February 5, 2025

IIF Input to the EU Commission's Omnibus Initiative: Simplifying the EU's sustainable finance framework and reporting requirements to support competitiveness and sustainable prosperity

The Institute of International Finance (IIF) congratulates the EU Commission as it takes on a new mandate at this critical moment for Europe's economic future.[1] As the Commissioners consider next steps with respect to the EU sustainable finance agenda, I am writing to offer perspectives on behalf of our international membership.

IIF members from across the financial sector recognize the commitment of the European Commission and EU Member States to achieving the goals of the Paris agreement. However, the global economy is not currently on track to meet net zero goals, and growing political and social concerns in many parts of the world will make these goals more challenging still. **This changing global landscape calls for Europe to take a much more pragmatic approach to reinvigorating the transition, enhancing competitiveness and delivering growth and shared prosperity.**

Urgent revisions to the EU sustainable finance rules are needed to provide a simpler and more effective framework that supports competitiveness. The EU's prescriptive approach to net zero transition has led to the development of an expansive and complex regulatory and policy framework. This imposes significant burden on companies domiciled or doing business in the EU, impeding their capacity to achieve the Union's transition goals while also remaining competitive. While keeping climate ambition high, policymakers should take bold steps to rationalize sustainability disclosure, reporting, due diligence, and other requirements.

Our recommendations for the Simplification Omnibus process are guided by three cross-cutting principles, which we believe to be consistent with the EU's Competitiveness Compass:

1) Simplify and reduce the extensive scope of ESG-related reporting requirements;
2) Streamline, ensure consistency and avoid duplication of requirements; and
3) Align EU requirements as far as possible with international standards.

Specific priorities include:

- Delay implementation[2] and pause new rulemaking until the Omnibus process is complete.
- Address fundamental problems with the CSRD.
- Halt development of financial sector-specific sustainability reporting requirements.
- Remove the Green Asset Ratio from reporting requirements.
- Substantially revise the CSDDD to address issues like litigation risk.
- Streamline transition plan requirements and align with ISSB standards.
- Ensure uniform application of standards across EU member states.

[1] The Institute of International Finance (IIF) is the global association of the financial industry. The IIF has nearly 400 members from more than 60 countries.

[2] While a large number of IIF members support an implementation delay for CSRD and CSDDD, some members would prefer that changes are implemented in a way that reflects current implementation timelines.

Further detail on these recommendations and supporting arguments can be found in the following pages. We would be pleased to discuss the important issues in this letter with members of the Commission. Please contact Sonja Gibbs (sgibbs@iif.com) and Andres Portilla (aportilla@iif.com) or representatives of the IIF European Office (Brussels), Martin Boer (mboer@iif.com) and Robert Priester (rpriester-advisor@iif.com), if you would like to organize a meeting.

Sincerely,

Timothy D. Adams
President and CEO

Summary of key messages and IIF recommendations

- As a first step, **many IIF members think that implementation deadlines of regulatory instruments should be delayed until the Omnibus process has been completed.** New rulemaking should be paused during this time. Current and planned sustainable finance rulemaking by the European Supervisory Authorities should be delayed pending the outcomes of the Level 1 review.
- **Addressing fundamental problems with the Corporate Sustainability Reporting Directive (CSRD) is critical.** The Commission should extend reporting exemptions for subsidiary companies who are large undertakings and public-interest entities, permit CRSD-specific (e.g., impact materiality) information to be disclosed outside annual reports, and introduce "safe harbor" provisions for the initial years of reporting. In addition, auditors require greater guidance regarding CSRD assurance.
- **Development of sector-specific European Sustainability Reporting Standards (ESRS) for financial institutions should be halted**. The core focus now should be on facilitating the current application of sector-agnostic standards; such guidance could leverage the approach taken by SASB in its sector-specific standards as relevant.
- Metrics related to the EU Taxonomy, including **the Green Asset Ratio (GAR), should be removed from reporting obligations**. Other key performance indicators (KPIs) should be reviewed on the basis of their value to disclosure users. Alignment-related disclosures should be removed from Pillar 3 ESG reporting requirements, and taxonomy-aligned KPIs should not be introduced for trading-related activities.
- **More broadly, the EU Taxonomy needs to be simpler to apply with respect to Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS) provisions**, and the requirement to assess DNSH should be removed for retail exposures.
- **Given its potential to expose firms to significantly higher litigation risks, the CSDDD should be substantially revised** to avoid hurting competitiveness for in-scope firms. Removing the review clause for financial undertakings, amending the value chain scope so that EU firms do not face an undue due diligence burden, and removing provisions that expose financial firms to civil liability are critical priorities. **Many IIF members think the date of application of the CSDDD should be delayed** pending finalization of the Omnibus process and availability of implementation guidance.
- **Transition plan requirements need to be streamlined to avoid duplication** and should be aligned with international standards being developed by the International Sustainability Standards Board (ISSB). **Transition plan requirements should not be overly prescriptive with respect to a firm's strategies**. As there are inherent dependencies, data gaps and uncertainties involved in transition planning, **"safe harbor" provisions for forward-looking disclosures** should be introduced.
- In considering the revisions recommended above, the Commission should seek to **align requirements as far as possible with international standards** and enable interoperability, particularly in areas such as disclosure. **A third-country equivalence framework for disclosure** should be developed, based on compliance with ISSB standards.
- **Promoting uniformity of application across EU Member States** is vital to ensure consistency across jurisdictions and avoid fragmentation.

