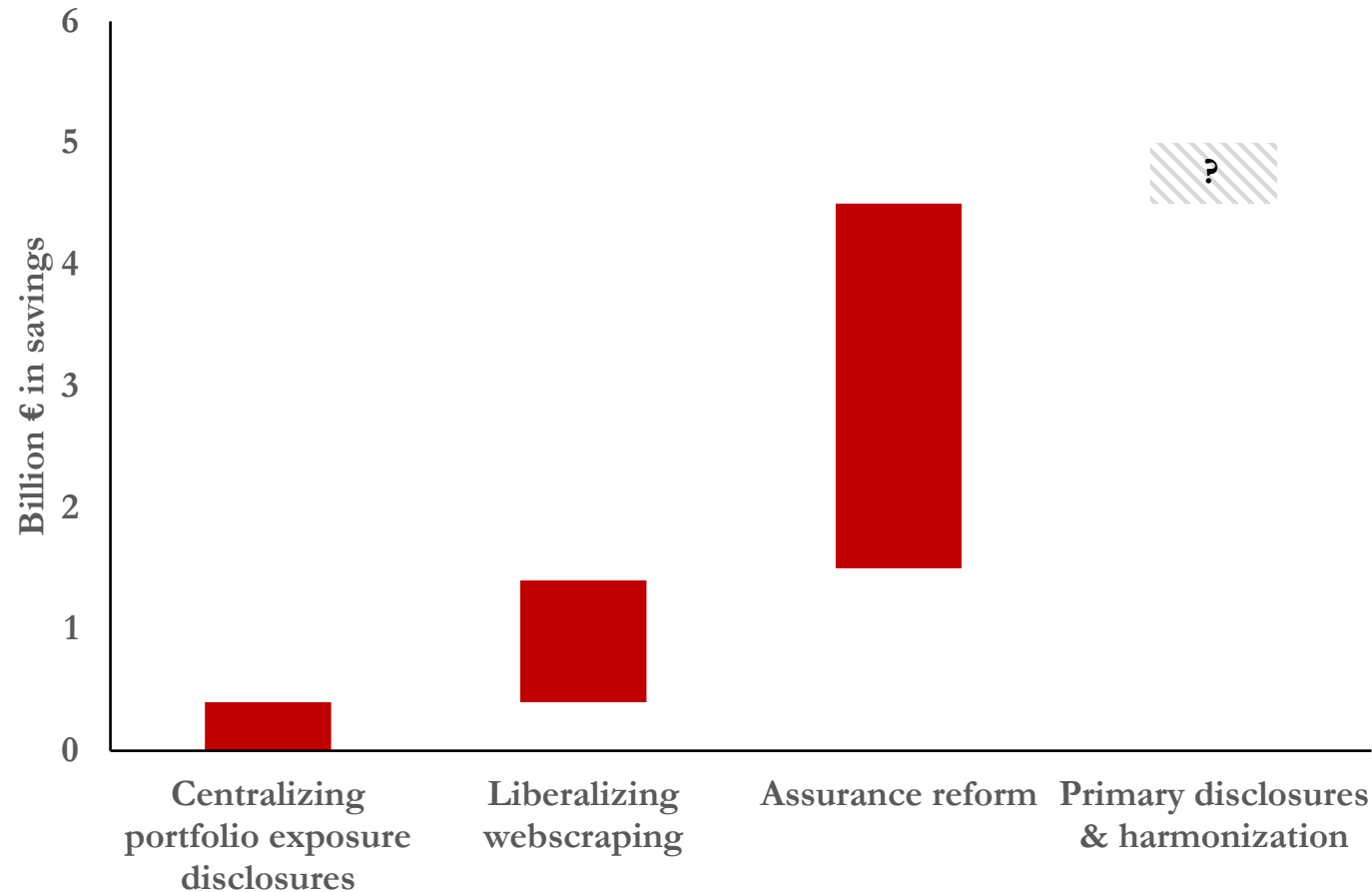
We recognize that these recommendations may be both controversial. We know they are incomplete given the broad range of issues related to taxonomy, interoperability, etc. We invite our stakeholders to provide structured and unstructured feedback, either through our feedback form (<5 minutes, link next page) or by sending us an email to [Jakob@theiafinance.org](mailto:Jakob@theiafinance.org).

