

February 2025

Simplification of the EU Sustainable Finance Framework Omnibus Legislative Proposal



Table of content

<i>Introduction</i>	<i>3</i>
<i>Key messages</i>	<i>4</i>
<i>Key principles for the review process</i>	<i>7</i>
<i>Specific requests per legislation</i>	<i>11</i>
<i>Corporate Sustainability Reporting Directive – CSRD L1 and L2.....</i>	<i>16</i>
<i>Corporate Sustainability Due Diligence Directive (CSDDD)</i>	<i>20</i>
<i>Annex : The availability of data relevant for the financial industry.....</i>	<i>22</i>
<i>A. List of datapoints necessary for the financial industry to fulfill their own reporting obligations.....</i>	<i>23</i>
<i>B. CSRD data relevant for banks from the risk management perspective</i>	<i>28</i>

Introduction

As acknowledged by European Commission President Von der Leyen, the quality of the European legal framework is key to its competitiveness.

To address the challenge of climate change, support the EU transition to climate neutrality and achieve the objectives of the EU Green Deal, the EU has put forward a large number of policy initiatives. Moreover, to channel finance towards the transition to a more sustainable economy, a regulatory framework applicable specifically to the financial sector is entering into application. As a result, banks are facing multiple reporting requirements, which are, at times, overlapping and/or inconsistent.

Banking regulators and supervisors are also continuously stepping up expectations related to the incorporation of ESG risks into banks' risk management practices and ESG reporting, both vis-a-vis supervisors and the public (disclosures).

While increasing transparency of sustainable finance is a necessary objective, it has also introduced challenges, for example, collecting and producing consistent and reliable data. Early experience already shows material implementation and operational challenges, including on the side of banks' clients. It is therefore important to reduce inconsistencies, remove duplications and unnecessary complexity and review the usefulness of the framework, in particular for supporting the uptake of transition finance.

While the right balance needs to be found between regulatory stability and frequency of review, we welcome the European Commission's intention to simplify and enhance the EU SF frameworks' usability, coherence and clarity without compromising its overall integrity. It is also important to note that market participants should be given sufficient time to implement any changes resulting from the review, whether from level 1, level 2 or 3.

Key messages

General

- **SIMPLIFICATION:** We welcome the Commissions' Omnibus initiative to align and simplify the EU's Sustainable Finance framework and to reduce reporting burdens. While the objectives of the EU Taxonomy, the CSRD and the CSDDD are highly valuable and we fully support the Green Deal, the regulatory requirements shall **be simplified, more user-friendly, consistent and support the competitiveness of EU corporates, both financial and non-financial**.
- **HARMONIZATION:** The Commission should take a broader view and ensure consistency, **simplification and harmonization across the entire EU Sustainable Finance Framework** which would also include the Sustainable Finance Disclosure Regulation (SFDR), Benchmark Regulation, MIFID, or Capital Requirements legislation (CRR, CRD). It is important that the EU institutions take a holistic approach to also ensure the requirements in sectoral legislation are consistent (e.g. consistency with data requirements of CSRD). The impact of the changes resulting from the Omnibus initiative across the entire legislative framework, including to the envisaged revision of the SFDR shall be considered.
- **EFRAG:** The simplification **mandate should be extended to EFRAG**, which needs to take it into account in all its work. EFRAG's mandate should be better specified to ensure a "minimalist" approach, rather than adding datapoints from all international standards.
- **REPORTING BURDENS:** The reporting burden is a key element highlighted by many stakeholders and should be looked at both from the perspective of **"what to report" as well as "how to report"**. Implementation support in the form of online tools and databases could significantly reduce the reporting burdens.
- **COLLABORATION WITH THE INDUSTRY:** "Soft law" elements such as **FAQs and guidelines should be prepared in close collaboration with industry and issued with sufficient time for implementation** ahead of application dates." Soft law" should not introduce additional requirements for companies.
- **SAFE HARBOUR:** Given the lack of reliable data, the lack of transposition of CSRD and the severely limited reliability of the forward-looking information that must be produced by banks, we would advocate for a **safe harbour provision at least in the first years of reporting, until corporates' data reach sufficient maturity**.

Taxonomy Regulation related recommendations

- **GREEN ASSET RATIO FOR BANKS (GAR):** The European Commission should assess the added value of the GAR, taking into account the feedback from FIs regarding the experience on the GAR calculation as well as from investors regarding its usefulness in the investment decision process. **If the GAR is maintained, it must be significantly simplified and revised, in particular, its construction and methodology to increase comparability and usability and decrease reporting burden.**
 - **REVIEW OF THE GAR ASYMMETRY:** Exclude SMEs, local governments general lending and non-EU exposures from the GAR denominator.
 - **REMOVE TRADING BOOK AND FEES AND COMMISSIONS KPIS:** We suggest **an urgent quick fix from the European Commission (in Q1 2025)** to ensure financial institutions avoid allocating significant resources to the development of KPIs (entering in force year end 2025) that may be removed as a result of the simplification efforts under Omnibus initiative given its envisaged limited decision usefulness
 - **EXEMPTION FROM DNSH/MSS COMPLIANCE:** Exempt retail exposures and local governments from DNSH and MSS compliance
 - **LENGTH:** Reduce the number of GAR templates
- **SIMPLIFICATION:** Simplify the Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS) compliance for all other entities.
- **COMPLIANCE:** Consider DNSH that refer to or are required by other EU legislation as, in principle, automatically Taxonomy aligned.
- **ALIGNMENT:** Remove requirements to review taxonomy aligned Use of Proceeds exposures. Taxonomy aligned assets should remain aligned throughout their life and not subject to future alignment review (grandfathering).

Corporate Sustainability Reporting Directive related recommendations

- **SCOPE:** Keep **the existing entity scope of the CSRD** to ensure adequate data availability and quality, with the exception of subsidiaries and holdings that are already included in the group reporting and Special Purpose Vehicles (SPVs) that we would suggest excluding from the CSRD scope of application. In addition, we would like to suggest a revision of the thresholds for Small and Non-Complex Institutions (SNCI) so these can report based on a simplified standard (LSMEs).
- **ONCE ONLY PRINCIPLE:** **Avoid overlaps in disclosure requirements** with other EU Regulations, i.e., information should only be reported once. Delete all redundancies including between ESRS.

- **RATIONALIZATION:** Remove all ESRS disclosure requirements which are sector-specific from the sector-agnostic standards. Balance the main body of the ESRS themselves and guideline/guidance documents.
- **CONSISTENCY WITH FINANCIAL SECTOR SPECIFIC REGULATIONS - review consistency with financial sector-specific legislation** such as Capital Requirements Regulation and Directive (e.g. Pillar 3, transitions plans...) as well as ESG data related burden stemming from this sectoral legislation and the indirect impact on corporates
- **VALUE CHAIN: Any simplification must take the entire value chain of financing into account**, otherwise corporates exempted from publication will still be subject to demands by the financial sector which must meet its own requirements stemming from the CSRD, CRD, SFDR. Aligning CRD6 ESG risk management requirements with data required from corporates under CSRD would be considered a major simplification and data collection reduction.
- **SPECIFICITIES OF FINANCIAL INSTITUTIONS: Financial-sector requirements should be better tailored to the specificities of financial institutions. Rather than introducing additional disclosure requirements for the financial services sector**, the sectoral work should focus on sector-specific guidance necessary for the implementation of sector-agnostic standards and adjustments to several ESRS sector-agnostic data points that are not suitable for the banking sector. EFRAG should focus its sectoral work on clarifying a proportionate and practical approach to the value chain for financial institutions, as well as how to assess the materiality of financial sector intermediary business.
- **TRANSITION PLANS:** The EU should **build on existing frameworks**, widely used by financial institutions, in order to harmonize disclosures, reduce burden for companies and ensure global competitiveness.
- **ASSURANCE: Urgent need to provide auditors with guidelines to ensure pragmatic approach to the limited assurance in alignment with ISSA 5000.** In the absence of clear sustainability assurance standards, some audit firms are taking very conservative approaches to interpreting CSRD requirements.