Actions to simplify and streamline Europe's sustainable finance regulatory framework are critical, and targeted adjustments and fixes are needed to ease the implementation burden faced by companies. However, it is important to remember that disclosure but will not fundamentally shift the real economy business case for transition. It is important to be clear-eyed about the degree to which climate policy objectives can be achieved via financial regulation. As noted in the IIF's 2024 report, "Resetting the Debate on the Role of Private Finance in the Net Zero Transition" – policymakers and governments bear primary responsibility for driving transition; regulators should provide rules of the road; and the financial sector can support and enable the transition goals set for the real economy.

1. The EU ought to take sensible steps to deliver a transition to net zero that supports competitiveness.

Despite sweeping political and policy change around the world, the goal of a just transition towards a net-zero economy remains widely held, with strong support from the private financial sector as well as policymakers, regulators, and civil society. However, the experience of recent years has shown the complexity of achieving climate goals when governments are faced with a 'polycrisis' of interlinked economic stressors, including geopolitical tensions and conflict, energy price shocks, food insecurity and record high global debt levels.

The global economy as a whole is still substantially misaligned with a net-zero pathway. Current policies in many jurisdictions will not be sufficient to achieve the objectives of the Paris Agreement, particularly with the U.S. announcement of intention to withdraw. Instead, they are likely to lead to 2.7°C of warming by 2100.[3] Indeed, changes in socio-political, economic, and industrial policy conditions and priorities across the world are leading governments in some jurisdictions to consider recalibrating how they seek to deliver climate ambitions, while ensuring competitiveness and prosperity. Increasingly severe and frequent physical climate impacts are already leading to costly damage around the world, compelling action to strengthen resilience and mitigate the impact of climate-related risks. These factors are creating new strategic challenges and competitiveness concerns—which are likely to be exacerbated by the prospect of growing trade barriers, and a shift away from multilateralism in an environment of uneven growth.

The EU now has a unique opportunity to reshape its approach to the real economy transition, with the potential for major economic and climate benefits worldwide. The EU's ambitious and comprehensive sustainable financial policy and regulatory framework has made a substantial contribution to the global dialogue. However, there is a growing awareness that aspects of the EU's current approach are holding back some of the much-needed transition activities and investments. The EU has taken a very prescriptive and demanding approach in instruments such as the Taxonomy Regulation, Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD), which can detract from the valid objectives of such tools. As the September 2024 "Future of European Competitiveness" Report (Part B), often referred to as the Draghi report, states: *"The EU's sustainability reporting and due diligence framework is a major source of regulatory burden, magnified by a lack of guidance to facilitate the application of complex rules and to clarify the interaction between various pieces of legislation (…) entail(ing) a major compliance cost for companies in the EU21, ranging from EUR 150,000 for non-listed undertakings to EUR 1 million for listed ones." (page 318)*.

Similarly, demanding and punitive supervisory requirements related to climate have been observed. Whilst the actual pace of the economic transition will determine changes in credit or market risk associated with a given exposure, financial institutions recognize the importance of adequate risk assessment and management to properly account for climate-related risk drivers. To date, EU financial institutions have made significant progress to integrate climate risk drivers into their risk governance and risk management practices and have participated in several supervisory climate scenario analysis exercises. However, there is concern that supervisory expectations for financial institutions could start to outstrip government expectations for firms in other sectors across the economy.

It is vitally important that the EU policy approach and framework adapts to the changing economic conditions and global context – and appropriately considers the array of supply and demand-side factors that will shape transition outcomes. In doing so, it can spur the net-zero economic transformation in the EU in a way that secures

[3] IIF analysis, drawing on projections from Rhodium Group and Climate Action Tracker, indicates that current policies are likely to result in a 2.7°C temperature rise above pre-industrial levels by 2100. The World Energy Outlook estimates a 2.4°C rise under its stated policies scenario.

jobs, energy and food security and promotes innovation, efficiency and competitiveness. As well as streamlining the regulatory framework– which is the focus of Section 3 of this letter – this will require some other changes of approach. For example, pursuing more policy measures that would provide incentives, including for climate risk mitigation and resilience, and improving the risk-return profile of transition technologies and innovations.

IIF members from across the financial sector recognize the commitment of the European Commission and EU Member States to achieving the goals of the Paris agreement, which is admirable and can provide inspiration and support financial flows to other jurisdictions at earlier stages in their development and transition. However, EU sustainability-related regulation has become excessively complex and burdensome, which has the effect of reducing the competitiveness of EU companies, the attractiveness of the EU to foreign firms, and could ultimately reduce the flow of finance in support of the transition, both within the EU and internationally. Given different jurisdictional starting points and a worsening outlook for broader multilateralism, it is apparent that the climate transition will advance at different rates in different parts of the world, and there will not be a 'one size fits all approach'. **Nonetheless, the EU's efforts to reform its framework could set an example globally on how to pragmatically deliver parallel objectives of achieving sustainability goals and delivering growth and shared prosperity.** Success in the EU could potentially influence other jurisdictions' approaches; reform of the current EU framework could support greater alignment with global standards, and ideally enhance consistency between approaches in different jurisdictions. Now more than ever, effective international leadership in this area is vital – achieved via pragmatic and reasonable refinements to the EU's sustainable finance framework for the benefit of firms operating in the EU.

