

Position paper

Omnibus initiative to simplify sustainability related requirements for businesses (EC simplification package on ESG reporting)

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Executive summary

At the latest during implementation it became clear that the current sustainability regulations are, in part, excessively detailed and lead to a massive increase in the level of bureaucracy for companies. At the same time, the rise in the number of climate-related events – also in Europe – has emphasised how urgent the transformation of the economy has become. The German Banking Industry Committee therefore welcomes the European Commission's initiative to simplify the current sustainable finance framework via an omnibus package.

The benchmark for this simplification package should be that requirements and information are more manageable and more decision-useful. The steering effect of the regulatory requirements should be strengthened without compromising the high level of ambition of climate change mitigation goals. Sustainability reporting should offer added value to support the required sustainability transformation and not exist purely for their own ends. In this light, we support the letter of Germany's federal government from 17. December 2024 on simplifying sustainability-related regulation through the Omnibus-Initiative.

In GBIC's opinion, the following solutions would meet this ambition.

Corporate Sustainability Reporting Directive

1. Overhaul existing requirements in CSRD and ESRS in the short term by streamlining reporting standards and associated processes, limiting goldplating and preventing level 3 legislation which goes beyond the law as well as creating a harmonised reporting architecture with no redundancies.
2. Evaluate reporting obligations before introducing further rules and avoiding new disclosure requirements in the meantime.
3. Focus on clarifications that are relevant in practice instead of developing additional reporting requirements for selected sectors.

Taxonomy regulation

1. Improve the taxonomy's functionality through simplified assessment of DNSH criteria and options to differentiate assessments based on risk
2. Reevaluate taxonomy reporting obligations and, as a bare minimum, comprehensively revise the underlying methodology by eliminating the asymmetry within the Green Asset Ratio (GAR)
3. Abstain from increasing the taxonomy's complex requirements through "soft law".

Corporate Sustainability Due Diligence Directive (CSDDD)

1. Refrain from introducing additional due diligence for financial undertakings
2. Limit due diligence obligations to direct business partners in the supply chain
3. Amend rules on liability and sanctions
4. Revise the transition plan requirements

In addition, it must be ensured that simplifications for non-financial undertakings are also foreseen for financial undertakings in a proper way. Otherwise, credit institutions would have to collect additional data from their customers that does not need to be reported. This applies all the more in the context of disclosure and upcoming reporting obligations on ESG risks (as per CRR).

Introduction

The above average temperature rise globally, and particularly in Europe, as well as the severe climate events, such as flooding in parts of Europe, make one thing clear: The need to combat climate change with effective measures and to decarbonise the economy through the transformation has not changed. On the contrary, the physical risks are becoming more frequent and more intensive, and not only in Europe. The EU has already adopted numerous measures in recent years to mitigate against and adapt to climate change. These include over 1,800 pages of extensive ESG regulation. The ESG rulebook is comprehensive, complex, in parts inconsistent and requires interpretation, which, among other things, has led to more than 10,000 detailed requirements for preparing the reporting. The regulation has, in recent times, lost sight of the original key goals of steering capital towards sustainable business, managing risk, promoting transparency and long-term thinking. Instead, ESG is frequently associated with bureaucracy. This is regrettable.

From the German Banking Industry Committee's point of view, we cannot afford to let up in our efforts to transform society and the economy. The goals of the Paris Climate Agreement and of the EU to reduce greenhouse gas emissions to net zero by 2050 are still correct and important. However, companies need reliability and predictability to implement the transformation. CO₂ pricing as a market instrument is very helpful in doing this because it promotes innovation. Furthermore, EU and member state promotional policy instruments are important for supporting the transformation.

Nevertheless, policymakers need to give businesses a clear signal: the acknowledgement that, in parts, the sustainable finance framework goes beyond these goals, but now is not the time to question them, now is the time to consider the most efficient way of achieving them. The focus should be not only on effectiveness but on consistency, international comparability, competitiveness and practicability as well. Greater attention must also be paid to the proportionality principle for regulation and implementation, and its application must also be simplified. We therefore welcome the "simplification revolution" envisaged in Measure 4 of the Budapest Declaration on the New European Competitiveness Deal. The Omnibus simplification package on ESG obligations for companies announced for February 2025 is a step in the right direction.