FIG 1: FIVE RECOMMENDATIONS FOR REDUCING THE TRANSACTION COSTS FOR SUSTAINABILITY DISCLOSURES (SOURCE: AUTHORS)





# Estimated cost reduction potential



Feedback Survey - Simplifying EU disclosure



OR CLICK THE LINK:

<https://forms.office.com/r/vDrHjJnHR8>

# Methodology for estimating cost reductions

**Centralization.** According to a survey from 2022, investors spend ~€150,000 annually on public disclosures and +€1 million across all types of disclosures costs. Given the continued requirement for product level disclosures and activities, it is likely that a bulk of these costs would still be in place for investors. Given that the recommendation only focuses on quantitative and not qualitative disclosures, some of these costs would likely remain. We assume that between 25-40% of the costs of public disclosure relate to the curating of the information related to ‘quantitative portfolio sustainability performance’. We do not know exactly how many institutions are covered by these requirements and so estimating costs is complicated. For simplicity, we assume that ~10,000 entities are affected by the SFDR (~1/3 of all asset managers and insurance companies operating in Europe, considering that pension funds and other entities would unlikely be able to benefit from this recommendation), this would imply potential cost reductions of €0.3-0.6 billion per annum. **We take the conservative assumption here of ~€0.4 billion.**

**Web scraping.** The exact cost savings are hard to estimate here, given that some data approaches already (perhaps not in full legal compliance) use web scraping techniques and the uncertainty around the scalability of this technology solution. On the other hand, web scraping likely reduces both direct and indirect costs and thus can have dramatically larger effects than a first conservative approximation would suggest. Based on our in-house experience with using the technology for research purposes, we would imagine that web scraping can reduce supply-chain data procurement costs by ~50% and direct data costs by about 10-20%. Using the estimate of €0.2 billion in supply chain Tier 1 data costs from EFRAG and external costs of €147,000 for large undertakings (~71,000 affected institutions), we estimate between €0.6 and €1.1 billion. This does not count the additional benefits for cost reduction for the supply chain companies themselves, which are also likely material. **Again, taking the conservative assumption, wide deployment of web scraping supported by a liberalized regulatory framework can reduce costs by €0.6 billion.**

**Assurance.** EFRAG estimates annual reasonable assurance costs between €6 and €9.7 billion a year, a goal ultimately envisioned by the CSRD (compared to €2.6 to €3.9 billion for limited assurance). Switching from reasonable to limited assurance would save between €2.1 and €6.1 billion per annum (using the high/low estimates respectively from the EFRAG assessment). The additional annualized cost savings of providing for two year assurance windows for companies could further reduce these costs. We take the conservative cost estimate here of reasonable and limited assurance (€2.6 to €6 billion) to demonstrate what may be the ‘conservative’ savings effect of the recommendation. Moving to limited assurance would thus save €3.4 billion and moving to two year assurance window (e.g. distributing the costs of €2.6 billion over two years) would save a further €1.3 billion per annum, for a total of €4.7 billion. We recognize that the shift to limited assurance may be controversial and indeed, if we move to a two year assurance window, not necessary in light of the cost savings already realized (e.g. moving from two year assurance window for reasonable assurance already saves €3 billion). **We limit the cost estimate to the two year annualized assurance and thus estimate savings of €3 billion.**

**Primary disclosures & harmonization.** We combine the last two recommendations given the high degree of uncertainty as the cost impacts. The impacts are likely significant given that primary disclosure could effectively eliminate the need for external sustainability consulting costs for some undertakings. However, this is clearly a high-end assumption and they may ultimately be dramatically lower. To put the savings into context, A EU funded project (LIFE CB-PASTAX) has developed an open-source research solution that translates primary product data into climate performance metrics. The total project budget (~€ 1 million) has seeded a database of +200,000 European SMEs, at an average cost of ~€5,000 per SME (Note: The marginal cost of the software is now closer to €0). There are some cost saving overlaps here obviously with web scraping. **While it may reasonable to assume similar savings effects to web scraping, in the spirit of being conservative, the note does not provide specific estimates for the final two actions.**

**IMPORTANT DISCLAIMER:** There is significant uncertainty around these estimates given lack of data on bottom-up costs, learning rates, price competition, and other variables, including the reform of the upcoming regulation which will change the estimates. The estimates here are best efforts. That being said we sought to be conservative throughout and our headline figure of €4 billion is below the aggregate, also considering that we have not quantified cost savings for two of our five recommendations.