CSDDD related recommendations

- **SCOPE: Remove the review clause** for the inclusion of financial institutions' downstream value chain, given the complexity and the consequences on corporate sectors and SMEs.
- **OF ACTIVITIES:** Define the **business partner only as the direct business partner**.
- **ALIGNMENT:** Consider how **CSDDD could be better aligned with CSRD materiality** such that only impacts identified as material under CSRD should be within the scope of impacts to be addressed under CSDDD.
- **DELETION: Delete the Civil Liability Clause** (Art 29) Penalties shall suffice to ensure performance and punishment for non-performance of due diligence obligations.
- **TRANSITION PLANS ALIGNMENT:** While the prudential transition plans under the CRR pursue

a different objective (risk) from the transition plans under CS3D (substantive obligations) and CSRD (transparency), **the interface between transition plans under CSRD, CRD6 and CS3D shall be ensured** for long-term consistency. **The CS3D requirement to put transition plans “into effect” shall be clarified and aligned with the CSRD provisions.** Reaching 1.5-degree target is dependent on many factors, including outside the control of the financial sector and corporates. Sufficient flexibility should be provided to avoid that banks are forced to cease relationships with clients that do not reach the targets.

- **IMPLEMENTATION GUIDANCE:** Implementation guidance should be in place at least two years before application – if necessary, the application date should be deferred.

Key principles for the review process

We would suggest to the European Commission to consider the following principles in the review process:

1. **Finding the right balance between, on the one hand, information needs of different economic stakeholders to facilitate the achievement of EU objectives and, on the other, reporting burdens.**

A simplification of the regulatory requirements and an increase in their usefulness, usability and practical application should be an overarching aspect and objective of the review. A balanced approach where the most **material and relevant** information across the reporting chain is prioritized would facilitate the implementation of the sustainable finance framework and eliminate unnecessary reporting burden for EU entities.

2. **Consistency of requirements across different pieces of regulation with the objective of eliminating duplications and redundancies and ensuring common definitions.**

The elimination of multiple information requests with the same objective or request for similar information would lead to a reduction of implementation efforts and the cost of reporting. The disclosure of the same or similar information should only be requested once. This would require defining in which legislation/ report the disclosure makes most sense. When deciding where or under which report certain information should be disclosed, consideration should also be given to the level of assurance required for such disclosure. A cross- referencing should be allowed.

3. **Financial-sector requirements should be better tailored to the specificities of financial institutions.**

Banks have different degrees of proximity to counterparties in their value chain and influence

on the impacts that clients have on sustainability matters. The EU Sustainable Finance Framework should be principles-based, proportionate, and practical for value chain scoping that reflects the complexity of financial institutions' business.

4. Ensure the availability of reliable data relevant for the financial industry, and the consistency of reporting requirements in the reporting value chain, including data points and timing.

It is important to ensure alignment between the financial and non-financial industry with respect to data requirements. As banks are dependent on their customers' data, there must be consistency between the reporting requirements of non-financial and financial entities.

Removing (or not requiring) reporting obligations for non-financial entities containing information that is relevant for banks, either to fulfil their own reporting obligations or for risk management/portfolio alignment purposes, would in reality not lead to a reduction of reporting requirements. It would result in a need for bilateral engagement between banks and their clients, thus failing to meet the goal of lessening the burden overall. The risk is that the effort to reduce the reporting burden on companies would be fruitless and, to the contrary, might further increase the reporting burdens on both sides while also hampering consistency and harmonization of data. It is therefore necessary that reporting requirements as well as reductions of disclosure requirements be consistent and symmetrical between financial and non-financial companies.

Please see Annex I for the list of datapoints relevant for the financial sector.

Concerning materiality assessment, materiality in the ESRS should be consistent with the requirements the financial sector is subject to under the SFDR, CRR Pillar 3, and any other future obligations. The financial sector cannot reasonably be expected to retrieve information on a bilateral basis to fulfil its reporting obligations, where the customer has deemed such information to be immaterial.

5. Reducing the cost of calculation, reporting and auditing of individual datapoints – the European Commission should also allow for pragmatic approaches and consider providing common tools that will substantially reduce the cost of individual reporting and increase data availability.

The availability and reliability of corporates' data is not yet at the level that meets the requirements of financial entities, for example, when they manufacture financial products, advise customers and disclose sustainability-related information. The current lack of reliable and comparable ESG data is a key challenge for financial institutions, which often depend on expensive third-party solutions or bilateral engagement with customers. Cost optimization measures should be a priority. The provision of ESG data has positive externalities and should be supported by Member States and the European Commission.

The provision of common datasets (given the ongoing challenges on the use of proxies in

terms of the quality of the data, how it can be validated by public authorities etc.) should be considered where individual data are not yet available, or their provision would be costly.

Recent legislation such as the CS3D and the Directive on the Energy Performance of Buildings (EPBD recast) recognize the importance of this type of support. To simultaneously reduce reporting burdens and comply with increasing regulatory requirements and expectations of supervisors, it is imperative **to swiftly provide broad support measures to companies and financial institutions**. As a first step, we would suggest that public agencies and authorities be encouraged to disclose relevant ESG data centrally, where already collected, to reduce individual information requests for companies.

Dedicated websites, portals, platforms and online tools

- Support should range from the operation of **dedicated websites, portals or platforms** to financial support and facilitation of joint stakeholder initiatives. The provision of ESG data and information such as physical risk maps (distinguishing between acute and chronic events – if kept in CRR Pillar 3), GHG emissions (to effectively build a database with historical measurements), water consumption, EPC certificates available in national administrative databases, alignment of each new type of vehicle to the taxonomy would prove instrumental to achieve the objectives of the Green Deal. Currently, as widely recognized by legislators, supervisors, businesses and financial associations, there is a lack of granular and comparable information on ESG data among economic activities and companies of different sizes.
- A **"whitelist" of companies subject to CSRD which fulfil the "minimum social safeguards"** at the institutional level required for the taxonomy analysis as well as a timely centralized list of companies subject to CSRD would be helpful as it is basic information for the taxonomy reporting of banks.
- The development of public databases (e.g. ESAP) should take place in a timely manner and include ESG data as soon as possible. The reporting requirements, especially for institutions that depend on such data, should be linked to the availability of the data. The fact that the CSRD data will not be included **in ESAP** from the first CSRD disclosure period is not only disappointing but also raises doubts about the accessibility and comparability of ESG data.
- The Directive on the Energy Performance of Buildings (EPBD recast, which still awaits national transposition) provides that each Member State shall set up a national database for energy performance of buildings which allows data to be gathered on the energy performance of the buildings and on the overall energy performance of the national building stock, and that the database shall be publicly accessible. It is of utmost importance to have, as soon as possible, **information on buildings regarding Energy Performance Certificates, Primary Energy Demand** (with national and regional

reference values) **and GPS Coordinates** (to identify physical climate risks). In essence, the implementation of national EPC databases as well as a gradual harmonisation of EPC certification across EU countries, taking into account the differences in primary energy demand in different European regions, are both considered extremely important. Currently, divergent interpretations of GDPR can be observed across Member States when providing access to national EPC databases (e.g., some MS argue that information such as the addresses of buildings qualifies as personal data). It is important to ensure that all banks can access available EPC data to the fullest extent.