We welcome the Omnibus simplification package to change and harmonise several thematically connected regulations at the same time. The current sustainability regulation framework is excessively complex and has led to a massive increase in administrative burden for businesses without being accompanied by a direct steering effect. The extent of reported information should be manageable and relevant for decision-making. Sustainability reports must offer additional value to support the sustainability transformation. Reporting must not be just for the sake of reporting itself. Adapting the requirements, in particular focusing on the most important information, is therefore urgently required.

In the opinion of the German Banking Industry Committee, the following points need to be considered for the three directives and regulations – the Corporate Sustainability Reporting Directive (CSRD), Taxonomy Regulation and Corporate Sustainability Due Diligence Directive (CSDDD) – to be included in the Omnibus simplification package.

Corporate Sustainability Reporting Directive (CSRD, EU 2022/2464) / European Sustainability Reporting Standards (ESRS, Delegated Regulation EU 2023/2772)

The guiding principle must be: "Evaluation before introducing further regulation" with the aim of streamlining existing reporting standards (ESRS) in the short term and, for now, stopping the addition of further reporting requirements.

The purpose of the Corporate Sustainability Reporting Directive (CSRD) and the development of European Sustainability Reporting Standards (ESRS) was to put businesses in the position of being able to transparently and comparably disclose their sustainability performance and their effects on sustainability.

The current and planned future requirements create considerable challenges for reporting companies. The implementation of sector-agnostic ESRS (Set 1) already ties up considerable resources and will also require significant effort in the coming years. In addition, from the point of view of the users of CSRD reports – such as investors and credit institutions– not all disclosure data points are (equally) relevant for making decisions. The growing complexity and escalating extent of the requirements are increasingly having negative effects on the quality, comparability and meaningfulness of the data and therefore also the basis for investment decisions. Nevertheless, the work on developing additional reporting requirements like sector-specific ESRS goes on.

We expressly support the letter of the German federal government from 17. December 2024 calling for a simplification of sustainability reporting obligations. To ensure that these measures are impactful and that a trickle-down-effect is limited, bank-specific reporting obligations (Pillar 3 disclosures, ESG in supervisory reporting) and data requirements related to risk management (ECB-Guide, national Minimum Requirements for Risk Management (MaRisk), EBA Guidelines on the Management of ESG-risks) need to be adapted in parallel. Additionally, entities subject to reporting obligations must be offered practical solutions to ensure that they do not require data from corporates that are not directly subject to reporting requirements. Otherwise corporates and credit institutions will have to rely on individual, non-standardised data collection. Simplifications for one part of the economy, must not lead to additional bureaucracy and data challenges for the other side.

In general, in order to ensure proper implementation, any new reporting obligation should be implemented with sufficient time and long-term reliability.

Overall, the CSRD revision should focus on lean, consistent and auditable requirements for all sustainability laws that regulate similar or identical topics from different regulatory perspectives, including EBA Guidelines and Standards.

In order to make sustainability reporting more efficient and targeted, we would like to make the following proposals:

1. Significant short-term streamlining of existing requirements in CSRD and ESRS

The delays in transposing the CSRD into national law in a number of member states are a clear sign that length and granularity of the ESRS have failed to implement the goals of the CSRD legislators in a balanced way. The EU Commission should therefore streamline the reporting requirements significantly and within a short term. As part of the swift development, proposal and adoption of the Omnibus Simplification Package, the complexity and extent of reporting obligations should be reduced compared to the current ESRS (Set 1) through deletions, simplifications and a clear focussing on data and topics relevant for decision-making. The goal should be to make a tangible and short-term reduction in the amount of administrative burden for companies and credit institutions by up to 25% at least.

Should EFRAG be involved, it must be given a clear mandate to streamline the content and processes of the sector-agnostic ESRS and not merely formally reduce the number of disclosure requirements by simple merging several data points together.

In the context of current CSRD and ESRS requirements, we propose the following concrete steps:

- **ESRS quick fix with extended phase-in rules and reducing full ESRS to the size of LSME standard:**

The first step would be to expand the ESRS's transitional provisions to significantly more data points. To make implementation easier, certain disclosure requirements could be reduced in a targeted manner and be implemented step by step during the first three years of ESRS application. A further timeline extension could be considered for existing phase-ins. This would ensure that the legal consequences of the Omnibus Package can be implemented in a timely and practical manner for all companies preparing sustainability reports for the first time. To achieve this, the quick fix would need to be adopted in the first half of 2025.

The ESRS should be overhauled and simplified substantially in order to streamline the disclosure obligations. Overall, the focus should be on achieving a reasonable number of meaningful and manageable disclosure requirements.