# #1: Centralizing financial institutions disclosure with the ESAs and ECB

## The issue:

Regulated financial entities in Europe covered by standard sustainability disclosure regimes already are obliged to report their portfolio / loanbook holdings to their respective financial regulator. This is governed by the Solvency II Directive for insurance companies, MiFID II / AIFMD for asset managers, and the Anacredit decision of the European Central Bank for banks.\* As a result, financial regulators have detailed portfolio exposure holdings and the capacity to analyze these exposures, a capability they are already using, as evidenced by the assessment of the European Central Bank of the climate alignment of euro area banks (see Fig. on right), as well as previous analysis by EIOPA (2020). To date however, they only publish this information anonymized

## A way forward:

If the European financial regulators are empowered to publish non-anonymized data on the 'sustainability' / climate performance of regulated entities across the indicators identified in the SFDR, this could eliminate the need for financial institution reporting. What is more, such disclosures would be 100% comparable given the application of consistent metrics. We would recommend scope is governed by an independent Advisory Board. We estimate the total annual costs for all covered entities at around €10-15 million, compared to what is likely several 100 million Euros of cost savings. The additional cost for the regulator could be covered by a small fee (likely less than €5,000) levied on affected parties to ensure EU budget neutrality. One key challenge for banks is the coverage of Anacredit, which at the moment only covers euro area banks, and would thus require extending. Over time, the disclosures could expand to qualitative metrics collected through complementary, simple, structured surveys. It is worth noting that some financial institutions would likely lobby against this solution, despite reducing costs, given the increase in comparability of the results. While a number of costs would remain, a conservative assumption suggests that such a move would save +€100 million disclosure costs per year.

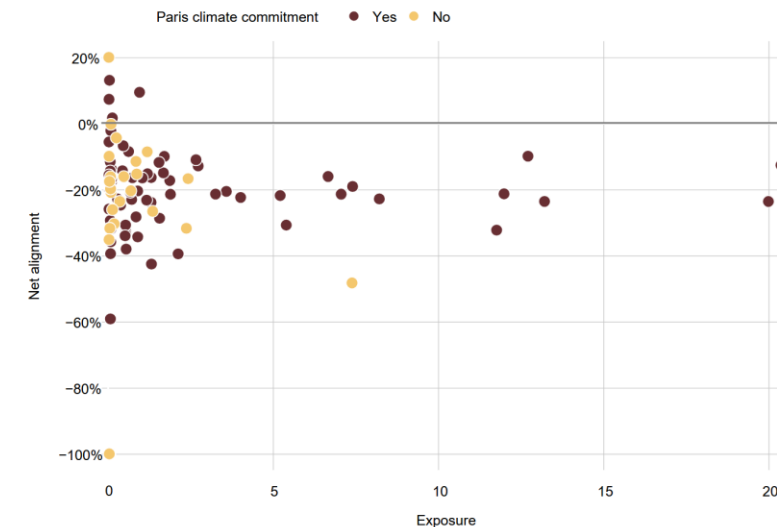
FIG. 3: NET ALIGNMENT OF EURO AREA BANKS WITH AND WITHOUT PARIS COMMITMENT – AN ANALYSIS FROM THE ECB (SOURCE: ECB 2024)

### Chart 1

#### Net alignment of euro area banks with and without Paris commitment

Breakdown by bank, exposure volume and by banks' commitment to achieving the Paris Agreement goals

(net alignment in percentages, exposure in EUR billions)



Sources: IEA, AI, RMI and ECB calculations.

Notes: Each dot represents one significant institution. The net alignment is computed using the IEA NZE 2050 scenario for the oil and gas, coal mining, power generation, automotive, steel, and cement sectors. Net alignment of higher than 20% is reduced to 20%, and net alignment of lower than -100% is raised to -100% for visualisation purposes.

\*(2014/192/EU): Decision of the European Central Bank of 24 February 2014 on the organisation of preparatory measures for the collection of granular credit data by the European System of Central Banks (ECB/2014/6)