2. A 'finance-centric' theory of change, which has been dominant in recent years, requires re-examination – financial policy and regulation will not fundamentally change the economics of the transition.

The financial industry remains committed to financing the needs of the real economy, including the necessary investments to make key sectors aligned with net zero in the coming decades. Much is being done within the industry to support the net zero transition, in terms of capital allocation, development of financing and investment strategies, and developing expertise to support clients.

However, while the financial industry is strongly supportive of global climate goals, it is an <u>enabler</u> of the transition—not its sole driver. Indeed, decarbonizing the global economy will require significant investment across a wide range of sectors and markets, but capital will only move in support of net zero goals at scale when the economics make sense. **Trillions in investment *need* <u>do not</u> necessarily equate to trillions of investment *opportunities* that the financial sector can allocate capital towards, underwrite, and intermediate**. Private financial institutions consider their role primarily as to meet the demand for products and services, considering risk and return factors. Assuming that the fundamental pre-conditions are in place that make business model decarbonization economically viable for real economy firms, finance will flow in such a way that supports the goals of clients and public policy ambition.

Understanding the boundaries of the role of the private financial sector is a critical first step to ensuring that efforts to decarbonize the economy are focusing on the right levers. Financial sector policy and regulation play critical functions in helping to strengthen the integrity of sustainable finance markets, enhance the provision of information, and ensure the appropriate management of climate-related risks. However, policies oriented towards financial institutions and capital markets do not have a direct effect on the relative economics of low vs. high-carbon investments in the real economy. There is a need for appropriate industrial policies and incentives to create the enabling environment for the financial sector's clients to invest in the low-carbon economy. The IIF and

our global membership have observed the application of a 'finance-centric' theory of change for achieving net zero alignment being advanced in several jurisdictions, which is based on unproven assumptions that alignment of the regulated financial sector with net zero goals will have a material impact on the decarbonization trajectory of the global economy. The view that financial institutions can and should *drive* action in the real economy ignores the foundational pre-conditions that make business model decarbonization economically viable for real economy firms – and overestimates the capacity of financial institutions to influence client, counterparty, and investee decision-making.

Looking beyond the financial sector, the EU's focus should be on delivering industrial policies and incentives that enable —rather than obstruct—the low-carbon transition, particularly in high-carbon sectors. Appropriate policies are critical to encourage high-carbon firms and sectors to set strategies and take investment decisions aligned with science-based transition pathways, by enabling these actions to be economically viable. In turn, this can enable financial institutions to assess the prospects of renewing or extending new finance to those firms – and thereby contribute to support the EU's climate objectives. As such, there should be a clear recognition within the EU's policy framework of the need for ongoing financing to such industries and firms, and an understanding that this type of financing may, in the short term, adversely impact metrics such as financed emissions.[4] Regulation of the financial sector will not shift the economic fundamentals needed for real economy transition. Ideally, regulatory and supervisory approaches should focus on the prudential implications for financial institutions of the transition, while avoiding unintended consequences such as diminishing the flow of finance to sectors and countries in transition.

3. The global financial industry welcomes the prospect of the Commission streamlining its sustainable finance framework – consolidation and revisions are needed to support healthy market development, without questioning the level of ambition of the climate protection goals.

The past five years have seen an enormous amount of sustainable finance-related Level 1 and Level 2 rulemaking as well as other forms of policy guidelines in the EU, which has made Europe an outlier in terms of compliance and reporting burden on companies. Large financial institutions, particularly those active in different markets across and outside of the EU, are subject to an array of duplicative and overlapping expectations or requirements relating to their activities in support of the net zero transition - which create strategic and operational challenges, and can generate reputational or legal risks. For example, at present there are more than 50 sustainable finance taxonomies in place or under development across the world,[5] which can differ in significant ways. **Some significant EU requirements, such as the CSRD and CSDDD rules, are also extraterritorial in their application** which creates additional complexity and burden for non-EU headquartered firms that seek to contribute to the EU economy.

Therefore, IIF members welcome and support the Commission's commitment to set out concrete actions in H1 2025 that would reduce reporting obligations by at least 25%, as outlined in the Budapest Declaration on the New European Competitiveness Deal. While transparency is important in markets, disclosed information should be relevant and decision-useful. Beyond that, **the IIF views the anticipated Simplification Omnibus proposal, which is expected to facilitate the simplification of several key pieces of legislation including the CSRD, CSDDD,**

[4] Some stakeholders use financed emissions to assess the financial industry's contribution to meeting climate goals, and some simplistically equate them to financial risk exposure. For further discussion of this issue, and the suitability of different metrics for assessing financial institutions transition-related activities, please refer to IIF/WTW (2023) Emissions Impossible: Quantifying the financial risks associated with the net zero transition.
[5] Center for Clean Air Policy (CCAP), November 2024.

and Taxonomy regulation, as a welcome opportunity to improve the clarity, consistency, efficiency and effectiveness of the EU's sustainable finance framework.