Insofar as the objective of the Omnibus initiative is to streamline the ESRS in a particularly fast manner, the LSME standard could serve as the core reference point for downsizing ESRS. During the LSME standard development according to Article 19a Paragraph 6 Accounting Directive and its consultation with a broad stakeholder engagement identified main data points that are considered particularly relevant. The results of this analysis should be the basis for the overhaul of ESRS Set 1 (Full-ESRS). To introduce simplifications quickly, 1) the content of the Full-ESRS could be limited to the LSME standard size, and 2) the extent of the LSME standard should be closely linked to the content of the currently voluntary VSME-standard (including both Basic and Comprehensive Modules). The simplified ESRS must be based on the structure, definitions and KPI-methodologies of the Full-ESRS in order to limit the gap between reduced and full reporting, to make easier the move from the reduced to full reporting when a company grows and to allow for an effective implementation of the changes from the Omnibus simplification package.

Data points contained in the sector-agnostic ESRS, that are in practice sector-specific, should be deleted in order to ensure that the sector-agnostic ESRS meet their intention. Furthermore, "may"-Disclosure Requirements within the ESRS should be removed due to their voluntary nature (voluntary disclosure on the entity specific material topics should not be limited thereby).

In streamlining the data points, a comparison could be made with, among others, international standards (ISSB in particular) to identify starting points for simplifications. Current guidance on the interoperability of ESRS and ISSB standards is not detailed enough. The target should be a release of a granular data point mapping with ISSB requirements for companies reporting according to ESRS so that they can check it easily and declare their compliance with ISSB standards (reporting entities should not have to perform analyses on the general compatibility of ESRS and ISSB standards at the level of individual data points on their own).

The omnibus simplifications should not lead to additional burdens on companies that were already subject to reporting requirements on 31 December 2024. It is important to also consider that changes to the Full-ESRS will cause additional implementation steps within credit institutions.

- **Simplification of materiality analysis:** In addition to reducing the reporting content, the processes must also be simplified, particular with regard to assessments based on the double materiality perspective. At the very least, a cycle of three years (valid for 3 financial years) should be allowed for the double materiality analysis.

In addition, comprehensive descriptions as to how the materiality analysis was implemented are not essential for the addressees of the report – not least because the materiality analysis is subject to audit. Simplifications should be made here too. Furthermore, the mandatory involvement of employee representatives could be limited to ESRS S1 content only.

The comprehensive concept of double materiality deviates so much from the ISSB approach that it makes an international comparison particularly difficult.

Furthermore, the CSRD requirements for the materiality analysis should be aligned with those of the CSDDD risk assessment. Both obligations should be consistent in order to allow for a harmonised reporting of the outcomes of CSDDD risk analyses in CSRD reports.

- **Limit disclosure requirements on the value chain within the CSRD:** Even though non-listed SMEs are directly not subject to CSRD, they are often faced with indirect obligations as part of a larger corporate's or credit institution's value chain (incl. the supply chain). Limiting value chain perspective in general and within the double-materiality assessment to direct business partners would help to solve the issue of an uncontrolled trickle-down-effect. Moreover, the concept of operational control should be suspended due to its impractical nature. Furthermore, the definition of the value chain should be harmonised across different regulatory frameworks on the basis of the least common denominator.
- **Exempt subsidiaries from separate reporting obligations:** The CSRD currently stipulates that listed subsidiaries that exceed the thresholds for large companies cannot make use of group exemption rules. This means that individual national entities of European groups need to prepare several sustainability reports for different countries. However, policies and actions are usually determined at group level. As a result, reports on the subsidiary level offer hardly any additional informative value. Furthermore, the reports that are of primary interest to stakeholders are likely to be those prepared at the group level. We therefore recommend removing this restriction on group exemption for listed subsidiaries. One report at the group level should suffice. Article 29a No. 4 of the CSRD (and any associated pronouncements) should be deleted.
- **Postponing the evaluation of the feasibility of an audit with reasonable assurance:** An assessment whether reasonable assurance is feasible for auditors and undertakings should only be performed following an evaluation of two financial years after the last SMEs are required to prepare reports following the end of the opt-out (i.e. at the earliest after the 2030 financial year).

Auditing experiences with the SMEs reporting should be included into the evaluation (Article 26a of the Statutory Audit Directive). The high cost factor should also be considered since CSRD reporting and solutions for taxonomy calculations already create very high financial burdens.