## #2: Liberating rules around webscraping

### The issue:

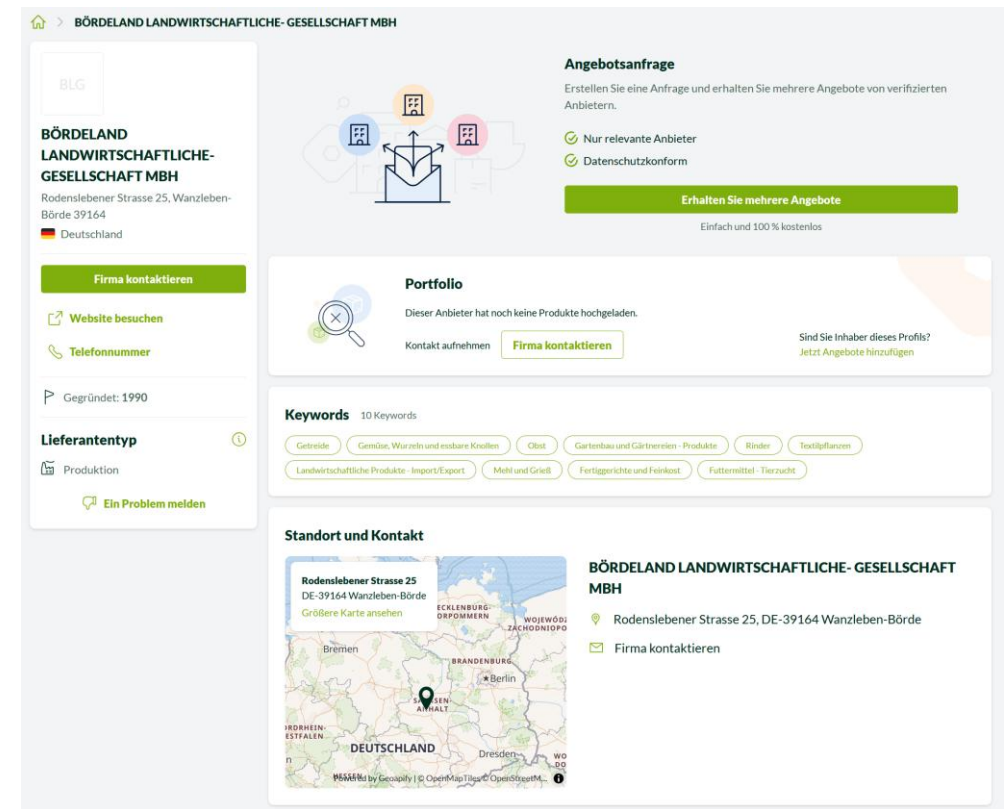
Alternative data sources have powered a revolution in sustainability data solutions. Whether satellite data, regulatory filings, press / social media data, or web crawling, these sources provide dramatic advantages of traditional disclosures, notably related to their granularity, timeliness, and forward-looking informational value. Platforms like Global Energy Monitor host asset-level data information across +100,000s of individual assets. One particular promising technology for SME & supply chain information is the use of webscraping. Companies report a significant amount of information through non-structured data formats across heterogenous communication channels (e.g. press releases, websites, public newsletters, B2B platforms, B2C platforms).

The Fig. on right highlights the geographic, product, and auxiliary information available on B2B platforms like Europages. Taping into that information could dramatically ease the complexity of data collection and disclosures. However, current EU rules around webscraping constrains the legal flexibility into taking advantage of this data source for environmental purposes. Notably, constraints around the use of web scraped data for ‘non-research purposes’ represents a barrier to scaling, as identified by EU-funded data projects (e.g. LIFE CB-PASTAX).\*

### A way forward:

The EU should clarify the rules on webscraping to ensure that web-scraped data can be used for commercial purposes related to environmental and sustainability disclosures. That is not to suggest a total deregulation should be pursued, sensible safeguards around protecting commercial interests of the ‘scrapped data’ (e.g. not building a competition product to the B2B websites using scrapped data, maintaining GDPR and property rights). While a broader reform is likely required given the rise of artificial intelligence, on this topic a pretty narrow widening of the scope could have a dramatic impact.

FIG. 4: A SCREENSHOT OF A B2B DATABASE FOR A GERMAN SME (SOURCE: AUTHORS)



\*Full disclosure: Theia Finance Labs has incubated this project.

### #3: Biannual assurance requirements & switch to limited assurance

#### The issue:

The current requirements of the European Sustainability Reporting Standards require limited assurance, moving to reasonable assurance over time. This is a huge component of the cost and regulatory burden. According to the EFRAG cost-benefit analysis, reasonable assurance could reach 6 to 9.7 billion yearly. That breaks down to around €360,000 per year for a large listed company. The role of assurance is manifold, but primarily to ensure credibility of the information provided in a way that is consistent with the regulatory requirement. However, it unclear why this assurance is needed annually. If disclosure is assured in Year 1, then the assurance provides comfort to the reporting entity that they have the right scope and approach for Year 2. A reporting entity can thus pursue the same approach in Year 2.