- To mitigate the need for bilateral engagement as much as possible, implementation support must be **provided to SMEs** to facilitate the adoption of voluntary standards for SMEs developed by the EFRAG and the streamlined approach developed by the EU Platform on Sustainable Finance. A free-of-charge, user-friendly online tool should be developed by the EU institutions to facilitate the voluntary reporting of non-listed SMEs against such standard to minimize the need for bilateral requests by large companies in their reporting chain, by banks, as well as by public administration.
- **Addressing the digital divide**, especially for SMEs, is crucial to the EU agenda on sustainable development and requires leveraging the potential of technology – such as AI, data analytics, and automation – to simplify ESG data collection, analysis and reporting. This concern, along with the opportunities it presents, should be appropriately considered in future regulatory initiatives.

Data collections, validation and audit of data

- We recommend sustainability audit to take place every 3 years instead of every year.
- Duplication of data collection efforts and requirements for control and validation of data provided should be minimized; especially if, for example, the taxonomy reporting of financial institutions is based on the information provided by the customers.

6. Consistent implementation, reduction of national discretions and gold-plating methods by Member States, which would also contribute to the reduction of reporting costs for cross border institutions.

Discrepancies between different Member States' implementation should be avoided. As a minimum, clarity and transparency on divergences in implementation across jurisdictions would be helpful. National disclosure requirements, if these are being adequately addressed, should also be eliminated to reduce double reporting.

7. Coherence with international standards and commonly used conventions and the provision of reconciliation tables.

- The objective of the coherence of EU reporting requirements with international initiatives

is not only to ensure comparability and a level playing field globally, but also to enable EU entities to report only once and/or avoid costly reconciliation. Comparison tables between major reporting standards facilitate reconciliation efforts where divergences are unavoidable. While we greatly appreciate the work of EFRAG and the ISSB in this regard, we encourage further work between them on an in-depth datapoint comparison, given that the existing interoperability guidance is not detailed enough. This will facilitate global companies to declare compliance with ISSB standards. At the moment companies are forced to run individual data point comparisons at granular level if they want to declare ISSB compliance which is an unnecessary burden and inefficient.

- On transition plans, the EU should build, as much as possible, on existing frameworks, widely used by financial institutions, in order to harmonize disclosure, reduce burdens for companies and ensure global competitiveness.
- Alignment with the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights will facilitate the assessment of the minimum social safeguards due diligence required by the Taxonomy Regulation.
- Broaden the international outlook of EU Sustainable Finance Framework to facilitate financing of non-EU exposures

Specific requests per legislation

Taxonomy Regulation

Article 8 Taxonomy Delegated Act – Green Asset Ratio reported by banks

Given its complexity, high cost (or unfeasibility) of its implementation, lack of comparability and limited use and information value, the usefulness of GAR needs to be reviewed. If the GAR is maintained, as a result of this review, the GAR should be substantially simplified in order to facilitate its calculation and reduce the reporting burden.

We believe that to solve key shortcomings of the current GAR, the following must be addressed:

1. ***Resolving structural asymmetry of the ratio by aligning numerator and denominator as follows:*** The numerator and denominator should consist of **all CSRD companies, Use of Proceeds local government financing, households financing (mortgage, building renovation and motor vehicles loans) and collateral obtained by taking possession and all SPVs and SPEs for which an EU taxonomy alignment rate has been identified, whatever their sponsor or parent company.**

SMEs, local government general lending and non-EU exposures should not be included in the

GAR numerator and should be excluded from the denominator.

Not all SMEs will opt to report under the voluntary standard or respond to engagement, and as some SMEs will continue to lack the resources and/or expertise to be able to provide the information, such limitations should be duly considered. Any further considerations of mandatory obligations for banks to report on their SMEs should be avoided as long as there is no mandatory reporting for SMEs that would cover such information or common set of proxies provided by the EU authorities that could be used by financial institutions where data is not available. The same applies for non-EU exposures, where data are largely unavailable. Public sector entities are also not required to disclose ESG information under the CSRD. In addition, the taxonomy is unclear when it comes to assessing the taxonomy alignment of general lending to local governments. Local governments' general lending should therefore be excluded from the denominator of the GAR.

However, even a fully symmetrical GAR will not be fully neutral given the differing business models amongst banks that would still impact GAR ratios (e.g. banks' exposure to non-eligible activities such as agriculture), so comparability of GARs at face value will still not be possible without understanding banks' business models. This could be addressed by **designing GAR as a metric between aligned taxonomy activities vs eligible taxonomy activities.**

2. Removing the Trading Book and Fees and Commission KPI

The trading book does not reflect a bank's investment strategy but its client's transactions/interest and corresponding hedging positions. The business model of banks is not to invest on own account on the market nor to have speculative strategies. In the same way, the rationale of the fees and Commission KPI, which would show the alignment of clients to whom banks provide services other than financing, seems unclear: what could be the key learning for financial institutions to improve those ratios - stop providing payment services or executing orders on financial markets of clients who are not sufficiently aligned with the taxonomy?

Given the lack of decision usefulness of such KPI to show how banks are allocating capital to the EU Taxonomy aligned activities, we would request the deletion of the KPIs from the reporting obligation. Given the reporting obligation entry into force at year-end 2025, **an urgent removal of this obligation (quick fix in Q12025) is needed** to prevent incremental implementation effort – and cost - otherwise required from banks to prepare for the reporting.

3. Further simplification and reduction of reporting templates

- Limit the number of taxonomy templates by focusing on the most relevant indicators.

- Delete templates that do not provide useful information and are difficult to reconcile the information provided by banks' counterparties with the information required in the templates.
- Significantly reduce the templates on gas & nuclear [only keep those on GAR stock (and not all KPIs)].
- Radically simplify the structure of the remaining templates, for example:
 - Remove the breakdowns into “loans and advances”, “debt securities” and “equity instruments” for each counterparty category.
 - Remove alignment KPIs for additional businesses such as asset management, Insurance and Investment Services in case these are not material.
 - Remove the breakdowns “of which enabling” and “of which transitional” columns, because the information provided is only relevant for non-financial undertakings, that report taxonomy information activity by activity. The information provided by banks is most of the time broken down by types of counterparties. Requiring the information is therefore not useful.
- Align with companies' reporting given that parent entities of counterparties may choose to report data on a consolidated basis for their subsidiaries.

