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Association for Financial Markets in Europe

AFME views on Sustainability Omnibus proposals

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AFME strongly supports the initiative to streamline the EU sustainable finance regulatory framework, ensuring that it focuses on mobilising capital for the transition while minimising regulatory burdens. It is essential that the EU regulatory framework enables banks' role in helping finance the transition and that it works in a way that supports the growth and competitiveness of the EU economy.

The European Commission's proposals to amend CSRD, CSDDD and the EU Taxonomy are an important start to this endeavour, but do not currently address key challenges faced by banks under CSRD and Taxonomy reporting.

Further work is required to provide certainty to companies, address challenges for the first wave of companies reporting under CSRD, and to review the impact of the reduced CSRD scope on regulation of the financial sector. The latter is needed to avoid mandatory reporting for smaller companies being replaced by bilateral requests that banks would need to make in order to meet regulatory and supervisory requirements. In addition, the simplification efforts on the EU Taxonomy need to be scaled up.

Our recommendations, detailed below, are therefore aimed at co-legislators' deliberations on the current proposals, as well as other steps that we consider necessary to achieve the Commission's simplification and competitiveness goals. Alongside this paper, we have provided detailed feedback on the Commission's proposed amendments to the EU Taxonomy delegated acts, available here.

Address uncertainty and timely simplification for all companies

We strongly support the objectives to simplify requirements and provide certainty to companies as soon as possible to avoid them having to expend further resources on the implementation of rules that will be changed.

Timely agreement on the "stop the clock" proposal is essential to provide certainty to wave 2 and wave 3 companies. **The proposed deadline for transposition of this amending Directive should be brought forward as early as possible**, well before December 2025, to provide certainty to these companies, particularly in relation to reports for FY 2025.

It is also essential to address the position of first wave reporters under the existing CSRD. These companies face significant uncertainty with potential continued application – possibly for several years – of reporting under requirements that have been acknowledged to be overly burdensome and which will be subject to change. They face a patchwork of requirements across the EU given the lack of transposition in a number of Member States. Furthermore, based on the Commission's proposal, companies currently included in the first wave (with >500 but <1,000 employees) will be required to report but will subsequently be removed from scope in the future.

It is therefore important to provide relief to all companies to avoid them having to implement further costly changes. Under the Commission's proposals, first wave companies will see no benefits until the streamlined ESRS, the limited assurance guidelines and the adapted VSME standard are all in effect, and the substantive Omnibus amendments are fully transposed. They will face continued uncertainty and burdensome requirements, potentially for several years. It is therefore necessary to provide timely relief to large companies which would remain subject to CSRD.

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In light of the ongoing uncertainty and uneven transposition across the EU, we consider it important to take a pragmatic approach to enforcement and to put in place measures to support companies and reduce reporting burdens pending the full implementation of the Omnibus and revised ESRS. Auditors should be given clear direction in support of the simplification objective, transitional relief should be extended and the introduction of data points which are due to be phased in[1] should be suspended.

In addition, as set out below, we call for **a clear roadmap** setting out the timeframe, process and governance for the review of the ESRS, ensuring that streamlined reporting requirements are in place as soon as possible.

Build upon proposals to streamline the CSRD

The co-legislators should build upon the proposed amendments to the CSRD to address the following:

- **Amend the subsidiary exemption** to ensure that subsidiaries (including those with listed securities) which are part of a group subject to CSRD, do not have to publish entity-specific CSRD reports. These reports are duplicative and do not enhance transparency for investors. This cost intensive process involves performing multiple double materiality assessments at the group and subsidiary levels (and redundant additional reporting of policies and actions at the subsidiary level when sustainability strategy and policies are generally set at the group level) increasing the costs involved to comply with CSRD with no added benefit.
- Timely and robust review of the ESRS will be fundamental to achieving the intended aim of streamlining and simplifying reporting requirements. **It is essential to provide clarity on the timing, process and governance of the review of the ESRS.** The representation of industry practitioners and investors in the body tasked with revising the ESRS should be strengthened. There should be opportunities for stakeholders to provide input and enhanced transparency on how such input is reflected in the revised ESRS. Both the European Parliament and the Council should exercise scrutiny over this process to ensure that it delivers on the simplification objectives.
- **It is vital that the simplified standards are developed in close collaboration with industry practitioners, address challenges highlighted by financial institutions and improve alignment with ISSB standards.** We welcome that the Commission "will provide clearer instructions on how to apply the materiality principle, to ensure that undertakings only report material information and to reduce the risk that assurance providers inadvertently encourage undertakings to report information that is not necessary or dedicate excessive resources to the materiality assessment process."[2] The transitional provisions for specific datapoints and value chain reporting should also be extended until the revised ESRS are in place and comprehensive sectoral guidance on value chain reporting is provided. It is also important for the review to take into account sectoral specificities in light of the proposed removal of sectoral ESRS. The "digital taxonomy" and requirement to prepare sustainability reporting in electronic format should also be aligned with the revisions to the ESRS. We look forward to providing further input into the ESRS review including areas that need to be addressed for the financial sector.
- Clarify the "value chain cap" to provide that all companies subject to CSRD, including third-country undertakings reporting under Article 40a, have no obligation to collect data from companies not subject to CSRD for the purposes of their CSRD reporting and that the data collection for CSRD reporting purposes should be limited to publicly available data. Currently, the proposal appears to imply an expectation on companies within scope to request data from smaller companies under the

[1] See ESRS 1 General Requirements, Appendix C
[2] Explanatory Memorandum to proposal to amend CSRD and CSDDD

voluntary standard, making reporting de facto mandatory for such companies. Companies which have to publish reports should not be required to estimate information to close this data gap. As discussed below, it is also essential to review banks' Pillar 3 ESG disclosure and ESG risk management requirements in light of data gaps arising from the reduced scope of CSRD.

- There is currently a misalignment between EU and third country undertakings in the scoping criteria for CSRD. The scope for subsidiaries of third country undertakings under the amended Article 40a(1) of the Accounting Directive should be aligned with the scope criteria for EU undertakings and limited to large subsidiary undertakings with more than 1,000 employees. The Commission proposal does not introduce this new employee threshold for such companies, but retains it at 250 employees, creating misalignment with EU groups under Article 19a.
- Amend the requirement to allow entities that are not subject to consolidated financial reporting not to be subject to consolidated CSRD reporting under article 29a. Without this, certain holding companies which are exempt from consolidated financial reporting may be subject to consolidated CSRD reporting.

Review financial sector regulation in light of the Omnibus

It is important to urgently review relevant aspects of financial sector regulation including Pillar 3 ESG reporting and ESG risk management requirements in light of the proposed reduction in scope of the CSRD and changes to Taxonomy reporting. Effective risk management is vital; however, the implications of the proposed significantly reduced scope of companies subject to mandatory sustainability reporting need to be taken into account.

Such holistic review is necessary to achieve simplification objectives, avoid banks reporting different Green Asset Ratios (GARs) under different regulation, and avoid "trickle-down" effects on companies due to data gaps. If banks continue to be required to request data from their clients that will no longer be disclosed due to the reduced scope of CSRD reporting, those companies will not benefit from the intended simplification and could face increased burdens because reporting will be replaced by bilateral requests.

In addition, the review should remove Taxonomy disclosures, including the GAR and BTAR, from Pillar 3 ESG disclosures. The Taxonomy is not designed, and should not be used, as a risk management tool. The GAR and BTAR are not risk metrics and therefore should not be included in Pillar 3 disclosures.

