Simplification of European Sustainability Reporting Standards

Overview of AFME feedback on the EFRAG Exposure Drafts

September 2025

The review of the European Sustainability Reporting Standards (ESRS) under the Corporate Sustainability Reporting Directive (CSRD) is a critical element of the EU's Sustainability Omnibus initiative.

AFME strongly supports the simplification objectives set out by the European Commission for the revision of the ESRS.[1] Simplification of the ESRS is essential to reduce burdens on preparers while maintaining meaningful information for investors and banks as users. It is also an important opportunity to incorporate lessons learned from preparers and users of sustainability statements, improve coherence of the EU regulatory framework, and improve alignment with global standards.

AFME commends EFRAG's work to date on simplification of the ESRS. We welcome the changes introduced through EFRAG's six levers of simplification. The draft revised standards provide much-needed flexibility and clarity which will help preparers present information which is most relevant for their context and business model. In particular, we welcome the following changes:

1) Simplification of the Double Materiality Assessment (DMA) to allow greater flexibility in determining materiality (Lever 1);
2) Increased flexibility in organising sustainability statements (Lever 2);
3) Restructuring ESRS 2 and topical standards to reduce overlap (Lever 3);
4) Clearly distinguishing between mandatory and voluntary requirements (Lever 4);
5) Introduction of "undue cost or effort" relief (Lever 5); and
6) Substantial reduction of mandatory and voluntary datapoints.

While we welcome progress in these areas, it is important to clarify and build upon these proposed changes to deliver on the simplification objectives. Our recommendations set out below, are designed to facilitate the most relevant reporting for financial institutions and better embed the ESRS within the EU sustainable finance framework.

Further revision is required to ensure that the ESRS (1) enable meaningful reporting for financial institutions; (2) are coherent with EU financial sector legislation; and (3) address key outstanding issues in the context of the level 1 negotiations.

[1] Letter from Commissioner Albuquerque to EFRAG, March 2025

(1) Ensure the ESRS enable meaningful reporting for financial institutions

The Commission's mandate for the revision of the ESRS calls for enhanced interoperability with global reporting standards and clearer instructions to ensure that undertakings only report material information. It also calls for the removal of datapoints which are least important for sustainability reporting, maintaining the core datapoints needed for investors and other stakeholders. AFME strongly supports these objectives and proposes further adjustments to simplify the reporting process and achieve greater alignment with ISSB. We also encourage further collaboration between EFRAG and the ISSB to simplify the reporting process for global groups.

To support financial institutions in meaningful reporting, the revised ESRS should:

1) Allow flexibility for taking remediation, mitigation and prevention actions into account in the DMA process (referred to as "Gross vs. net");
2) Clarify the fair presentation definition as aligned with ISSB;
3) Reduce reporting requirements on anticipated financial effects in ESRS E1 to align with ISSB;
4) Exempt financial institutions from the requirement to translate intensity-based emissions reduction targets to associated absolute values; and
5) Extend relief for partial scope reporting to GHG emissions.

(2) Ensure the revised ESRS are coherent with EU financial sector legislation

The Omnibus simplification exercise is an opportunity to remove duplicative reporting, ensure the coherence of the EU regulatory framework and to streamline datapoints across the regulatory framework, distinguishing which datapoints are driven solely by regulation and which are really needed for investment decision-making and sound risk management.

To ensure coherence with EU financial sector legislation, EFRAG should:

1) Allow cross-referencing to other relevant entity reports;
2) Amend the incorporation by reference provisions to ensure that risk management information contained in the company's annual report can be incorporated by reference;
3) Align disclosure and methodology on anticipated financial effects with banks' Pillar 3 disclosures;
4) Coordinate with the EBA to holistically consider which datapoints are required for effective risk management and streamline the reporting requirements horizontally across legislation; and
5) Make datapoints corresponding to voluntary Principal Adverse Impact (PAI) indicators voluntary and seek opportunities for further simplification in coordination with the SFDR Review.

(3) Address key outstanding issues in the context of the level 1 negotiations

As per the Commission's recommendation to EFRAG, key issues remain unaddressed in the ESRS exposure drafts due to ongoing negotiations on changes to the primary legislation. It is essential that these issues are addressed prior to the Commission's adoption of the revised

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ESRS. AFME would welcome further dialogue with EFRAG and the European Commission as these issues are considered. These include:

1) Definition of value chain for financial institutions. The value chain for financial institutions should be defined as direct “Tier 1” relationships;
2) Relief for omission of confidential/sensitive information. Firms should be explicitly allowed to omit all kinds of confidential, commercially sensitive, classified and legally protected information; and
3) Clarifying transition plans disclosure. Rather than prescribing how a transition plan must be compatible with a particular temperature increase, plans should explain how an entity will contribute to decarbonisation objectives.

We remain available to provide input on how the ongoing simplification efforts can improve reporting outcomes for preparers and users, providing information to facilitate the flow of capital towards the sustainable transition.

AFME has submitted a detailed response to EFRAG’s consultation which elaborates on these recommendations. For further details, please refer to our full response available here.

About AFME

The Association for Financial Markets in Europe (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 members play a vital role in Europe’s financial ecosystem, underwriting around 90% of European corporate and sovereign debt, and 85% of European listed equity capital issuances. Importantly, AFME members are market makers, providing liquidity, which is essential for ensuring financial markets can function efficiently. We also represent law firms and other associate members which advise market participants and support AFME’s legal and regulatory initiatives.

AFME is registered on the EU Transparency Register, registration number 65110063986-76.

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