4. *Simplifying the identification of CSRD in-scope entities*

Such simplification could be achieved by publishing a reference list per jurisdiction by public authorities ahead of the CSRD annual report publication deadline. In addition, to facilitate the identification of subsidiary entities included in parent company disclosure, and the usability of counterparties' disclosure itself, entities that report on a consolidated basis should be required to provide a table with all entity names included in the consolidation of the parent's EU Taxonomy disclosures.

5. *Excluding assessment of retail clients and also local governments “Use of Proceeds” loans from DNSH and MSSs*

The DNSH assessment on retail lending is adding limited value to achieving sustainability goals. Applying DNSH criteria to retail loans imposes significant administrative and operational burdens on financial institutions. Regarding individual borrowers, DNSH criteria include such things as such as the water flow of hand basin taps which have undergone renovation. It seems impossible to ask individuals for such information, especially as many companies in charge of renovation are SMEs.

6. *Publication of a single GAR*

Credit institutions are required to report information on their financing towards activities that are taxonomy aligned twice: once under the Taxonomy Regulation and once under Art. 449a of the CRR (CRR Pillar 3 ESG). The disclosure requirements are similar but not

identical and are becoming more divergent over time (e.g. Pillar 3 requirements are only for the 2 climate objectives while Taxonomy Regulation is introducing reporting also for the 4 remaining environmental objectives) constraining banks to calculate and clearly communicate their financing toward taxonomy-aligned activities.

- **Consolidation mismatch:** While CRR Pillar 3 and the Taxonomy Regulation require banks to apply the prudential method of consolidation, the CSRD requires the accounting method. This adds to the complexity in reporting for financial institutions and can potentially result in a misalignment of the disclosures made. In addition, for financial institutions with insurance activities, there will be a need to assess these activities separately.
- **Differences in requirements:** Even for overlapping climate objectives differences in requirements exist, e.g., in relation to households' exposures (simplified approach in Pillar 3, but not in Article 8), the definition of total GAR assets, and the scope of exclusion (Art 8 refers to central governments while Pillar 3 refers to general governments).

The guiding principle should be to report information only once. Therefore, we propose to **remove all GAR and GAR-related disclosures i.e. Templates 6-10 from the Pillar 3 Report** and, should the GAR be maintained after the review, only require reporting under the Taxonomy Regulation. This will also ensure consistency with how EU Taxonomy disclosures are to be made for other reporters – given neither corporates nor other FIs, e.g. insurers, publish Pillar 3 Reports. As explained above, we suggest significant simplification of GAR in such cases, including alignment with the current Pillar 3 methodology where divergences exist. We also suggest reducing GAR publication in the management report.

Based on the current CSRD requirements, the EU Taxonomy templates are to be published in full in the Management Report. Consequently, human readability is made more difficult by the inclusion of such excessive tables. It would be desirable to significantly reduce the information to be published in the Management Report, as we consider the presentation of the tables to be of very limited comprehensibility. We also find this runs counter to the purpose of the annual reporting format, which according to the IFRS standard dictate that only relevant and essential information should be part of the Annual Report. Additionally, the Taxonomy Regulation requires banks to apply the prudential method of consolidation, while the CSRD and the Management Report are based on the accounting consolidation as explained above. Accordingly, similar to the presentation of financial metrics, we propose that only GAR Template 0, including summary of the key GAR KPIs, should be included in the main body of the Annual Report. The overall GAR reporting could be put in the notes to the Annual Report or on the bank's website in Excel format for better useability and limit any potential confusion stemming from consolidation circle differences.

7. Addressing mismatch in the terminology used in reporting (common convention) e.g., in the Taxonomy reporting

Annex VI to Article 8 - the concept of total assets. In the templates for Credit institutions, the column is named Total Gross carrying amount, so in a worst-case scenario, we now introduce total assets = gross carrying amount excluding loan loss provisions and this would not tally to IFRS total assets or FINREP total assets. Hence, there is a large risk of misunderstandings when reading the Taxonomy reporting.

Simplifying the “Do No Significant Harm” (DNSH) criteria and minimum safeguards (MS)

- Consider **DNSH criteria that are otherwise required by other EU legislation as, in principle, automatically Taxonomy aligned**. It requires that national authorities provide a comprehensive mapping of EU legislation against EU Taxonomy requirements. Compliance with DNSH criteria that refer to the EU legislation should not be subject to further due diligence by financial institutions
- **Address usability concerns with the DNSH criteria as part of the climate and environmental delegated acts**
 - Similar to the European Commission Notice “Technical guidance on the application of ‘do no significant harm’ (DNSH) under the Recovery and Resilience Facility Regulation” published in December 2021 to assist national authorities in the preparation of the Recovery and Resilience Plans and to ensure that no measure included in a Recovery and Resilience Plan (RRP) leads to significant harm to environmental objectives within the meaning of Article 17 of the Taxonomy Regulation, national authorities should issue technical guidance on how Taxonomy DNSH criteria can be checked at national level, taking into account legislative acts adopted, as well as the specific characteristics of national databases. In addition, although Member States have the option of relying upon the Technical Screening Criteria (TSC) in the delegated acts under the Taxonomy Regulation when assessing compliance with DNSH, we consider that it would be desirable that, whenever possible, national authorities conceive measures, including public financing solutions, aligned (even if partially) with the Taxonomy criteria, in order to mitigate reporting burdens and to crowd-in private investment.

“Use of proceeds” assets

- **Taxonomy-aligned assets should remain aligned throughout their life and not be subject to future alignment reviews**. The limited five-year grandfathering period for special purpose

lending should be removed. Eliminating grandfathering should also make annual monitoring unnecessary. Taxonomy assessment of mortgage assets should remain unchanged until the end of the financing term. Assessment according to updated Net Zero-Emission Buildings (NZEB) or national criteria should only be required for new contracts and refinancing. This will provide major operational relief. Moreover, it raises some methodological issues (e.g. at the insurance company level, there is no common “turnover” aggregate between investment activities and underwriting activities to calculate a combined KPI). Also, the meaningfulness of a weighted average of KPIs covering different financial activities is questionable. Moreover, there seems to be a contradiction with the DDA, since Annex XI describes only which qualitative information should be disclosed (no obligation to disclose a combined KPI).