As highlighted by many stakeholders, including in the 2024 Draghi report and a recent 2025 ECB report on "Investing in Europe's Green Future"[6], **the significant complexity and other challenges associated with the EU's current framework compel action to simplify, and increase consistency between, some of the requirements and expectations**. The revisions should make the requirements more manageable and less burdensome for firms of all sizes. Below, we have suggested three cross-cutting principles to guide the Omnibus process.

Cross-cutting principle (A): Simplify and reduce the extensiveness of ESG-related reporting requirements

In keeping with the Commission's Budapest Declaration (November 2023), sustainability reporting requirements should be reduced by at least 25% as a priority step towards enhancing the efficiency and competitiveness of businesses operating in the EU. To demonstrate the magnitude of any proposed changes, it would be helpful for the EU to identify a relevant baseline year and tangible performance indicators to demonstrably prove that reporting requirements have decreased, and consider engaging an independent authority for oversight. The full suite of sustainability reporting requirements should be captured in the rationalization exercise, including Level 1 and Level 2 requirements and additional guidance.

Furthermore, it should not just be an exercise of reducing the number of reporting items; it would be helpful for the EU to revisit existing requirements through the lens of whether the reporting requirements will result in information that is meaningful, material, and useable for the intended parties.

While reduction and simplification of the reporting burden for corporates is welcome, any simplification that is sought for non-financial companies must be appropriately reflected in all requirements for financial institutions that require the use of client data – including those stemming from prudential reporting requirements. If not, there would be a perverse outcome of a proliferation of questionnaires and data requests from the financial sector to their clients if financial institutions are asked to report data about their clients that their clients are not required to disclose.

Furthermore, to meet the goals of increasing economy-wide competitiveness within the EU, any efforts to reduce reporting burden ought to be applicable to firms of all sizes, not just small and medium-sized entities (SMEs).

Cross-cutting Principle (B): Streamline, ensure consistency and avoid duplication

At present, there are several instances of duplicative or conflicting requirements across EU sustainability instruments which require resolution and indicate opportunities for streamlining. Key examples include: multiple references to different types of transition plan requirements across different regulations (CSRD, CSDDD, CRD6); requirements to publish a Green Asset Ratio (GAR) defined differently across the Taxonomy Regulation and EBA Pillar 3 requirements; entity-level reporting requirements across different instruments, including the Sustainable Finance Disclosure Regulation (SFDR). There should be alignment between the Taxonomy Regulation, CSRD and CSDDD, particularly regarding the "Do No Significant Harm" (DNSH) principle, due diligence, and social

[6] ECB Occasional Paper No. 367, "Investing in Europe's Green Future," (January 2025) which notes that: *"The EU has put enhanced transparency and disclosures at the centre of its sustainable finance regulatory framework. … The complexity of the rules currently limits the positive impact of these initiatives on green investments; streamlining the framework without backtracking on the enhanced transparency would be beneficial."* (pp. 69-70)

safeguards.[7] Throughout the Simplification Omnibus process, it would be helpful for the Commission to identify and address such issues.

To achieve the Commission's objective of more coordinated and consistent requirements within the EU, **all relevant sustainability reporting should be in scope of the Simplification Omnibus Proposal**. This would imply consideration of not only the CSRD, CSDDD and the Taxonomy Regulation, but also other reporting requirements affecting financial institutions including the SFDR. Furthermore, EBA Pillar 3 should be in scope of the review process.

Cross-cutting principle (C): Align EU requirements as far as possible with international standards

Steps to achieve the highest level of alignment with international standards, particularly in areas such as disclosure, can have several important benefits including international competitiveness. For EU-based firms, it can help ensure a level playing field with firms in other jurisdictions. For non-EU headquartered firms that do business in the EU, or which are considering it, it reduces the marginal regulatory cost of doing so. It also supports international investors and other stakeholders as it increases the consistency of approach and information available to the market in different jurisdictions. It leverages emerging best practices and approaches based on collective experience and analysis across jurisdictions.

To deliver meaningful progress in line with these three cross-cutting principles, IIF members have specific recommendations to support the streamlining of the EU framework, in the context of the forthcoming Simplification Omnibus proposal. These are discussed below, in three categories:

1. **Process-related actions** to ensure the effectiveness of the Simplification Omnibus process, and ensure that instruments that are in scope of (or otherwise related to) the Simplification Omnibus are paused and not developed further outside of that process.
2. **Content-related actions** in different thematic areas, such as disclosure, transition planning, etc., including how requirements interact and other cross-cutting recommendations.
3. **Alignment-related actions**, to ensure alignment with global standards, interoperability with other jurisdictional requirements, and consistency of implementation across the EU.

3.1 Process-related actions: Ensuring the effectiveness of the Simplification Omnibus process

Recommendation (a): Delay implementation deadlines and pause the transposition of regulatory instruments until the Omnibus process has been completed and any resulting changes have been adopted.