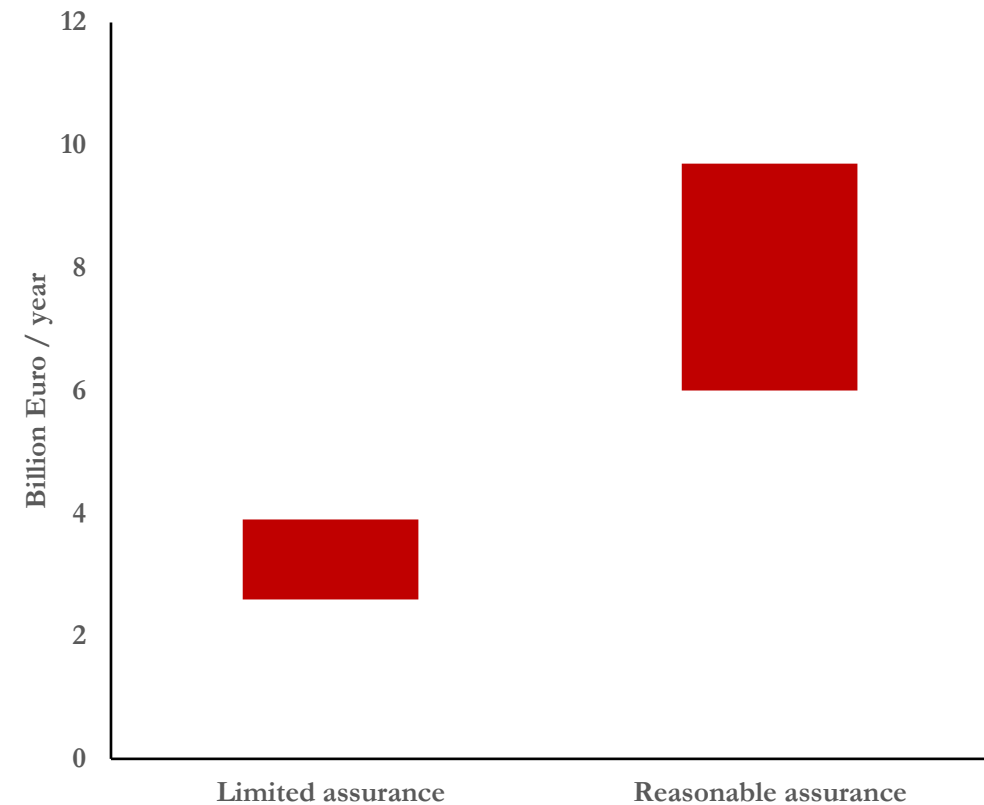
From a credibility perspective, making assurance a requirement biannually obviously risks of 'cutting corners' on the information every second year. This is undoubtedly a risk. On the other hand, given the trade-offs with the 'shortcut' attempt (notably the need to build parallel systems, ensure timing, avoid public naming / shaming), this is unlikely to be a frequent approach.

#### A way forward:

We recommend reducing assurance requirements as a first step to every second year. This step alone could, using the reasonable assurance cost estimates, of around €3-5 billion per year (over a two-year period). There are obviously technical challenges and operational questions around how to structure 'forward-looking assurance'. One simple solution is rather than considering assurance multi year, assurance is imply only required on every second year report.

An additional or alternative measure could be to consider remaining on limited assurance. Staying with reasonable assurance on a two-year frame however safeguards the original ambition while reducing the annual burden.

FIG. 5: THE ESTIMATED ASSURANCE DISCLOSURE COSTS RELATED TO EU DISCLOSURE REGULATIONS (SOURCE: EFRAG 2022)