It is also important to take swift action to mitigate meaningless reporting and avoid banks having to implement further requirements which will be reviewed:

- **If not removed, the GAR templates under banks' Pillar 3 ESG reporting should be paused** pending the outcome of the review of the Pillar 3 ESG ITS, the full review of the GAR under EU Taxonomy reporting and the review of Taxonomy technical screening criteria. In the absence of this, banks would potentially have to publish four different GARs with different methodologies: (i) under the existing Disclosures Delegated Act (DDA); (ii) under the existing Pillar 3 ITS; (iii) a revised GAR under the Commission's proposed amendments to the DDA; and (iv) a different GAR following the full review of the DDA. This would be extremely confusing, meaningless for investors and create significant burdens for banks in having to implement multiple changing methodologies.
- **The application of the EBA guidelines on ESG risk management (which are due to apply from January 2026) should also be paused** while they are reviewed to take account of the changes to CSRD reporting and the resulting impacts on the EBA's assumptions on the future availability of ESG

data[3] across value chains. It is important to learn the lessons of the past lack of appropriate sequencing of regulation to ensure a coherent framework and align implementation timelines of the revised CSRD and ESRS with financial sector regulation.

In addition to reviewing the regulatory requirements, it is important that supervisors acknowledge the implications of the simplification proposals and take a pragmatic and proportionate approach to supervision.

We would welcome a dialogue with the European Commission, EBA and ECB to discuss the implications of the Omnibus further, to ensure that banks are able to effectively manage risk while minimising burdens for banks and their clients.

Further simplification of Taxonomy reporting

The Omnibus proposals do not address the concerns that banks have raised with Taxonomy reporting. It is important to go further to remove reporting requirements which are not providing meaningful information and which create significant burdens for banks and their clients.

- We continue to strongly believe that the Green Asset Ratio does not provide meaningful information. This is now widely acknowledged yet not reflected in the Commission's proposals. GAR reporting entails a very significant operational exercise for banks, requiring detailed information from clients, counterparties and investee companies. In addition to requiring very substantial resources for banks, it also creates burdens for their clients in providing the required information. In the future, due to the reduction in companies in scope for Taxonomy reporting, the burden for clients may lessen - but this will entail an even less pertinent GAR. Even if the GAR calculation methodology is improved, this KPI will always remain sensitive to each company's business model and therefore not be comparable across the economy. **We do not believe that these elements have been sufficiently considered and strongly encourage Member States and the European Parliament to consider extending the proposed voluntary Taxonomy reporting to remove all mandatory Taxonomy reporting for credit institutions.**
- **If the GAR is not removed through the Omnibus proposals, at a minimum it is essential to suspend its application (under both the Taxonomy and Pillar 3 reporting) pending the outcome of the full review of the DDA and the review of Taxonomy technical screening criteria**. There is no value in requiring banks to disclose a GAR under a temporary new calculation methodology which will change in the future, as the Commission has proposed. This would create burdens for banks and their clients without benefit, as well as confusion for investors who will see year-on-year non-comparable GAR numbers. Furthermore, as we highlight in our feedback[4] to the Commission's draft Delegated Regulation, the proposed temporary adjustments to the GAR do not bring substantial simplification and changes to the methodology give rise to operational challenges.
- **The additional KPIs for the Trading Book and Fees and Commissions due to take effect from 1 January 2026 should be removed rather than merely postponed**. The Commission has acknowledged the "burden associated with reporting on activities that are not relevant and decision useful" with respect to these KPIs.[5] We continue to believe that they should be removed permanently as they are expected to lead to significant administrative reporting burdens for banks without benefit.

[3] See: The EBA finds progress in availability and accessibility of data used to identify and qualify environmental, social and governance risks but data landscape remains incomplete | European Banking Authority
[4] See AFME-ISDA response to the European Commission consultation on amendments to the Taxonomy Delegated Acts, March 2025
[5] See Recital 7 of the proposed amending Regulation.