To avoid market confusion and potential dual-track implementation processes, many IIF members believe that instruments in scope of, or directly linked to, the Omnibus proposal should not be implemented or developed further outside the Omnibus process.[8] It is important that there is clarity on what, if anything, within the Level 1 legislation may change to avoid a risk of development or implementation of measures which may need to be

[7] For example, rule sets should be interpreted consistently to ensure that compliance with CSRD/CSDDD Human Rights Due Diligence meets the requirements of Minimum Social Safeguards under the Article 18 of the Taxonomy Regulation.

[8] While a large number of IIF members support an implementation delay for CSRD and CSDDD, some members would prefer that changes are implemented in a way that reflects the current implementation timelines.

retroactively amended. This includes disclosure requirements in the CSRD, which has already entered into force but has not been transposed into national requirements by all EU member states. [9]

Specifically in the case of the CSRD, recognizing that the date for first year CSRD reporting for some large institutions is March 2025 - which is immediately after the release date of the Simplification Omnibus proposal – the Commission could consider the following actions to implement this recommendation:

- Issue a "Quick Fix" Directive with a single amendment to push back the implementation deadline for the CSRD.
- Formally request ESMA to de-prioritize supervision of the reporting requirements until after the revised implementation date in EU Member States that have already transposed the CSRD.

Recommendation (b): Pause the development of new rulemaking in areas relevant to the Simplification Omnibus.

The aim of the Omnibus process is to step back and review the EU's sustainable finance framework holistically with a view to making it more efficient and effective. Therefore, the focus should be on fast-tracking the Omnibus process and implementing the necessary changes in a consistent way. It would be confusing and inefficient for the EU authorities to develop rules or guidance, including the necessary public consultation process, at the same time as reviewing and potentially revising cornerstones of the sustainable finance policy architecture.

Recommendation (c): Ensure that relevant current and planned future activities of the European Supervisory Authorities (ESAs) are also delayed pending the outcomes of the Level 1 review.

Existing Level 2 requirements may need to be revisited and revised if Level 1 changes are made. For example, simplifications to ESG reporting requirements for non-financial firms will reduce the information that is publicly available to financial institutions; this should be reflected in financial institution requirements including prudential disclosure rules. As such, current and planned sustainable finance rulemaking by the ESAs should be delayed pending the outcomes of the Level 1 review for purposes of efficiency and to ensure regulatory consistency throughout the Omnibus process. This includes current Level 2 rule-making that is underway at EIOPA, which directly relates to broader EU sustainability reporting and transition plan requirements; those efforts should also be paused to ensure consistency with the outcomes of the Level 1 Omnibus process.[10] Furthermore, the necessary simplification of Level 1 requirements should not translate into more Level 2 or more national requirements.

Recommendation (d): Ensure there is a formal feedback process on the Simplification Omnibus proposal.

A formal feedback process is warranted to ensure that a range of stakeholders, including the financial sector, are able to contribute their experiences from recent years. Nevertheless, we encourage the Commission to move expeditiously on its simplification agenda given the urgency of addressing the current challenges, so any consultation process should be transparent and targeted.

[9] Some IIF members are concerned that if they make a first-year disclosure aligned with current requirements they could face reputational risks if the requirements subsequently change or be disadvantaged relative to other firms who are required to start reporting later and may never have to report in line with the current rules.
[10] EIOPA, "Consultation on the proposal for Regulatory Technical Standards on management of sustainability risks including sustainability risk plans" open for comment until February 26, 2025.

3.2 Content-related actions: Delivering a simpler, consistent and efficient policy framework

Recommendation (e): Address issues relating to the CSRD.

- **Extend the reporting exemption to subsidiary companies who are large undertakings and public-interest entities if those entities' reporting is included in the consolidated reporting of the parent company.**

At present, subsidiaries that are classed as large undertakings and public-interest entities need to report at an entity level, sometimes reporting for more than one entity. This is both burdensome and misaligned to how many financial institutions manage sustainability strategies, risks and target setting which is typically done in a group-wide way. Therefore, the Commission should extend the reporting exemption to subsidiary companies who are large undertakings and public-interest entities if those entities' reporting is included in the consolidated reporting of the parent company.

- **Address the challenges identified by firms who have begun to prepare for CSRD disclosure.**

Issues that have been identified by firms who have begun the internal work to develop ESRS-aligned disclosures should be addressed through appropriate revisions to the requirements. For example, IIF members have significant concerns with the lack of clarity around the double materiality assessment, the overly broad requirement to report Scope 3 greenhouse gas (GHG) emissions for significant categories, and the requirement for companies to report absolute values associated with GHG intensity reduction targets.