## #4: Centralizing the development of ‘secondary’ (i.e. sustainability) data and focusing disclosures on ‘primary’ data

### The issue:

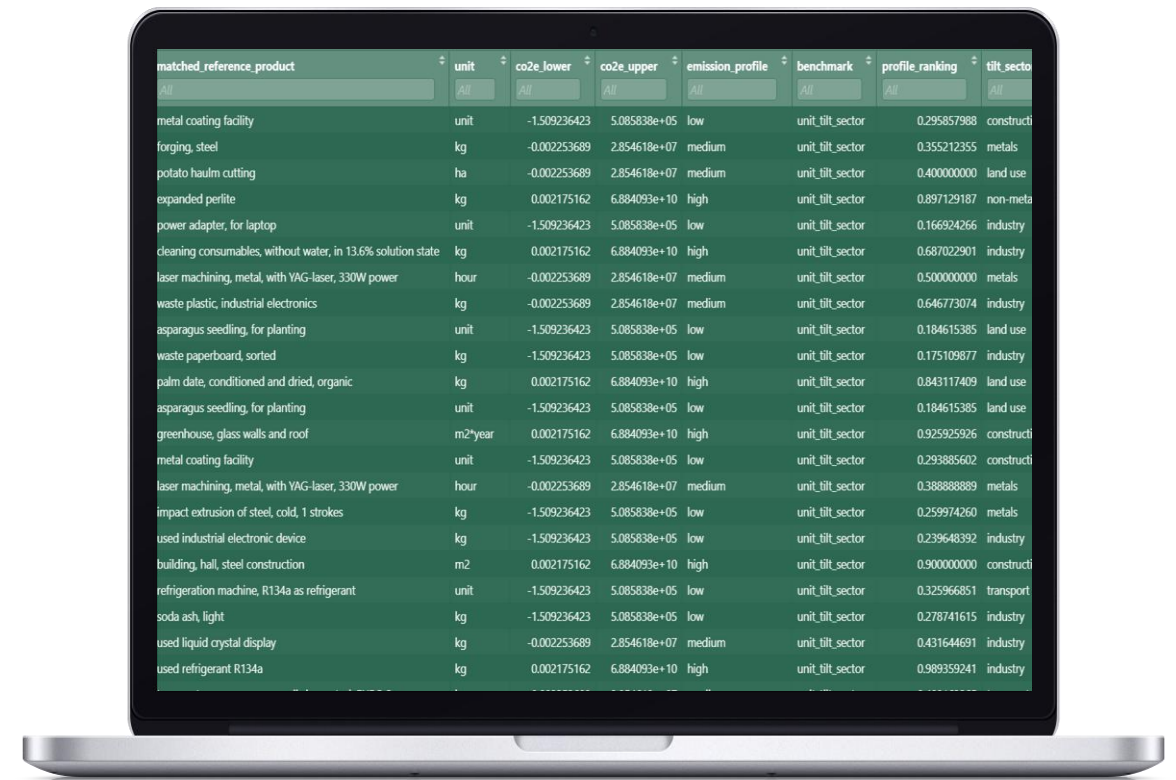
Much of the current disclosure paradigm is predicated on the idea of informing ‘sustainability indicators’ (e.g. GHG emissions) that typically require converting activity information (e.g. number of cars sold) into a ‘sustainability footprint (e.g. lifecycle emissions associated with a car). Another way to frame this distinction is between ‘primary’ and ‘secondary’ data. It is this second step relating to secondary data that is typically the most expensive in the sustainability disclosure value chain, given the extent to which such data typically requires some form of estimation models or additional reporting, monitoring, and verification systems; and given the need for additional in-house capacity and understanding of the related information. At the same time, it is also the most scalable indicator or most easily commoditized.

### A way forward:

Given the centralized problem in the sustainability data supply chain and the cost distribution, we would recommend that SMEs required to disclose under the CSRD are allowed to provide a universe of information related to ‘activities’ to fulfil some of the disclosure requirements. This would allow third parties using automated, large scale models to replicate the second step and then retail and distribute the related data. Initiatives are already under way to build data trusts that facilitate this (e.g. Perseus IceBreaker One). This could hypothetically also be taken over by a public entity similar to Recommendation #1. This could be optional so SMEs that prefer to internalize this process can still engage in that process if they like, but it provides enhanced flexibility.

The Fig. on the right highlights a large scale data system from *tilt*, a project currently incubated by Theia Finance Labs that uses SME activity data and converts this data into ‘sustainability data’ (funded by the European Commission as part of the LIFE CB-PASTAX grant). It is worth flagging that ESAP could play a role in centralizing these secondary data sources or serving as a resources to that effect.