- **Use of proceed assets of corporate clients: alignment certificates produced by the borrower in an agreed format should be considered sufficient for banks.**

Corporate Sustainability Reporting Directive – CSRD L1 and L2

Scope

We support the **existing entity scope of the CSRD** to ensure adequate data availability and quality with the following exceptions:

- Reintroduce the **exemption for subsidiary companies** from the sustainability reporting obligation (also for large, listed undertakings) if included in the consolidated reporting of the parent company. The exemption should also be applied for Taxonomy disclosures, meaning that parent companies do not have to report on separate subsidiary KPIs (question 8 in the third Commission Notice) or separately for their business segments (question 7 in the third Commission Notice).
- **Exempt holding companies** from the obligation to report on sustainability if they are the (European) parent company of a large group over which they do not exercise management and coordination activities (e.g. without employees, which do not engage in taking management, operational or financial decisions affecting the group or one or more of its subsidiaries). That exemption is subject to the condition that one of the ultimate parent company’s subsidiaries established in the Union is designated to fulfil the obligations to report on sustainability
- **Remove SPVs from the CSRD scope.**

- **Align the consolidation scope between financial and sustainability reporting.** According to Article 23 No. 9 of the Accounting Directive (2013/34/EU) certain undertakings, including public-interest entities, do not need to be included in consolidated financial statements where the conditions of No. 9 (a) to (c) are fulfilled. Therefore, Article 29a No. 4 of the CSRD (and any associated pronouncements) should be deleted to apply the same logic to the Sustainability Statement.
- **Review the definition of the amount of the total assets** (25 million) threshold on the balance sheet to avoid that the majority of small and non-complex institutions fall within the scope of the CSRD. Compared to healthy non-financial companies - that operate with a leverage ratio (ratio between debt and equity) between 2x and 4x - banking intermediaries by their nature operate with a much higher leverage ratio which, despite respecting of stringent regulatory constraints, generally reaches values between 10x and 20x. As a result, the total assets of a banking intermediary on average express significantly higher (multiple) values than those of a non-banking company, with the effect that the threshold currently present, if not appropriately revisited for operators in the sector, would always end up being surpassed by the majority of banking intermediaries.
- **Ensure all SNCIs can report in a consistent way**, using the exception provided under the CSRD, including SNCIs that are parent companies of a large group . The EU Commission's clarification notice from November 13 2024 (FAQs regarding CSRD - C/2024/6792) Section III point 8 presumes that every SNCI that has a subsidiary (no matter how small) also fulfils the criteria of the parent company of a large group (due to its size) and would therefore have to apply the ESRS and report earlier, from 2026 for the 2025 financial year, instead of benefiting from the exceptions for SNCI created in the CSRD . This clarification disregards the specifics of credit institutions (large balance sheet total) and the consolidated component when categorizing them as SNCIs.

Overlaps, redundancies and inconsistencies

- **Avoid overlaps in disclosure requirements with other EU Regulations**, i.e. information should only be reported once.
- **Delete all redundancies and inconsistencies between CSRD and ESRS as well as between ESRS.** Balance the main body of the ESRS themselves and guideline/guidance documents. **Remove all ESRS disclosures requirements which are sector-specific from the sector-agnostic standards.**

Value chain considerations

Any simplification must take the entire value chain of financing into account, otherwise corporates exempted from publication will still be subject to demands by the financial sector which must meet its own requirements stemming from the CSRD, CRD, SFDR. Also. aligning CRD6

ESG risk management requirements with data required from corporates under CSRD would consider a major simplification and data collection reduction.

Materiality

Companies should have a better opportunity to filter out disclosure requirements through the double materiality assessment (DMA) and only focus on the most material matters. Several large financial and non-financial companies preparing their sustainability reports for the 2024 financial year are finding that auditors and authorities are making it difficult to exclude disclosure requirements. Instead of focusing on making the sustainability reporting relevant and reliable for the primary users, the sustainability reporting therefore becomes an unnecessarily burdensome compliance exercise.

Specificities of the financial sector

- **CSRD lacks a proportionate and practical framework for value chain scoping that reflects the complexity of financial institutions' business.** Banks have different degrees of proximity to counterparties in their value chain and influence on the impacts that clients have on sustainability matters. In the absence of sector-specific guidance and clear sustainability assurance standards, some audit firms are taking very conservative approaches to interpreting CSRD requirements. As a result, obtaining third-party assurance is a major source of administrative burden and costs.
- **Avoid introducing additional disclosure requirements for the financial services sector, e.g. under sectoral ESRS (L2),** and refer to the specific framework already in place for the banking sector. For data already covered by banking regulations (e.g. Pillar 3), we recommend that the CSRD/ESRS does not add new or different obligations.
 - An overarching principle should apply whereby any **data that is already framed by banking regulation (Pillar 3) should be disclosed under CSRD as required by the specific banking regulation** (e.g. Scope 3, emission targets, etc).
 - The sectoral work of EFRAG should instead **focus on addressing challenges with sector-agnostic ESRS** for financial institutions and the specificities of the banking sector.
 - Several ESRS (sector-agnostic) data points are **not suitable for the banking sector**. This is the case, for example, with the requirement to publish emission reduction targets in absolute value, which does not correspond to the methodology developed within the NZBA, after more than 3 years of work.
 - EFRAG should focus on clarifying a **proportionate and practical approach to the value chain for financial institutions and materiality** of a financial sector intermediary business.

- Guidelines and clarification should be **easy to use and generally less complex** to be a tool of support.
 - Guidelines on value chain reporting under the ESRS for financial institutions as well as how materiality of business relations could be assessed (e.g., exposures by outstanding amount, by financed emissions, ESG scores etc.) **will be necessary as soon as possible**.
 - In particular, we need clear and usable definitions of the scope of financial institutions' **value chains**, that should in any case not go beyond the first-tier relationship. A principle-based, proportionate, and practical framework for value chain scoping should be developed and field tested in close cooperation with the financial sector.
 - Further guidance is also needed for non-financial companies, to deliver comparable and consistent **materiality assessments** across the value chain.
 - The transitional relief (currently foreseen for 3 years) should be kept in place until a workable approach is agreed and in place.
 - On transition plans, EFRAG should **build on existing frameworks**, widely used by financial institutions, in order to harmonize disclosure, reduce burden for companies and ensure global competitiveness.
- **Review consistency of CSRD and ESRS with sector-specific legislation such as the Capital Requirements Regulation and Directive (e.g. Pillar 3, transitions plans...) as well as the ESG data-related burden stemming from these sectoral legislation requirements and their indirect impact on corporates**

Examples of ESRS-related inconsistencies with financial sector legislation

- ESRS risk and opportunity definitions are not aligned with other risk management guidelines e.g., the ECB guidelines for climate and environmental risks.
- ESRS and CRR Pillar 3: inconsistencies in data definitions and requirements between high-impact sectors and exposures towards companies excluded from EU Paris-aligned Benchmarks.
- Taxonomy, ESRS, CRR Pillar 3: All include analysis or reporting of energy certificates or energy consumptions and ESRS and CRR Pillar 3 all include scope 3, leading to duplications.

Inconsistencies with other obligations

- Value chain (ESRS 2)– Consistency with the CS3D chain of activities should be considered to avoid that different data need to be collected along the value chain/chain of activities.
- For those companies that must disclose a Corporate Governance Statement there is a redundancy with the Governance-related disclosures in ESRS 2.

Mandate to EFRAG on simplification

Provide EFRAG with an overall mandate to work on streamlining disclosures.

Assurance

Develop pragmatic sustainability reporting assurance standards for limited assurance. In the absence of clear sustainability assurance standards, some audit firms are taking very conservative approaches to interpreting CSRD requirements.

Corporate Sustainability Due Diligence Directive (CSDDD)

Scope - exclusion of financial institutions' downstream value chain

Remove the review clause for inclusion of financial institutions' downstream value chain given the complexity and the consequences of extending the scope to the downstream part of financial undertakings on corporate sectors and SMEs. The regulated financial undertakings are already supervised by different authorities and have to abide numerous regulatory regulations, including anti financial crime regimes. Potential risks in financial services and investment activities should already be covered.