- **Prevent excessive processes and gold-plating in the context of auditing:** In future EU auditing standards, it should be clearly regulated that the scope of the audit is only compliance with CSRD and ESRS, but not (additional) EFRAG publications or other interpretation guidances, such as FAQs. Any interpretations by the EU Commission should be consulted on. It must be ensured that these do not exceed existing legal requirements. Furthermore, the main body of the ESRS and application requirements should be aligned and balanced.
- **Make it easy to build on existing ESG regulation:** A centralised 1:1 mapping table of ESRS requirements with current obligations in other European ESG legislation could simplify decisions on interpretation considerably.

We also propose the following overarching points:

- **Reporting architecture with no overlapping or redundancies:** Streamlined and standardised requirements are important for sustainability regulation framework as a whole. Streamlining and reducing redundancies should also be a part of the European Banking Authority's (EBA) mandate to further develop ESG disclosure in the supervisory Pillar 3 reports. The principle 'reporting only once' should be implemented in the regulatory practice. For example, the EU taxonomy templates should be disclosed in only one of the reports; existing hurdles for referencing options should be removed. Similarly, redundancies within the ESRS should be deleted.

Inconsistencies between requirements from different supervisory authorities/standard setters on the same topics must be resolved through further standardisation. In terms of improving comprehensibility and legibility, it should, in general, be sufficient for individual and consolidated financial statements, including (group) management reports, to summarise ESG risk disclosures in one place and not to report on them in the risk report, CSRD report and in the notes or to have to include references in many sections of the same report.

The basic principles of the Omnibus package and the absence of overlaps should also be taken into account in the development of further frameworks. This applies, in particular, to the prudential reporting and disclosure requirements contained in the CRR. They should be limited to a bare minimum from the outset. Before they are developed, it should also be evaluated, taking into account the CSRD/ESRS whether there really is a need for further data requirements or not. In the interests of materiality, it should also be permitted to only prepare an overarching, summarised presentation of ESG risk management and strategies without detailed explanations of individual topics/aspects. Furthermore, in this regard, we would urge accelerating the establishment of the European Single Access Point (ESAP). As things currently stand, the first financial reports with sustainability data from issuers will not be available via the ESAP until mid-2027 – and reports from other companies even later.

- **Simplifications must apply consistently to all frameworks both for non-financial and financial undertakings equally:** Easements and simplifications which are part of the Omnibus package must be implemented to the same extent in the reporting and disclosure obligations under CRR. If the requirements are only amended for non-financial undertakings (e.g. via the CSRD), without bank-specific reporting and disclosure requirements being amended to the same extent in a proper way, then banks would have to gather these data from undertakings bilaterally.

This would lead to considerable confusion and disgruntlement among undertakings and would undermine the simplification efforts.

With regard to ESG disclosure, in the interests of materiality, it should be permitted to only prepare an overarching, summarised presentation of ESG risk management and strategies without detailed explanations of individual topics/aspects.

2. Evaluation of reporting obligations before introducing further regulation to avoid additional bureaucracy and new disclosure obligations in the meantime.

Sustainability reports should create added value to support the sustainability transformation. The enormous complexity of the CSRD/ESRS reports, despite materiality assessments, is likely to hinder rather than support efficient analysis and decision-making. Reporting must not be the end in itself.

In the coming years, the focus must be on evaluating the existing reporting requirements. Before new reporting obligations are developed, the existing regulations must be reviewed to ensure they are effective and appropriate. Ineffective or excessive reporting obligations must be deleted or repealed.

We also propose to start with the evaluation of the reports in accordance with sector-agnostic ESRS. Only after this evaluation could it be identified, which sectors actually require additional, binding sector-specific ESRS. Other sectors would need only simplified reporting standards or no additional sectoral requirements.

An evaluation phase of this kind would ensure that the development of sector-specific ESRS is based on actual needs and would avoid unnecessary reporting requirements. The Omnibus Simplification Package should suspend the development of sector-specific ESRS through an amendment of the CSRD. A decision on the need for sector ESRS should be postponed.

Should the evaluation ultimately determine that additional information is needed for certain sectors then these additional data points should focus on sector-specific data. Cross-sectoral topics that were not included in ESRS Set 1 should not be shifted to sector-specific standards (e.g. cybersecurity).