FIG. 6: CONNECTING SME PRODUCTS / ACTIVITIES TO GHG EMISSION PROFILES (SOURCE: TILT 2024)



matched_reference_product	unit	co2e_lower	co2e_upper	emission_profile	benchmark	profile_ranking	tilt_secto
metal coating facility	unit	-1.509236423	5.085838e+05	low	unit_tilt_sector	0.295857988	construct
forging, steel	kg	-0.002253689	2.854618e+07	medium	unit_tilt_sector	0.355212355	metals
potato haulm cutting	ha	-0.002253689	2.854618e+07	medium	unit_tilt_sector	0.400000000	land use
expanded perlite	kg	0.002175162	6.884093e+10	high	unit_tilt_sector	0.897129187	non-metals
power adapter, for laptop	unit	-1.509236423	5.085838e+05	low	unit_tilt_sector	0.166924266	industry
cleaning consumables, without water, in 13.6% solution state	kg	0.002175162	6.884093e+10	high	unit_tilt_sector	0.687022901	industry
laser machining, metal, with YAG-laser, 330W power	hour	-0.002253689	2.854618e+07	medium	unit_tilt_sector	0.500000000	metals
waste plastic, industrial electronics	kg	-0.002253689	2.854618e+07	medium	unit_tilt_sector	0.646773074	industry
asparagus seedling, for planting	unit	-1.509236423	5.085838e+05	low	unit_tilt_sector	0.184615385	land use
waste paperboard, sorted	kg	-1.509236423	5.085838e+05	low	unit_tilt_sector	0.175109877	industry
palm date, conditioned and dried, organic	kg	0.002175162	6.884093e+10	high	unit_tilt_sector	0.843117409	land use
asparagus seedling, for planting	unit	-1.509236423	5.085838e+05	low	unit_tilt_sector	0.184615385	land use
greenhouse, glass walls and roof	m2*year	0.002175162	6.884093e+10	high	unit_tilt_sector	0.925925926	construct
metal coating facility	unit	-1.509236423	5.085838e+05	low	unit_tilt_sector	0.293885602	construct
laser machining, metal, with YAG-laser, 330W power	hour	-0.002253689	2.854618e+07	medium	unit_tilt_sector	0.388888889	metals
impact extrusion of steel, cold, 1 strokes	kg	-1.509236423	5.085838e+05	low	unit_tilt_sector	0.259974260	metals
used industrial electronic device	kg	-1.509236423	5.085838e+05	low	unit_tilt_sector	0.239648392	industry
building, hall, steel construction	m2	0.002175162	6.884093e+10	high	unit_tilt_sector	0.900000000	construct
refrigeration machine, R134a as refrigerant	unit	-1.509236423	5.085838e+05	low	unit_tilt_sector	0.325966851	transport
soda ash, light	kg	-1.509236423	5.085838e+05	low	unit_tilt_sector	0.278741615	industry
used liquid crystal display	kg	-0.002253689	2.854618e+07	medium	unit_tilt_sector	0.431644691	industry
used refrigerant R134a	kg	0.002175162	6.884093e+10	high	unit_tilt_sector	0.989359241	industry

## #5: Instituting a review of the utility of disclosure metrics and approaches and harmonizing survey frameworks.

### The issue:

The last few years have seen a plethora of new sustainability indicators, metrics, and models. While there is a desire to streamline, this is difficult to achieve without a proper evidence base. Different interest groups advocate for different priorities. A comprehensive review after 2-3 years (in the case of SFDR, this is scheduled for 2025) could provide visibility on the right priorities, the extent and manner in to which these disclosures are actually being used, and the best approach forward. It would allow sufficient time for the current EU Commission to update the respective Delegated Acts.

Such analysis should not be an impediment to implementing current rules, and is in fact enabled by the availability of data to analyse. Regulators can take a learning by doing approach to studying the effectiveness of the current set of disclosure regulations with an eye to improving them over time.

In addition, the review process should be accompanied with continued investment in the development of harmonizing data collection systems, notably through standardized survey and questionnaires for supply chain due diligence, clients / customers, and by third party data providers, which currently face a plethora of frameworks and processing costs

Finally, the review also needs to consider the role of centralized data platforms like the European Single Access Data Point (ESAP) as a resource (see previous recommendation) and a mechanism to scale data. Notably, the ESAP can help centralize the conversion of primary to sustainability data by building on solutions like the life cycle analysis solution Ecoinvent to create a global database of emissions factors applied to companies activities

### A way forward:

The EU is already preparing a review along these lines. Our recommendation would be for this review to commission a comprehensive analysis of the use and relevance of disclosed information both internally by companies and by external stakeholders for each data point (or group of data points) and focus on creating standards around data collection systems and repositories as a crucial component for reducing costs.





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