EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB staff response to the EFRAG consultation on the revised ESRS standards

1. **ECB staff welcome the work of EFRAG on the revision of the European Sustainability Reporting Standards (ESRS),[1] which constitutes a major contribution to the Omnibus Simplification Package.[2]** ECB staff have been closely following the ESRS revision as observers at the EFRAG TEG and SRB. We note that the ESRS have been significantly simplified, including a 68% reduction in data points.[3] The proposed simplified ESRS represent a good starting point for improvements in the future, when more reporting experience has been gathered by preparers in different sectors.

2. **We believe it is necessary to strike a fine balance between usefully simplifying the standards and at the same time maintaining the objectives of the European Green Deal and sustainable finance action plan, and concretely of the Corporate Sustainability Reporting Directive (CSRD).** In the view of ECB staff, it is crucial to maintain the usefulness of disclosures needed by financial investors, financial institutions and policymakers to duly judge the risks arising from climate- and nature-related factors.

3. **In our view, the significant ESRS simplification that has been achieved can usefully inform the calibration of the CSRD scope reduction at Level 1.** As expressed in the ECB opinion of May 2025, the ECB supports the simplification efforts induced by the Omnibus. The reduction of reporting obligations is being worked upon at two levels (Level 1 and Level 2). In its opinion, the ECB highlighted several drawbacks to the reduction in the scope of sustainability reporting at Level 1 and invited the Union legislators to give further consideration to the CSRD scope, in order to ensure that it remains well calibrated.[4] Thus, it is worth bearing in mind that these cuts at both Level 1 and Level 2 have a multiplicative effect on the overall reduction of the quantity of information disclosed,[5] and hence on the information available as input for risk management and other purposes. Additionally, the materiality filter continues to apply, meaning that the percentage of data points that remain in the ESRS after simplification are a theoretical upper bound for an undertaking for which all

[1] The ECB response to the EFRAG consultation does not pre-empt the conclusions of any future opinion which the ECB may be requested to deliver to the European Commission on the revised ESRS.

[2] Please refer to the Opinion of the European Central Bank of 8 May 2025 on proposals for amendments to corporate sustainability reporting and due diligence requirements.

[3] In total, mandatory data points (to be reported only if material) have been cut by 57%, and the full set of data points – mandatory and voluntary – reduced by 68%. (see "EFRAG Shares Revised ESRS Exposure Drafts and Launches 60-Day Public Consultation", *press release,* EFRAG*,* 31 July 2025.)

[4] To this end, the ECB opinion suggested concrete proposals, including retaining the pre-CSRD, NFRD threshold of >500 employees. This way, the investments already made by wave 1 companies will not have been in vain, while at the same time they will benefit from the ESRS simplification.

[5] For example, if 20% of companies were to remain in scope of the CSRD (as per the February EC proposal), and 32% of data points were to remain in the ESRS, then the final volume of information disclosed would be 6.4% of the originally foreseen volume (0.20x0.32).

topics were material. The reliefs introduced will also likely reduce the quantity of information disclosed (see paragraph 5b below). Ultimately, however, over-simplification could lead to more complexity rather than less, given the likely replacement of public disclosures by multiple bilateral information requests from investors and other counterparts.

4. **ECB staff are broadly supportive of the ESRS simplification that has been proposed.** We would like to highlight the following improvements. Preparers and users alike will in particular benefit from the clear-cut distinction between what needs to be disclosed (disclosure requirements – DRs) and the methodological instructions of how it needs to be disclosed (application requirements – ARs); the distinction between mandatory methodological guidance within the ARs, and non-mandatory implementation guidance (NMIG); and improved visibility on the use of the materiality-of-information filter.

5. **However, the availability, quality and comparability of data points most relevant for the ECB's tasks depend on how some key open issues are addressed after the consultation.** ECB staff in particular see the following open consultation questions as critical for preserving the quality of ESRS disclosures. The ECB Omnibus opinion recommended retaining most data points under ESRS E1 (climate change) and the most important data points under ESRS E4 (biodiversity and ecosystems), given their crucial importance for assessing and managing physical and transition risks. ECB staff note that these standards have been significantly streamlined and could be affected further, depending on the resolution of the open issues outlined below:

   (a) **Quantitative information is essential for disclosures on anticipated financial effects.** ECB staff believe that it is of critical importance to retain the requirement to provide quantitative information in this regard, and hence strongly support Option 1 in Question 19 of the consultation. Quantitative information on anticipated financial effects is necessary for informed decision-making by investors, and it is the foundation of the financial materiality perspective which is a core part of the CSRD. However, Option 2 limits the requirement to qualitative information only. In the view of ECB staff, quantitative information is needed to enable proper assessment and management of the financial impact of ESG risks. ECB staff also point to the CSRD objective of putting financial reporting and sustainability reporting on an equal footing and ensuring connectivity between them. The Omnibus simplification mandate also puts an emphasis on retaining quantitative disclosures. ECB staff acknowledge the challenges related to forward-looking information and highlight that Option 1 already allows for reliefs in this regard.

   (b) **Reliefs for lack of data quality should be limited in time, and more generally reliefs should be exceptional.** ECB staff acknowledge that, on any new disclosure topic, challenges exist with regard to data availability and quality in the initial stages. But one of the CSRD objectives is to achieve the creation of a reliable and comparable data ecosystem over time, which requires companies to measure and monitor sustainability-relevant metrics and information that were not being collected previously. Permanent or unconditional reliefs could have unintended compound effects. They would remove the incentive to improve data availability and collection over time and risk undermining the objective of comparable disclosures. Furthermore, many of the newly introduced reliefs would go beyond IFRS reliefs (see paragraph 6 below).