3. Focus on clarifications with practical relevance rather than developing additional reporting requirements for selected sectors

Prior to the evaluation of the need for sector-specific ESRS, there should be a greater focus on providing clarifications for the existing reporting requirements within the sector-agnostic ESRS. Unclear requirements not only lead to an inefficient and lengthy reporting process, but they also limit the meaningfulness of the sustainability reports. Many undertakings are already facing significant challenges with the technical and practical implementation of sector-agnostic ESRS (Set 1).

So, for example, a standardised definition of due diligence obligations in the frameworks such as CSRD and CSDDD would be very important for credit institutions. It would ensure the coherence of regulatory requirements and create the necessary legal clarity for the efficient implementation of human rights and environmental obligations along the value chain.

Rapid support is therefore needed in the form of concretisation and/or practice-oriented interpretations taking feasibility aspects into account. The guidance should be as clear and concise as possible – unlike the current EFRAG IG. EFRAG should therefore be given a clear mandate by the EU Commission. The published EFRAG IG should be streamlined so that undertakings with limited resources can also benefit from these supporting documents.

The Taxonomy Regulation (EU 2020/852)

The German Banking Industry Committee continues to support the basic idea behind the EU Taxonomy – to create a standardised classification of sustainable economic activities.

However, the EU Taxonomy has not yet been able to fulfil this goal. Applying detailed and highly complex technical assessment criteria, which in part require knowledge of technical experts, is a challenge – not only due to the considerable difficulties in obtaining the data and required evidence. It is often not possible to classify an economic activity as taxonomy-aligned just because of the missing reliable evidence of the compliance with the DNSH or MSS criteria – and not because of the absence of sustainable character of the activity or its significant contribution to one of the environmental objectives. Accordingly, taxonomy alignment ratios are very low in most sectors, including among financial companies. Only a few industries have comparatively high ratios, which is due to the taxonomy's coverage in the energy and transportation sectors. However, this means that taxonomy alignment ratios differ considerably depending on the sectoral focus (and not necessarily due to their sustainability performance), which makes it impossible to compare the indicators across sectors and company types, and limits their factual significance.

Similarly, a structuring of financing is often decisive as to whether an exposure can be included in the taxonomy KPIs of a credit institution – not the actual sustainability profile of financed activity. For example, special purpose vehicle companies (as is common market practice for wind or solar farms and for commercial real estate financing) are often not included in the numerator of the taxonomy KPIs in Germany, since such corporates are not subject to a reporting obligation. Nevertheless, these exposures remain in the denominator, thus distorting the KPIs. As a result, the taxonomy KPIs currently provide hardly any steering-relevant impulses for many non-financial undertakings or credit institutions. Up to now, there have been considerable gaps in the taxonomy, even among progressive financial market participants. Products with ESG features only achieve low taxonomy rates due to the low level of coverage. The effort and benefits of data collection/assessment and reporting are currently disproportionate.

Considering these challenges, we propose that the evaluation of taxonomy-alignment is simplified substantially. Due to the low steering-relevance and its various methodological shortcomings, we propose to reevaluate the reporting obligation of the Taxonomy Regulation's Article 8. At the very least, the reporting methodology should be adapted in accordance with the proposals set out in Chapter 2 below.

Currently, the taxonomy is only following a binary approach. Intermediate steps towards sustainability following the idea of a transition are barely reflected in the current framework. Instead, the focus should be moved to transition finance and voluntary, harmonised guidance for reliable transition plans.

Further detailed adjustments are required.

1. Simplifying the conditions for assessing taxonomy alignment

In general, the criteria for environmentally sustainable economic activities under Article 3 of the Taxonomy Regulation for determining taxonomy alignment (substantial contribution and DNSH) should be fundamentally simplified and, above all, reduced. Too many environmental and social objectives are pursued simultaneously in many economic activities. Some recommendations made by the Platform for Sustainable Finance on 8 January 2025 to amend the climate-related delegated act are a step in the right direction.

- **Simplification of DNSH:** We propose to streamline the number of DNSH-requirements, their certification and their documentation for use of proceeds financings (e. g. project finance or real estate). Rather than requiring an additional evaluation of DNSH-criteria (aside from the DNSH-criteria on climate change adaptation), it should be permitted to rely on suitable evidence of the borrower that clarify compliance with the DNSH-criteria (e.g. BREEAM, LEED, compliance with ISO norms).