- **Permit information which is CSRD-specific (e.g., impact materiality information) to be disclosed through other public disclosures, and not necessarily in the Management Section of the Annual Report.**

Given the EU's double-materiality scope of ESG reporting, which is broader than the ISSB's global baseline and the approach taken in most other jurisdictions, information which is CSRD-specific – i.e., at least impact materiality information – should be permitted to be disclosed through other public disclosures rather than included in the Management Report section of the Annual Report. This would ensure that there is a consistent materiality concept applied between the Sustainability Statement in the Management Report (currently subject to double materiality, i.e., financial and/or impact materiality) and the other information provided in the Management Report, such as Operating and financial review, Outlook, Risks and opportunities and the Risk Report (subject to financial materiality only). This would have several benefits in terms of keeping financial reporting focused and comparable across jurisdictions for capital markets participants, and to avoid clashing with other jurisdictions' securities law or increasing litigation risks for firms.

- **Provide auditors with greater guidance about the CSRD assurance processes.**

Firms are also facing challenges with the lack of clarity around audit standards as different auditors are taking different interpretations. As a result, obtaining third-party assurance is a major source of uncertainty, administrative burden, and costs for firms subject to the CSRD. It would be helpful for assurance standards to be co-developed together with the national accounting and audit practice bodies. Until such standards are developed, we recommend pausing the obligation to have the report assured until 12 months after the development of standards by the Commission. We also recommend that assurance requirements are initially limited to quantitative metrics.

- **Introduce "safe harbor" provisions for forward-looking information (e.g., transition plans) and early years reporting.**

We recommend the introduction of safe harbor provisions for companies and executives in the context of the CSRD in relation to forward-looking information disclosed in transition plans, recognizing the inherent dependencies, data gaps and uncertainties involved in transition planning

More broadly, the implementation and supervision of CSRD reporting should be pragmatic and flexible for the first years. A broader safe harbor provision could be considered to facilitate the learning process, which should contribute to higher quality disclosures in the future and the possible evolution to a stronger level of assurance.

Recommendation (f): Stop development of sector-specific ESRS for the financial sector. Instead develop guidance to facilitate implementation of sector-agnostic standards to better reflect the specific circumstances of financial institutions.

Instead of current plans for the European Financial Reporting Advisory Group (EFRAG) to develop sector-specific ESRS for financial institutions, which are likely to simply increase the quantity of information financial institutions would need to report and go against the goals of the Budapest Declaration, it would be better to provide guidance on how the sector-agnostic standards can be appropriately applied by financial institutions. Specifically, we recommend:

- **EFRAG to stop the development of the sector-specific standards for financial institutions.**[11]
- **As part of the Omnibus process, the Commission and EFRAG should review the sector-agnostic ESRS with a view to reducing the quantity and complexity of required sustainability-related disclosures.** This would benefit disclosure producers and users.
- On the basis of the sector-agnostic ESRS, which may be reviewed during the Omnibus process, **EFRAG could develop guidance to facilitate the application of the sector-agnostic standards to financial institutions**, reflecting the breadth of their client and investee base and the specifics of their business models. Such guidance could leverage the approach taken by SASB in its sector-specific standards, as relevant.

Recommendation (g): Address key issues with the EU Taxonomy Regulation and Taxonomy-related disclosures.[12]

- **Remove the GAR reporting obligation under the Taxonomy Regulation Article 8.**

We strongly recommend removing the GAR reporting obligation under the Taxonomy Regulation Article 8, given this reporting does not provide meaningful information to disclosure users including investors. Several significant conceptual and operational issues have been identified with the GAR metric both by industry and others, including the European Investment Bank (EIB)[13]. The asymmetry of its structure, the constrained coverage and the very significant operational efforts associated with disclosing it all pose challenges regarding the value-added of a GAR disclosure metric.

If it is decided to retain the GAR metric, actions must be taken to ensure that the metric is more meaningful, relevant, and easier to produce. Such as:

- **Adjusting the definition of the GAR to remove the current numerator/denominator asymmetry**. Adjustments are warranted to ensure the GAR would be as simple, meaningful and comparable as possible; a ratio of aligned activities/eligible activities could work in this sense.

[11] EFRAG may need to develop sector-specific ESRS for the most critical sectors such as energy or shipping, with a reduced number of material datapoints.

[12] The EU Platform on Sustainable Finance has also recognized about the EU Taxonomy that *"…ongoing refinements and simplifications are essential. Criticism regarding its operationality is valid and warrants careful attention*."

[13] FT Article (January 7, 2025): "EIB fears 'reputational disaster' over revised EU green reporting."

- **Similarly, non-EU and SMEs exposures should be removed from the denominator and not included in the numerator**, as it is almost impossible to assess the Technical Screening Criteria (TSC) for these exposures.
- **Significantly reduce the number of associated templates**.

- **Remove the GAR and BTAR disclosure requirement from EBA's Pillar 3 ESG reporting. Suspend introduction of taxonomy-alignment KPIs for the trading book, and for fees and commissions.**

Currently, a GAR metric is a requirement under the Taxonomy Regulation (Article 8) and in the European Banking Authority's Pillar 3 ESG reporting templates, although with definitional differences between the two requirements. Many financial institutions do not consider taxonomy alignment metrics, the Green Asset Ratio (GAR) or Banking Book Taxonomy Alignment Ratio (BTAR), to be suitable as prudential or risk management metrics. Nor were these proposed by the Basel Committee on Banking Supervision (BCBS) in their draft global Pillar 3 standards for climate-related financial risks.[14] As such, we strongly recommend the removal of the GAR and BTAR disclosure requirement from the Pillar 3 ESG reporting requirements.