Agree on proposed simplification of CSDDD

It is crucial that co-legislators uphold the changes proposed by the Commission to address a number of challenges pertaining to CSDDD application. It is important to keep in mind that even with these changes, the Directive will create significant implementation challenges for companies. In particular, we remain concerned that the broad application to global business creates legal challenges and puts EU companies at a competitive disadvantage internationally, as their regional competitors would not be subject to the same extensive obligations.

We strongly support the proposed removal of the review of the potential extension of the Directive's scope to downstream provision of financial services. This is essential to avoid introducing additional highly burdensome and duplicative requirements which will have a significant impact not only on the competitiveness of banks operating in the EU, but also companies seeking access to finance.

Simplify transition planning requirements under CSDDD and CSRD

We welcome the Commission's proposal to remove the obligation to put a transition plan "into effect" under Article 22 CSDDD. Legal obligations to put transition plans 'into effect' are unclear and give rise to concerns for companies, as achieving compliance is dependent upon many external factors outside their control. This may also disincentivise preparers from setting ambitious plans.

However, further simplification of transition planning requirements is required to ensure that they are not overly prescriptive and remain a strategic planning tool rather than a compliance exercise. It is important to:

- Improve coherence and clarity of requirements. Article 22 CSDDD should simply require companies to adopt a transition plan for climate change mitigation in the form set out by CSRD. In other words, it should not introduce new concepts or requirements, or seek to replicate a description of the contents for such a plan. A cross-reference to CSRD would not only establish certainty as to the consistency of CSRD and CSDDD requirements ("one single transition plan") but also ensure that such consistency is preserved in light of possible amendments in the context of the ESRS review.
- Rather than prescribing that the plan must be compatible with a particular temperature increase, transition plans should explain how the entity will contribute to decarbonisation objectives. The requirements for transition plans to be "compatible" with the limiting of global warming to 1.5°C are unclear and give rise to concerns for companies. Achieving such compatibility is dependent upon many external factors outside of companies' control, and it is necessary to reflect different decarbonisation trajectories in different regions across global operations. For banks, their progress is intrinsically linked to the progress of the decarbonisation of the economy in every jurisdiction that they finance. The CSRD and ESRS should be amended accordingly, as should CSDDD if our above recommendation to amend Article 22 is not applied.
- Further align CSRD transition planning requirements with international standards and provide for equivalence of transition plans disclosed. It is important to provide a workable approach for groups with international operations and for equivalence with ISSB standards to enable groups headquartered outside the EU with subsidiaries within the EU to utilise group-level transition plans to satisfy EU obligations, provided that the group publishes a transition plan under a similar standard such as TCFD/ISSB. This would also encourage other jurisdictions to reciprocate, reducing fragmentation and benefiting EU companies with subsidiaries outside the EU.

Establish a simplification roadmap

Alongside work on the legislative proposals that have been put forward, it is important to continue to review the regulatory framework holistically with a simplification and competitiveness lens. The European Commission should set out a clear roadmap and timeline for further steps including:

- Streamlining of the ESRS and NESRS;
- Adoption of sectoral implementation guidance and the voluntary reporting standard;
- Finalisation of limited assurance guidelines;
- Review of financial sector regulation including ESG Pillar 3 and ESG risk management requirements set by CRD6 and CRR3;
- The full review of the Taxonomy Disclosures Delegated Act;
- The full review of DNSH under the Climate and Environmental Delegated Acts;
- The review of SFDR and MiFID and IDD delegated acts on investors' sustainability preferences; and
- Review of all related Q&As and guidance issued by the European Commission, ESAs and EFRAG.

All these measures are needed to achieve the simplification and competitiveness objectives, and companies need as much certainty as possible as to their corresponding process and timeline.

AFME looks forward to continuing to work with policymakers in support of an effective EU sustainable finance regulatory framework, ensuring that it focuses on mobilising capital for the transition while minimising regulatory burdens for banks and their clients.

About AFME

The Association for Financial Markets in Europe ("AFME") represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society. AFME is registered on the EU Transparency Register, registration no. 65110063986-76.

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