European credit institutions that are subject to the EU's strict ESG risk management framework (CRD VI in connection with EBA Guidelines on the Management of ESG risks, ECB Guide on climate-related risks), should be exempted from the taxonomy's DNSH-requirement to evaluate the physical risk of individual loans. These credit institutions already evaluate climate-related physical risks on the portfolio level and during the loan origination process. An additional evaluation necessitated by the taxonomy appears redundant.

DNSH should also be simplified for economic activities of corporates headquartered or located in the EU. An evaluation of taxonomy-alignment could be limited to an analysis, whether the activity provides a substantial contribution to the taxonomy's objectives, insofar as the credit institution is not aware of any violations by the counterparty.

- **Minimum social safeguards:** The criterion for checking minimum safeguards in accordance with Article 3(c) Taxonomy Regulation should either be deleted or, if there are no known indications of violations by the counterparty, generally considered to have been met. Additional analysis is not necessary, as the intended minimum social safeguards are already guaranteed in full by other EU regulations (assessment of taxonomy alignment only for non-EU companies).
- **Differentiating the analysis's scope according to risk:** The scope of the taxonomy assessment should also be determined depending on risk.

For the low-risk residential real estate financing (new construction, renovation, acquisition & ownership), a significant simplification could be to completely waive the DNSH criteria for retail loans. Complex and cost-intensive analysis of small-scale transactions are not conducive to helping the transformation. The considerable additional costs undermine national and European efforts to reduce construction and renovation costs and thereby to provide more affordable housing. A recommendation in the draft report of the Platform for Sustainable Finance from 8 January 2025 also suggests simplifying fulfilment obligations for renovating residential properties.

In the case of retail loans for electric cars (economic activity 6.5), only the substantial contribution to environmental objective 1 should have to be assessed, not the requirements for external rolling noise or the rolling resistance coefficient of the tyres.

2. At a minimum, reporting requirements pursuant to Article 8 Taxonomy Regulation must be revised

Most stakeholders were not adequately involved in discussions on reporting requirements as part of the introduction of the Taxonomy Regulation. For example, the EBA did not hold a stakeholder consultation on the initial recommendations to the European Commission on templates for credit institutions. In contrast, EIOPA and ESMA held consultations. Experience so far clearly demonstrates that in terms of reports from credit institutions, at least, current requirements pertaining to determining the Green Asset Ratio, including the delegated acts, are neither consistent nor expedient. The cost-benefit analysis simply does not add up, for the real economy or the banking industry. In addition, both the overall reporting requirements and the GAR in their current forms distort the sustainability profiles of the banks.

If reporting pursuant to Article 8 Taxonomy Regulation is maintained, the calculation methodology used must be fundamentally revised and streamlined. Considering the complexity and level of detail of taxonomy templates, it will also be important to assess, critically, whether or not it makes sense to include taxonomy templates in the management report. We call for the following measures in the review process:

- **Aligning the GAR denominator with the numerator:** Positions subject to a blanket exclusion from the GAR numerator (such as exposures toward undertakings not in the CSRD scope, or those toward non-EU businesses) should, in turn, be excluded from the KPI's denominator. This will solve the problem of distortions currently inherent in the KPI, focusing it on those directly affected by the Taxonomy Regulation.
- **Reducing the granularity and extent of reporting:** The number of templates should be reduced. At least sector reporting (Template 2 GAR Sector Information) and templates with the first disclosure in 2026 should be removed. Sector-specific data are not relevant for the GAR, new disclosures on trading, fee and commissions KPI are of even less added value as GAR. In addition, quantitative reporting requirements on activities relating to nuclear and gas should be removed as the ratio is included in the GAR.
- **Introduction of materiality thresholds:** Financial undertakings should be allowed to voluntarily apply materiality thresholds within the framework of the taxonomy assessment. These could be set per institute and based on the materiality in the portfolio. Here are some examples:
 - For the purchase of residential real estate by private households, granted after the Taxonomy Regulation has come into effect and that, for example, exceed a loan amount of three hundred thousand euros.
 - Pertaining to assets in the form of own real estate and energy generation plants, provided that these were purchased after the Taxonomy Regulation came into effect and that, for example, exceeded a gross carrying amount of five hundred thousand euros at the time of purchase.
 - For loans to local governments, granted after the Taxonomy Regulation came into effect and that, at the time they were granted, exceeded a loan amount of at least one million euros and for which the use of proceeds is known.
- **Simplifying the reporting assessment process:** For exposures towards undertakings in the CSRD scope, the exposures with *use of proceeds known* should be treated equally to the exposures with *use of proceeds unknown*, so that the taxonomy information communicated by

counterparties can be taken over by the bank without the need for an additional assessment. This will prevent costly duplicate assessments, once by the counterparty and then a second time by the financial undertaking.