(c) **Transparency on transition planning efforts and GHG reductions is necessary from all sectors, including the financial sector.** ECB staff strongly support the requirement in ESRS to accompany disclosures of intensity targets with absolute figures. As such, ECB staff are of the view that these disclosures are equally necessary in the case of financial institutions. This information enables stakeholders to understand the overall evolution of financed emissions over time – which is ultimately the central question in a transition plan – and thus to understand a bank's exposure to transition risks, also in light of the EU objectives based on the Paris Agreement. ECB staff acknowledge that all GHG targets entail a complex consideration of assumptions, and this is the case regardless of the sector.

6. **ECB staff welcome efforts to strengthen interoperability with international standards, while noting that European policy objectives remain paramount.** ESRS Set 1 was interoperable with the corresponding IFRS sustainability disclosure standards (S1 and S2),[6] with more granular guidance and detail in some areas.[7] As recommended in the ECB opinion on the Omnibus package, the ESRS simplification should seek to maintain the already high degree of interoperability that has been achieved. In this regard, ECB staff observe that a number of the newly proposed reliefs go beyond IFRS. This is the case, for example, in the proposed Option 2 for anticipated financial effects under Question 19, as mentioned in paragraph 5a above. Other examples include the extension of the "undue cost or effort" relief for poor data quality to metrics pertaining to own operations; and the unconditional relief from providing disclosures in the case of acquisitions or disposals, both of which would constitute a loss of interoperability with IFRS. Furthermore, as regards the new overarching "undue cost or effort" IFRS relief, ECB staff highlight the importance of guidance to avoid divergent interpretations by different preparers and auditors, which would hinder comparability.

7. **The central role played by own operations for non-financial corporations corresponds to the downstream value chain for banks, and hence an undue reduction of disclosure requirements in this area risks causing material information gaps.** For credit institutions, most ESG risks, impacts and opportunities are concentrated in the downstream part of their value chain, as they are related to the activities of the European and international clients that

[6] See *ESRS-ISSB Standards Interoperability Guidance*, IFRS, May 2024.

[7] See the *ECB staff opinion on the first sets of European Sustainability Reporting Standards*, ECB, January 2023.

they fund. Therefore, ECB staff consider it critical to retain the inclusion of downstream and upstream value chain information when it comes to disclosures by the financial sector. ECB staff are concerned that the new overarching restriction of the scope of topical metrics to own operations would amount to exempting banks from disclosing on topical metrics. The same concern applies to the new restriction to own operations of the requirements to assess and disclose biodiversity-, water- and pollution-related risks and impacts at site level.

8. **Beyond the current EFRAG consultation, ECB staff point out that the prompt adoption of sectoral guidance and auditing guidelines is a critical precondition for the quality and comparability of disclosures under the revised ESRS.** The ESRS revision provides a valuable opportunity to check the language of the sector-agnostic standards so that they do not hinder adequate disclosures by financial sector companies as an unintended side effect. In order to provide clarity and to tailor disclosure requirements to sectoral specificities, ECB staff support the prompt publication of sectoral guidelines including – in particular, but not only, for the financial sector – as per the ECB opinion of May 2025. Similarly, ECB staff recommend that guidelines on limited assurance engagements be adopted on a timely basis. Together, these guidelines provide an essential basis for disclosures to be comparable across jurisdictions and harmonised within a sector, ultimately enabling better benchmarking and risk differentiation within a given sector. Ultimately, they facilitate the application of ESRS requirements and lead to more streamlined and meaningful reporting. Lastly, ECB staff highlight the importance of the review clause under Article 29b of the Accounting Directive. Conducting a review of the sustainability reporting standards every three years will help ensure that the standards remain up to date, appropriate and relevant, as the demand for information increases and methodologies mature in this rapidly evolving field.

9. **To reiterate, ESRS disclosures are an important enabler for the ECB to take into account climate- and nature-related risks when discharging its mandate.** High-quality sustainability disclosures by companies are instrumental for the sound monitoring of financial risks at both system level and individual bank level. Sustainability-related issues, and in particular climate change, have an impact on the way the ECB discharges its mandate.[8] The information disclosed under ESRS is expected to support, among other things, (a) the incorporation of climate change-related considerations into the structural monetary policy operations; (b) enhanced risk management of the Eurosystem's balance sheet, supporting the ECB price stability mandate; (c) the analysis and monitoring of climate-related financial risks, supporting financial stability and the banking supervision mandate of the ECB; and (d) the compilation and publication of climate change and sustainable finance statistical indicators as part of the ECB's statistical function.

[8] Climate change and nature degradation feature in the ECB's 2025 monetary policy strategy assessment.

10. **Beyond its usefulness for the ECB’s tasks, meaningful, reliable and comparable sustainability information is needed by banks themselves as a key input for their transition strategy and product offering, and to adequately manage their risks.** More than 90% of banks supervised by the ECB have identified climate- and other environment-related financial risks as material. While banks have made notable progress in managing these risks, they need access to relevant sustainability data that help them, among other things, to assess the creditworthiness of their clients, in the pricing of products or in the assessment of collateral – as acknowledged by banks themselves. Sustainability disclosures under ESRS play a critical role in enabling banks to collect relevant and harmonised information in a way that is efficient for both the banks and their clients.

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For specific terminology please refer to the ECB glossary (available in English only).