The EBA should also suspend the introduction of taxonomy alignment-based KPIs for the trading book and for fees and commissions. In the case of the trading book, the suggested interpretation of a taxonomy-aligned metric for the trading book is particularly unclear as assets held for trading are typically on a bank's balance sheet for a very short period of time, and are often chosen for hedging purposes. In the case of fees and commissions, the benefit of an alignment-based KPI is unclear given the lack of taxonomy guidance on how to account for facilitated financing and concerns about comparability between banks.

- **Simplify application of the EU Taxonomy with respect to DNSH and MSS provisions, and remove the DNSH assessment for retail exposures.**

Assessment of Taxonomy alignment creates significant operational challenges and burden. The complexity of the requirements might also discourage issuers from adopting other sustainable finance standards linked to the Taxonomy, such as the EU Green Bond Standard (GBS).[15] To address this, the Commission should consider measures to simplify application of the EU Taxonomy including simplifying the DNSH eligibility-criteria, adopting a risk-based approach (e.g., not always requiring a DNSH test), and simplifying the language for DNSH criteria (e.g., removing references to national law). For use-of-proceeds financing, financial institutions should be able to rely on the corporate's own taxonomy analysis. If the DNSH is maintained, banks should be able to rely on their counterparties' "license to operate in the EU", by mapping the DNSH criteria to the corresponding EU Member States' legislation. As such, if the national legislation is met, it would be understood that the activity complies with the DNSH criteria. Similarly, financial institutions should be able to use the assessment of Minimum Social Safeguards (MSS) performed by their counterparty companies both for general lending and financing with known use of proceeds.

Furthermore, given that the proof of compliance with DNSH lies with corporates involved in the production of an activity (e.g., housebuilders, car manufacturers), banks should not also have to ask every individual retail client for the DNSH assessment as well and that requirement should be removed.

- **Simplify requirements around scope and level of consolidation in the Taxonomy Regulation, and make them consistent with the CSRD.**

[14] BCBS, November 2023.

[15] The EU GBS label's criteria are based on Taxonomy-alignment and, despite their best efforts, issuers of EU Green Bonds face challenges with the application of the Taxonomy and demonstrating compliance with its DNSH criteria and MSS. Issuers therefore remain nervous about being exposed to greenwashing accusations.

Consolidation requirements for financial undertakings in the context of the Taxonomy Regulation require simplification as they are currently not meaningful or practicable. Firm size thresholds and scope provisions for the Taxonomy Regulation also differ from CSRD; this lack of internal consistency can undermine the usefulness of the data.

Recommendation (h): Address key issues with the CSDDD

At present, CSDDD is likely to further reduce EU firms' competitiveness due to its burdensome requirements and by opening firms up to significant new litigation risks. A more proportionate approach should be pursued to achieve the original aims of the CSDDD, including by limiting due diligence requirements to business partners with direct contractual relationships. At a minimum, the scope of the CSDDD should not be increased.
Many IIF members consider that the date of application of the CSDDD should be delayed pending the finalization of the Omnibus process and the development of the necessary implementation guidance. Key actions to be taken as part of the Omnibus process include:

- **Remove the review clause for financial undertakings under Art. 36** as it would not be appropriate for the scope of CSDDD to be extended to the provision of financial services and investment activities. The potential impacts of such a requirement would be significant, with global impacts, and would appear to outweigh any policy benefits.
- **Revisit the value chain scope** so that EU firms (financial and non-financial) do not face an undue due diligence burden including in regions where they may not receive the necessary data. The business partner in the value chain should be defined as the direct business partner and any references to indirect business partner deleted. Corporates need to be able to rely on their counterparties' "license to operate" to meet the due diligence obligations. There should not be an expectation for companies to influence or control other companies that conduct business within their local legal framework.
- **Remove the provisions relating to civil liability under Art. 29, and clarify legal terminology.** CSDDD introduces a very broad and unprecedented civil liability regime, which may trigger a wave of private litigation with very significant negative potential impacts on EU firms' economic competitiveness. Removing CSDDD Article 29 would address serious concerns about unnecessary and potentially overwhelming litigation risk. Similarly, it would be helpful to clarify ambiguous and unclear concepts and definitions in the text of the Directive with reference to legal definitions in existing laws and regulations. For example, the legal text refers, interchangeably, to "complainants", "claimants" and "stakeholders" yet only one of these expressions is defined and there is no indication as to whether the expressions are deliberately used in isolation from one another.
- **Review and reduce extraterritorial requirements embedded in the CSDDD**. Requiring companies to apply the CSDDD due diligence requirements across their value chain – also for activities and counterparts located outside the EU – is extremely challenging to implement and enforce, and poses a disproportionate burden.
- **Provide all the implementation guidance in good time before the implementation deadline**.