Credit institutions should be granted an option to voluntarily use a counterparty's general taxonomy KPIs even for exposures with use of proceeds known. This would allow credit institutions to follow a simplified alternative approach without requiring institutions with already implemented processes on the basis of the current rules to change their methodology.

- **General simplification of templates:** The taxonomy reporting templates require a granular breakdown based on the type of counterparty. Banks are then required, in addition, to separately disclose their figures for each type of counterparty into different types of exposures (loans and advances, debt securities, equity instruments). This breakdown does not provide any material added value and should be removed.

In addition, sample templates that can be filled out in Excel should be provided for the current format and as soon as possible after every change of requirements.

- **Providing reporting support for institutions:** Whether or not undertakings are included in taxonomy KPIs is largely dependent on whether or not they are subject to a reporting obligation pursuant to the CSRD. A register of undertakings in the CSRD scope should be created and made publicly available on the EU level. This will simplify implementation of taxonomy reporting requirements. If this register cannot be created in a timely manner across the EU, national solutions should be put in place.

Quite apart from revising the relevant methodology, it is clear that the GAR, now and in the future, is not a suitable instrument for managing banks. This is due to both the low coverage offered by the taxonomy and its binary nature, in which intermediate steps towards sustainable economic activity are only taken into account nominally if at all.

3. Complex requirements should not be further tightened via "soft law"

The European Commission regularly publishes FAQs designed to support undertakings as they interpret European regulations. The goal is to use the Taxonomy FAQs to improve the usability and comparability of the reported data. The FAQs are "soft law", and as such not legally binding. However, they are, in practical terms, usually adopted in full by statutory auditors during audits. This means that the FAQs are, de facto, binding for undertakings. This becomes a problem when the FAQs interpret regulations to be more restrictive than intended by the primary sources (Level 3 goes above and beyond Level 2). Implementation supporting tools become quickly implementation obstacles.

In light of this, we call for FAQs and other recommendations to also be the subject of public consultations. In addition, implementation deadlines must be sufficient and be set for a time after the final version, including consultation, is complete. Because there are usually technical and data requirements – particularly when implementation involves contracting with external IT service providers – it is often impossible to implement changes immediately. This results in significant compliance and audit risks, which consequently also result in barriers to investment. Not only that, regional and institution-specific differences in the interpretation of the reporting requirements are already making an appearance. This could mean that reported KPIs may not be adequately comparable.

The following FAQs, as an example, represent a serious practical burden for undertakings.

- **Requirement to review counterparty taxonomy data:** the alignment assessment provided by the counterparty, including verification or assurance, should be sufficient. A duplicate assessment, once by the counterparty and then a second time by the financial undertaking, is unnecessary (see FAQ 33 from December 2023, published in the Official Journal of the EU on 8 November 2024, C/2024/6691).
- **Annual review of taxonomy-alignment of exposures:** the mandatory annual review (which, considering the supervisory disclosure requirements pursuant to Article 449a CRR, may even have to take place more than once annually) is excessive and should be removed (see FAQ 34 from December 2023, published in the Official Journal of the EU on 8 November 2024, C/2024/6691).
- **Assessment obligation for (use of proceeds) financing for subsidiaries:** the obligation to assess financing for subsidiaries of those undertakings subject to reporting requirements can also apply to very small subsidiaries. In addition, a requirement to include subsidiaries with no reporting obligations in the event that their parent company has reporting obligations contradicts and exceeds the provisions in Article 7(3) Taxonomy Regulation. Undertakings not required to publish reports must not meet data quality requirements as laid out in the EU Taxonomy Regulation. Using this data would be akin to using estimated data. Not only that, it would significantly increase the burden on financial undertakings, as every counterparty would have to be assessed. We recommend removing this provision (see FAQ 13 from December 2023, published in the Official Journal of the EU on 8 November 2024, C/2024/6691).
- **Compliance with minimum safeguards:** requiring that goods' manufacturers and service providers obtain "adequate documentary evidence" for exposures to households regarding compliance with minimum safeguards represents not just an enormous burden, it also exceeds the requirements in Article 18 Taxonomy Regulation (EU) 2020/852 (see the Final Report from the Platform on Sustainable Finance from October 2022 and FAQ 37 from December 2023, published in the Official Journal of the EU on 8 November 2024 C/2024/6691). We therefore recommend removing this requirement.