The unintended consequence of an extension of the CSDDS to the financial services downstream value chain including on SMEs in the global value chain and on financing of the transition should be considered. It will require companies to reach out to other companies in their value chain with information requests, contractual assurances, and requests to comply with codes of conduct. Despite the provisions intended to prevent this, we expect SMEs and other out-of-scope companies will be indirectly captured by the requirements through these requests. The provisions in Recital (26) already excludes downstream business partners for regulated financial undertakings. **The provision of the Recital shall be integrated into the definition of "chain of activities" for clarification and the review clause for the financial sector should be removed.**

Chain of activities

Define 'business partner' as 'direct business partner' only and delete the reference to the "indirect business partner". The whole text should be amended in this regard (Art 3, 5, 6, 7 etc.). Rationale: companies do not have contractual relationships with indirect business partners and therefore can only exercise their power of influence over direct business partners. Companies face significant litigation risks under the Directive, particularly in light of private rights of action and

loosely defined terms such as ‘stakeholders’ and ‘substantiated concerns’ This creates compliance burdens and adversely impacts the attractiveness of doing business in the EU.

Civil Liability

Delete the Civil Liability Clause (Art 29). The uplift required for implementing CSDDD rules and guidance, and to mitigate the legal risks stemming from the civil liability regime as defined should not be underestimated. Penalties shall suffice to ensure performance and punishment for non-performance of due diligence obligations.

Controls

Limit the number of controls to be conducted with business partners (Article 10): request, through contractual provisions, that the company adhere to its own Code of Conduct (modifying Article 10, paragraph 2b), or perform verifications based on this Code of Conduct. Otherwise, there is a risk of interference in the company's activities.

Clarification

Clarify definitions of substantiated concern, complainant, claimant and stakeholders prior to transposition.

Alignment

- **Consider how CSDDD could be better aligned with CSRD materiality** such that only impacts identified as material under CSRD should be within the scope of impacts to be addressed under CSDDD. This is to avoid duplicative efforts, improve the accessibility, comparability and usability of disclosures.
- While the prudential transition plans under the CRR pursue a different objective (risk) from the transition plans under CS3D (substantive obligations) and CSRD (transparency) **the interface between transition plans under CSRD, CRD6 and CS3D needs to be ensured for long-term consistency.** A positive effort has been made in that direction under the CS3D, whereby CSRD-companies which publish a transition plan will not have to do so under the CS3D. **However, the CS3D requirement to put transition plans “into effect” shall be clarified and aligned with the CSRD provisions.** As a minimum, underlying requirements, assumptions and methodologies need to be aligned to avoid liability risk, increased compliance burden, and lack of unique reference to align with internal risk management and steering. For example, article 22 point 1.a) of the CS3D imposes targets in absolute value for scope 1, 2 and 3. We propose to suppress the level 1 demand of this specific metric, and to adapt in the level 2, to provide the financial sector to report targets in the way they are managed.

Updates and evaluations

- While we welcome transition plans, to simplify the enormous efforts behind such a plan, an **update should happen every 36 months, not 12 months**. Rationale: 36 months is in line with the industry practice of NZBA for example and corporates and banks are only starting to implement transition plans. Given the complex work behind such a plan, sufficient time for updates should be provided.
- Limit periodic evaluations (Article 15) to once every two years, regardless of the situation to avoid excessive obligations.

Implementation Guidelines

Implementation guidance should be in place at least two years before application – if necessary, the application date should be deferred.

Annex : The availability of data relevant for the financial industry

A. List of datapoints necessary for the financial industry to fulfill their own reporting obligations

- *The NACE code of the principal activity of the group and of each subsidiary: For the current reporting, for example, a level of detail of up to four digits is required for the NACE code (cf. ESG Template 1 NACE D35.11)*
- *Breakdown of revenues, Capex/Opex per economic activity/NACE code*
- *Scope 1-3 GHG emissions reduction targets (short, medium and long term), and aligned with European climate targets, with at least 2030 and 2050) adopted to address climate-related impacts and support a low-carbon economy. In case the company has set climate-related targets, if they are compatible with limiting warming to 1.5 degrees / well below 2 degrees*

*With specific reference to **alignment between the ESRS and CRR Pillar 3 reporting**, it will be important to retain the following quantitative information disclosures **in the ESRS as mandatory data points (not subject to materiality assessment)** in order to ensure banks' possibility to report under CRR Pillar 3:*

1. *Breakdown of total revenue by significant ESRS sectors (ESRS 2)*
2. *Statement indicating whether the company is excluded from the Paris Aligned Benchmarks (ESRS E1)*
3. *Statement indicating, together with the related revenues, whether a company is active in the fossil fuel (coal, oil and gas) sector, i.e., it derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade of fossil fuels (ESRS 2)*
4. *Breakdown of the carrying value of companies' owned real estate assets, or at least buildings used as loan collaterals, by energy-efficiency classes (ESRS E1). It is important that the information provided includes both the ranges of energy consumption in kWh/m² and the EPC (Energy Performance Certificate) label class (and not just one of these information as currently required by the ESRS E1). Companies should also disclose whether the information provided is an estimate.*
5. *Scope 1, 2, 3 GHG emissions (ESRS E1)*
6. *Potential financial effects from material physical risks, including the location of significant assets at material physical risk (aggregated by NUTS codes 3 level digit when the asset is localized in Europe or equivalent for assets outside the EU) (ESRS E1). Furthermore, the meaning of potential financial effects should be defined at EU-level.*
7. *Information on assets/companies in the value chain that are subject to physical risks is*

also necessary (ESRS 2: “When describing where in its value chain material impacts, risks and opportunities are concentrated, the undertaking shall consider: geographical areas, facilities or types of assets, inputs, outputs or distribution channels”).

On top of the above, banks will **need additional information to report under CRR Pillar 3** and we would therefore suggest the following disclosures to be reported under the CSRD to avoid the need for bilateral engagement:

1. Turnover/revenues segregation with the same level of sectoral granularity as detailed in Template 1 and Template 3 (NACE code digit 2, 3 or 4 depending on the sector)
2. Amount of capex and turnover derived from activities aligned with the climate mitigation objective broken down by the NACE codes indicated in template 1.
3. % of turn-over/revenues derived from activities excluded under the Benchmark Regulation, incl.:
 - Exploration, mining, extraction, distribution or refining of hard coal and lignite (incl. B.05.10 Mining of hard coal; B.05.20 Mining of lignite; C.19.10 Manufacture of coke oven products - EFRAG draft ESRS SEC 1 Coal Mining sector)
 - Exploration, extraction, distribution or refining of oil fuels (incl. B.06.10 Extraction of crude petroleum; B.09.10 Support activities for petroleum extraction - EFRAG draft ESRS SEC 1 Oil and Gas - Upstream and Services sector + C.19.20 Manufacture of refined petroleum products; G.47.3 Retail sale of automotive fuel in specialised stores - EFRAG ESRS SEC 1 Oil and Gas – from Midstream to Downstream sector)
 - Exploration, extraction, manufacturing or distribution of gaseous fuels (incl. B.06.20 Extraction of natural gas; B.09.10 Support activities for natural gas extraction EFRAG draft ESRS SEC 1 Oil and Gas - Upstream and Services sector + G.46.71 Wholesale of solid, liquid and gaseous fuels and related products; H.49.50 Transport via pipeline - EFRAG draft ESRS SEC 1 Oil and Gas – from Midstream to Downstream sector; D.35.21 Manufacture of gas; D.35.22 Distribution of gaseous fuels through mains; and D.35.23 Trade of gas through mains - EFRAG draft ESRS SEC 1 Power production and Energy Utilities sector)
 - Electricity generation with a GHG intensity of more than 100 g CO₂ e/kWh (incl. D.35.11 Production of electricity - EFRAG draft ESRS SEC 1 Power production and Energy Utilities sector)
4. Alignment metrics, including actual and targeted GHG emission intensity per sector- specific production unit. All companies that operate in sectors listed in Template 3 should be required to disclose carbon alignment metrics. Please see below metrics used to align loan portfolios with the objectives of the Paris Agreement and on which banks are required to fill in Template 3 by June 2024 (including measuring the alignment of each sector with its benchmark IEA NZE2050 scenario):
 - **Power**
 - NACE codes and EFRAG draft ESRS SEC 1 sector: D.35.11 Production of electricity - Power production and Energy Utilities sector

- **GHG emission intensity in tons (t) CO₂-e per MWh (at least scope 1 and scope 2)**
 - **Fuel mix: share of power generation from each fuel source (% of MWh produced from coal, oil, gas, nuclear, renewables)**
- **Oil and Gas upstream**
 - *NACE codes and EFRAG draft ESRS SEC 1 sectors: B.06.10 Extraction of crude petroleum and B.06.2 Extraction of natural gas - Oil and Gas - Upstream and Services sector + D.35.21 Manufacture of gas - EFRAG draft ESRS SEC 1 Power production and Energy Utilities sector*
 - *Metrics:*
 - **GHG emission intensity in tons (t) CO₂-e per mega joule (MJ) (scope 1 and scope 2, scope 3 could also be reported but separately from scope 1 and 2)**
 - **Absolute scope 3 GHG emissions (present and forward-looking). Absolute scope 1 and 2 GHG emissions could also be reported but separately from scope 3.**
 - **Oil and gas production trend (i.e. targeted volumes of extraction and production)**
- **Oil and Gas midstream and downstream**
 - *NACE codes and corresponding EFRAG draft ESRS SEC 1 sectors: C.19.20 Manufacture of refined petroleum products - EFRAG draft ESRS SEC 1 Oil and Gas – from Midstream to Downstream sector + D.35.22 Distribution of gaseous fuels through mains and D.35.23 Trade of gas through mains - EFRAG draft ESRS SEC 1 Power production and Energy Utilities sector*
 - *Metrics:*
 - **GHG emission intensity in tons (t) CO₂-e per mega joule (MJ) (scope 1 and scope 2, scope 3 could also be reported but separately from scope 1 and 2)**
 - **Absolute scope 3 GHG emissions (present and forward looking). Absolute scope 1 and 2 GHG emissions could also be reported but separately from scope 3.**
- **Coal**
 - *NACE codes and corresponding EFRAG draft ESRS SEC 1 sectors: B.05.10 - Mining of hard coal and B.05.20 - Mining of lignite - EFRAG draft ESRS SEC 1 Coal Mining sector*
 - *Metrics:*
 - **GHG emission intensity in tons (t) CO₂-e per mega joule (MJ) (scope 1, 2, 3)**
 - **Thermal coal production trend (i.e., targeted volume of extraction and production)**

- **Aluminium**
 - NACE codes and corresponding EFRAG draft ESRS SEC 1 sectors: C.24.42 - Aluminium production - EFRAG draft ESRS SEC 1 Metal Processing sector
 - Metric: **GHG emission intensity in tons (t) CO₂-e per ton (t) of aluminium (scope 1 and scope 2)**
- **Cement**
 - NACE codes and corresponding EFRAG draft ESRS SEC 1 sectors: C.23.51 - Manufacture of cement - EFRAG draft ESRS SEC 1 Construction Materials sector
 - Metric : GHG emission intensity in tons (t)CO₂-e per ton (t) of cement (scope 1 and scope 2)
- **Iron and Steel**
 - NACE codes and corresponding EFRAG draft ESRS SEC 1 sectors: C.24.10 - Manufacture of basic iron and steel and of ferro-alloys and C.24.20 - Manufacture of tubes, pipes, hollow profiles and related fittings, of steel and C.24.34 - Cold drawing of wire - EFRAG draft ESRS SEC 1 Metal Processing sector
 - Metrics:
 - GHG emissions Intensity in tons (t)CO₂-e per ton (t) of iron and steel produced (scope 1 and scope 2) and scope 3 (category 1 and 10)
 - Scrap Charge as defined by the Sustainable Steel Principles [see [sustainable steel principles framework.pdf](#) ([climatealignment.org](#)) page 16]
- **Automotive**
 - NACE codes and corresponding EFRAG draft ESRS SEC 1 sectors: C.29.1 - Manufacture of motor vehicles; EFRAG draft ESRS SEC 1 Motor Vehicles sector
 - Development of publicly available databases to compute the baseline with the gCO₂e/passenger-km metric (e.g. average passenger per car and equivalent part of the emission (“e”) is needed, since EPA value are not considered equivalent emissions)
 - Metrics:
 - Tailpipe GHG emissions intensity in gCO₂e/passenger-km (passenger transport) or gCO₂e/km (freight transport)
 - Share of high carbon technologies (ICE) and electric vehicles (EV) sales over total sales
- **Shipping / maritime transport**
 - NACE codes and corresponding EFRAG draft ESRS SEC 1 sectors: H.50.10 and H.50.20 Sea and coastal passenger/freight water transport; EFRAG draft ESRS SEC 1 Other Transportation sector and H.50.30 and H.50.40 (inland water transportation (passenger/freight))

- Metrics:
 - Emissions intensity in gCO₂e/passenger-km (passenger transport) or gCO₂e/MJ (freight transport) Public database should be available to compute the baseline
 - GHG emission intensity of the vessel relative to decarbonization trajectories
- Aviation
 - NACE codes and corresponding EFRAG draft ESRS SEC 1 sectors: H.51.1 - Passenger air transport and H.51.21 - Freight air transport - EFRAG Other Transportation sector
 - Metric:
 - GHG emission intensity in gCO₂-e / per passenger-kilometer

With specific reference to alignment between the ESRS and Sustainable Finance Disclosure Regulation (SFDR) reporting, the ESRS includes the following information necessary for financial institutions to comply with the SFDR:

1. GHG emissions (scopes 1, 2 and 3)
2. Carbon footprint
3. Monetary GHG intensity (tCO₂e/M€ of enterprise value)
4. Activities in the fossil fuel sector
5. Share of non-renewable energy consumption and production
6. Energy consumption intensity
7. Activities negatively affecting biodiversity-sensitive areas
8. Emissions to water
9. Hazardous waste and radioactive waste ratio
10. Violations of UN Global Compact principles and Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
12. Unadjusted gender pay gap
13. Board gender diversity
14. Exposure to controversial weapons (anti- personnel mines, cluster munitions, chemical weapons and biological weapons)