Recommendation (i): Clarifying and consolidating transition plan requirements (CSRD, CSDDD, CRDVI)

As noted above, there are several references to and requirements for transition plans and planning within EU legislation, including the CSRD, CSDDD and the Capital Requirements Directive (CRD VI), and Level 2 requirements developed by the EBA.[16] These references and requirements are not aligned and are oriented towards different policy objectives. This lack of consistency risks resulting in fragmentation of approaches to transition plan disclosures, as well as of definitions and requirements. The EBA has recently confirmed that banks should take an

[16] https://www.eba.europa.eu/activities/single-rulebook/sustainable-finance/guidelines-management-esg-risks.

"integrated, holistic internal approach" to transition planning; it would be helpful for the suite of regulatory expectations related to transition planning to be streamlined for clarity and support implementation.

To ensure clarity, requirements should distinguish clearly between climate transition strategy and ESG (including climate-related) risk management (as defined by CRR/CRD). The IIF has observed an ongoing overreliance on metrics based on financed emissions as risk indicators, despite key conceptual and methodological challenges associated with such metrics particularly as a measure of transition risk. Going forward, the Commission should take this opportunity to re-set thinking on metrics based on financed emissions, and clarify their limitations as risk indicators, to ensure clarity for all stakeholders.

To achieve this goal, the following actions should be taken:

- **Take into account the emerging international standards for transition plan disclosure, which are being developed by the ISSB**. In general, transition planning is a strategic exercise which most firms, including most IIF members, conduct on a group-wide basis. Requiring the development of 'artificial' entity-level transition plans would not provide value adding information to the market. To enable disclosure of a single transition plan at group level, CSRD should provide for equivalence of transition plans disclosed in accordance with the global sustainability reporting baseline developed by the ISSB.
- **Ensure that requirements relating to transition plans are not overly prescriptive with respect to a firm's strategies**. A transition plan is inherently a strategy document. Transition plan disclosure requirements therefore need to be intentionally and carefully targeted and avoid prescriptive disclosure or effective dictation of company strategy.
- **Ensure that regulatory requirements for transition plans recognize that there are inherent dependencies and uncertainties involved in transition planning.** Firms with operations in jurisdictions outside of the EU may face a significantly different policy environment and stance in relation to the net zero transition in other jurisdictions. Financial institutions may face delivery challenges, and potential risks, from pursuing decarbonization strategies that would go far beyond the climate policy framework of the jurisdictions they operate in, as encapsulated in those jurisdictions' Nationally Determined Contributions (NDCs). Therefore, it is important that language in the EU requirements does not impose expectations for an individual firm to put a 1.5C-aligned transition plan "into effect" (as currently set out under CSDDD Article 22), and that transition plans are understood to be an obligation of means only. Similarly, supervisors should not penalize firms for failure to achieve targets, or for revising their transition plan over time, in response to exogenous factors. This should also be accounted for in Level 2 requirements, such as those being proposed by EIOPA.[17]
- **Introduce "safe harbor" provisions for forward-looking information**, such as transition plans. We also recommending introducing safe harbor provisions for companies and executives in the context of the CSRD in relation to forward-looking information disclosed in transition plans. Transition plans will necessarily rely on forward-looking information that may be based on assumptions and estimates. This could make external assurance challenging, and it may also disincentivize companies from setting ambitious plans.

[17] See Footnote 10.

3.3 Alignment-related actions: Supporting international coherence for the benefit of firms operating in the EU

Recommendation (j): Ensure greater alignment between EU and ISSB global sustainability disclosure

There have been important efforts to achieve and demonstrate interoperability between the EU's CSRD and ISSB global baseline standards to the degree possible given certain foundational differences in the EU's approach, such as double materiality. However, there continue to be sufficient differences and insufficient clarity that many firms will need to report under ISSB standards as well as the ESRS, either to meet requirements in other jurisdictions or investor expectations.

IIF members request the Commission to develop a practical way forward to overcome these challenges, including taking action to:

- **Develop a third-country equivalence framework for disclosure, based on compliance with the ISSB standards for the common information and data points**. Specifically, the Commission could clarify that ISSB-aligned disclosures are acceptable for the risks & opportunities disclosure items, and that the forthcoming "non-EU ESRS" (NESRS) for third-country firms are appropriate for the impact disclosures (double materiality, not covered by ISSB).

The recommendations already made above in relation to transition plan disclosures, and permitting double materiality disclosures to be provided outside of financial reporting, would also support alignment between the EU approach and international standards and frameworks.

Given the extraterritorial nature of the CSRD requirements, which create additional implementation challenges considering that certain information is not available to firms in markets outside of the EU, we welcome EFRAG's work on ESRS for third-country firms, or NESRS, and this process should be integrated with and conducted in alignment with the broader Omnibus process. Specifically, the proposed option in the draft NESRS standard for non-EU firms to *"prepare sustainability reports excluding information about their impacts that are not related to the sale of goods or the provision of services to natural and legal persons located in the EU"*[18] is welcomed.

Recommendation (k): Promoting uniformity of application across EU Member States.

At present, several member states have still not yet transposed the CSRD into national law. This is creating fragmentation, confusion and an unlevel playing field even within the EU. The improvements made to the regulatory instruments in scope of the Omnibus should be done with a view to building broad support for faithful implementation across the Union.

[18] 06-02 NESRS 1 ED SRB 250115.pdf.