Currently, several separate FAQ lists on the taxonomy exist. A consolidation of those FAQ-lists would improve the usability and decrease the number of relevant documents significantly.

Corporate Sustainability Due Diligence Directive (CSDDD, EU 2024/1760)

The financial industry is working intensely to fight against climate change, as well as other sustainability issues. Of course, this also includes social issues and corporate governance. We are therefore in favour of the CSDDD's due diligence goals.

However, banks are already required to publish a large amount of information on their strategies, targets and actions as pertaining to sustainability. They are already the subject of comprehensive and complex regulatory frameworks, as well as expectations from the European Central Bank (ECB) and national supervisory authorities. For example, the EBA Guidelines on loan origination require ESG issues to be taken into account throughout the entire credit and risk management process. The banking package (CRR III and CRD VI) creates additional obligations for managing, reporting and disclosing ESG risks. In each case, these obligations go above and beyond simple environmental goals.

In light of this, we believe that leaving the CSDDD requirements for financial undertakings in their current state would be adequate for the most part. The complexity of the system and the interconnected nature of the obligations mean that implementation already requires significant resources, to the extent that it could even slow the economic transition's positive momentum.

Further specification of due diligence requirements for financial undertakings could force banks to remove themselves entirely from sectors that may potentially have higher social risks, which would, in turn, deny these sectors important financing options. This has already, in similar situations and in multiple instances, caused the risks the CSDDD is designed to mitigate to rise, as other, less regulated institutions step in to fill the financing gap. In addition, it would increase the complexity of the existing regulatory framework and lead to duplicate regulations.

We simply do not believe that additional due diligence requirements for financial undertakings are expedient. The mandate for the European Commission to publish a report and, if appropriate, a legislative proposal by 26 July 2026 pursuant to Article 36 CSDDD should be removed, in order to avoid overlaps and the undermining of existing supervisory structures.

Instead, the rule outlined in Recital 26 – which already clarifies that the downstream value chain of financial corporates does not fall into the CSDDD's scope – should be integrated into the definition of the 'chain of activities'.

To combat climate change, companies are required to adopt transition plans pursuant to Article 22 CSDDD. However, this requirement already exists for all credit institutions pursuant to requirements listed in Article 76(2) CRD VI. While these transition plans have different objectives, it is important that they are compatible long-term. The CSDDD outlines an initial step in this direction, by freeing corporates that report on a transition plan within their CSRD report from the CSDDD's obligation. Furthermore it is necessary to clarify that the requirements and methods of the different frameworks are compatible.

Additionally it must be recognised, that transition plans can outline a corporate's ambitions and plans with regards to its transition. Achieving them does however also depend on external factors.

In addition, we call for the following simplifications within the framework of the CSDDD:

- **Refining due diligence requirements:** the CSDDD requirements should be limited to suppliers with which a credit institution has a direct contractual relationship. This is the only relationship in which there is any realistic possibility of influencing the actions of the supplier in question.

In addition, not all industries have similar due diligence risk profiles. As such, due diligence should focus on specific industries with higher risks (e.g. fossil fuels, mining or textiles). For low-risk industries, the option should be available – at a minimum – to make simplified disclosures or blanket risk assessments.

- **Amending liability and sanctions rules:** to date, the CSDDD contains regulations on civil liability. These regulations significantly increase legal risks for European businesses and have a negative effect on their ability to compete globally. In addition, the due diligence requirements can have adverse effects on business relationships, as business partners might withdraw from a business relationship due to concerns about the due diligence requirements and associated liability regulations. The sanction regulations, which are also part of the CSDDD, should be enough to ensure compliance with the regulations and/or to ensure that non-compliance is addressed.

At the same time, the sanction regulations should be based on the existing due diligence laws. For example, the German Supply Chain Act has a corresponding rule on sanctions, but limits it to a maximum of 3% of annual turnover. The CSDDD should take a similar approach, in order to ensure the laws are comparable.

- **Transition plans:** should a separate requirement to develop a transition plan remain despite the fact that it would do so in addition to requirements pursuant to those in the CRDVI, then uniform requirements should (at least at first) be kept to a minimum. For example, the transition plan should only have to be updated every 36 months, not every 12. This reflects market practice.