However, ESRS is subjecting these datapoints to materiality assessment which may lead to non-availability of the data and the need to either collect the data bilaterally or use of proxies where possible. **We therefore believe the materiality concept should be aligned and FIs should not be required to report data that are not considered material by companies. This should be considered in the upcoming SFDR review.**

PAI related solely to real-estate investments are not included in the ESRS. Nevertheless, it will be important that companies also disclose those, depending on their sector:

- Exposure to fossil fuels through real estate assets
- Exposure to energy-inefficient real estate assets

B. CSRD data relevant for banks from the risk management perspective

Irrespective of any reporting obligation for banks, the following climate and biodiversity datapoints of the ESRS E1 and ESRS E4 are considered the most relevant for the banks from the risk management perspective:

Assessment of inherent risk:

- To assess physical climate-related risk drivers, banks need **granular information on the locations and significance of their counterparties' assets**.
- To assess transition-related climate risk drivers, banks would require **datapoints on emissions (scopes 1, 2 and 3) as well as the production output associated with those emissions**.
- For biodiversity & ecosystems-related disclosures, **quantitative information, such as analysis and assessments covering material geography-level impacts and sensitivity on the associated risk drivers** are seen as useful information. Banks also generally consider relevant and useful to understand whether any **land use or site-specific locations have been identified as having a negative biodiversity-related impact or being highly dependent on certain ecosystem services**.

Risk mitigation actions:

- **CSRD requirements across climate-transition, physical and biodiversity & ecosystems-related disclosures associated with transition plans both at a portfolio and customer level** are assessed as a key component for banks' risk mitigation assessment. Banks' own transition plans function as an aggregate of these plans, thus mirroring their underlying quality.
- **Information and datapoints associated with counterparties' transition planning** are assessed as key for both climate- and biodiversity & ecosystem-related aspects.
- In addition, detailed information on **insurance coverage and business continuity planning** is considered helpful to assess the possible mitigation of existing physical risk drivers.

Financial materiality of the residual risk:

- Banks are required to assess the financial materiality of the residual risk; thus, the overall result would benefit from a quality assessment conducted by the corporates themselves, as **the information on counterparty revenues, cost projections, and as the value of potential stranded assets are considered necessary**; - especially in the loan origination

and monitoring processes of banks.

- While the analysis across the industry for biodiversity & ecosystem-related disclosures require further maturity, the **details of existing assessments remain highly important.**
- Banks would expect corporates to provide further information on the **remaining uncertainty within the conducted analysis and assessment.**

Information on the methodology of the performed assessment:

- Where corporates disclose information on assessments of the **effects of transition and physical risk factors, banks would also benefit from information on the scope of the analysis (including at least the key risk drivers considered), the associated time horizons, the materiality of those factors, and the scenarios that were applied when performing the analysis**
- Overall, the same conclusions and request for granular information consider both climate and biodiversity & ecosystems-related disclosures.

Assessment of the transition plans of corporates (based on structured data)

- Established **science-based GHG emissions reduction targets.**
- Identified and implemented **decarbonization levers with quantifiable reduction goals.**
- Secured **investment and funding needed** to support the roll out of the transition plans.
- Assessed any **locked in GHG emissions.**
- **Embedding transition plan in the overall business strategy and financial planning** of the institution.
- Obtained **approval from the Board.**
- **Alignment of the plan with climate risk management and integrating into the governance framework.**

Please see the below table of ESRS E1 and E4 requirements with relevance based on 3 tier system:

1. *Datapoints & metrics received through counterparty CSRD disclosures identified as most relevant for banks to apply within risk management processes*
2. *Datapoints & metrics received through counterparty CSRD disclosures identified to be relevant, but not the most important metrics for banks to apply within risk management processes*
3. *Datapoints & metrics received through counterparty CSRD disclosures identified to be useful, but would be complementary information for banks to apply within risk management processes, such as customer credit risk assessments, transition plans and scenario analysis & stress testing.*

Risk mitigation actions	Mitigative actions within the Credit risk area are described as the tools necessary for banks to effectively manage the risks associated with their counterparties. As mentioned in the ECB Guide (2020), expectation towards effective risk migration covers risk appetite (expectations 4.1, 4.2) and through associated reporting and data governance (expectation 6.1) to name a few. To support their credit risk decision-making, banks can deploy a range of mitigation actions and tools. Effective risk mitigation practices can also be established by the counterparties themselves through policies, procedures and overall risk management practices, such as transition planning. Banks' internal mitigation is established through concrete credit policies, continuous credit worthiness assessment, portfolio diversification and collateral management, such as loan-to-value ratios. Finally, the relationship between climate- and biodiversity-related expectations is expected by supervisory authorities, as mentioned in the ECB Guide (2020) ³ .	E1-1: 14 – 17 E1-3: 28 – 29c iii E1-4: 32 – 34a + 34b, 34e – 34f E1-7: 58a-AR60, AR62a	62 E1-4: 34b, AR25a, AR25b E1-7: 56a – 58a, 58b – AR61, AR62b – AR 61c	E1-4: 34c	E4-1: 13a-13f		
Financial materiality of the residual	The concept of materiality is increasingly important and granular assessments and incorporation to risk management framework is required through the ECB Guide (2020) (expectation 7.2, 9.1, 13.1) across the prudential risk categories. Residual in the context of financial materiality relates to the remaining risk exposure and tail risks, after considering all mitigating actions and natural mitigation relative to the gross risk exposure. Residual tail risks can be very significant for counterparties such as highly leveraged institutions in which solvency, liquidity or both are closely dependent on overall portfolio performance. ⁴	E1-9: 66d, AR73a, 67d, 67e (1), AR76	E1-9: AR73b, 67e (2-7), 68a – 69b	E1-9: AR71b, AR76, AR76b	SBM-3: 48d E4-6: 45a-45c		E4-1: AR 1a-AR1k
Information on the methodology of the performed assessment	Banks have internal approaches to customer engagement, specific to each company but due diligence processes are often the starting point for such relationships, functioning as a critical component of counterparty risk	E1.SBM3-3: 18 – AR 11c	E1.IRO-1: AR11d – 21, AR12c, 21 - AR15		IRO-1: 17a, 17b and 17d	E4-5: 38	IRO-1: 18a-18c E4-5: AR 27a-AR 27j

³ [ECB Guide on climate- and environmental risks \(2020\)](#).

⁴ Basel Committee on Banking Supervision (BIS) Guidelines for counterparty credit risk management: <https://www.bis.org/bcbs/publ/d574.pdf>.

	management. The ECB Guide (2020) refers to the documentation of the assessments (expectation 1.1) in terms of the risk environment (business environment scanning) and within the strategic decisions (expectation 2.1). Aspects to consider at this step include, but are not limited to, understanding the level of risk for a counterparty and how these processes are operationalized.	E1.IRO-1: 20c – AR12b, AR12d	E1-2: 24, 25, 62 E1-4: AR30c E1-9: AR69a, AR72a,b				
--	--	------------------------------	---	--	--	--	--