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Position Paper

AFME High-Level Feedback on ESRS-40a

4 November 2026

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on EFRAG's ESRS-40a Exposure Draft ("the Exposure Draft"). AFME is the voice of the leading banks in Europe's financial markets, providing expertise across a broad range of regulatory and capital markets issues. We represent over 150 leading global and European banks and other significant market players. Our response reflects members' experience as preparers and users of sustainability reporting globally.

We welcome efforts made in the Exposure Draft which are intended to enable companies reporting under ISSB standards, or a jurisdictional reporting framework, to leverage that reporting and focus ESRS-40a reporting on EU impacts. It is important to provide a workable approach which minimises duplication of reporting and operational challenges for such companies, while meeting the objective of ESRS-40a in providing transparency over EU impacts and a level playing field.

Although most AFME members already report, or are preparing to report under the ISSB standards or another jurisdictional sustainability reporting framework, ESRS-40a would introduce a considerable incremental reporting requirement for those preparers. Readiness for ISSB reporting, which is focused on financially material sustainability-related risks and opportunities, does not in itself provide the systems, processes or capacity required to identify and report material impacts in the format required by ESRS-40a. EFRAG should recognise this additional burden in the final standard and provide workable mechanisms, including the mixed approach and incorporation by reference, supported by an adequate and proportionate supervisory transition period.

Our response highlights the following key recommendations:

- **Clarify the role of contextual information in an impact-materiality context.** Financial information should be required only when necessary to understand sustainability information reported under ESRS-40a. Preparers should also retain discretion as to the nature and the level of contextual information provided based on what is relevant to understanding of their material impacts and the reporting boundary applied.
- **Retain the mixed approach, with workable boundaries.** AFME supports the voluntary option to report EU-related impacts at topic, sub-topic or group-of-impacts level, including social and human rights impacts. Customer-based impacts should be defined by products and services actually sold or provided in the EU through EU-incorporated subsidiaries or branches, and location-based impacts as EU operations and their direct upstream value chains. We also recommend removing 'meaningful identification' as a precondition, and allowing the use of internal methodologies, estimates and assumptions for defining the reporting boundary.

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Reporters should disclose the methodology for determining EU-related impacts alongside a mapping listing the topics, sub-topics or groups of impacts to which the mixed approach has been applied, to enable users to understand the scope of reported impacts, ensuring transparency and comparability.

- **Clarify fair presentation when applying the mixed approach.** Fair presentation should not preclude the use of the mixed approach and should be applied based on the relevant reporting boundary.
- **Enable interoperability and meaningful incorporation by reference.** We strongly support removing restrictive conditions that prevent firms from effectively re-using existing public sustainability disclosures, including voluntary disclosures prepared under ISSB Standards, EU subsidiaries' ESRS statements, and the underlying materiality assessments supporting those disclosures. The same flexibility should extend to transition plans prepared under other recognised global or jurisdictional frameworks. Similarly, the practical use of incorporation by reference should not be undermined by overly prescriptive assurance conditions and digital tagging requirements.
- **Provide flexibility for EU-derived concepts**, by allowing preparers to use EU definitions where feasible and applicable, or local or internationally recognised equivalents that achieve the same or a similar outcome.
- **Embed value chain proportionality.** Given the lack of a value-chain cap, it is important to limit disproportionate value-chain information requirements under ESRS-40a to provide a level playing field with companies reporting under full ESRS.

We encourage EFRAG to give due consideration to the recommendations outlined above as it finalises its advice to the Commission. Doing so would help ensure that the ESRS-40a achieve their objectives while strengthening proportionality, connectivity and operational feasibility.

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