Ursula von der Leyen
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Cc/:
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Simplification of the European Union's sustainability reporting

Dear President von der Leyen,

We would like to begin by expressing our gratitude for putting Europe's sustainable prosperity and competitiveness at the center of your mandate for the next five years.

Financing environmentally and socially sustainable investments is at the core of our Institutions' mission. We support the green deal as adopted and endeavour to contribute to its financing in our respective countries.

As CEOs of some of the largest public promotional institutions in Europe, we stand ready to support Europe's Green Transition and competitiveness, leveraging on our long-standing partnership with the European Commission and Member States. At the same time, we advocate for a review of certain elements of the new EU Sustainability Reporting Framework with the aim of reducing the administrative burden and accelerating the transition to a more sustainable, resilient, low-carbon and economically thriving Europe.

In this regard, we welcome the adoption of the **Corporate Sustainability Reporting Directive** (CSRD), complemented by the introduction of the **European Sustainability Reporting Standards** (ESRS), as they have been another important step in furthering the European Green Deal.

Despite the undeniable benefits of such an advanced reporting system, and as we navigate the first reporting cycle, we advocate for changes in certain parts of the regulatory framework and a transition phase in the application of the CSRD/ESRS and EU Taxonomy reporting, complemented for some of us by the Basel requirements[1].

We are particularly concerned that additional data collection requirements we would need to impose to our clients, especially SMEs, will lead to an excessive reporting burden. Equally, the way in which the Green Asset Ratio is currently calculated penalises a whole range of otherwise green investments, and will inadvertently, and paradoxically, discourage the financing of climate action by policy-driven lenders such as our institutions.

Based on the experience gained so far, we are convinced that addressing these issues in the regulation and accompanying guidance framework would not only improve sustainability reporting but also, by reducing the burden on companies and the financial sector, enhance its acceptance throughout the EU economy.

[1] Pillar III reporting: Capital Requirements Regulation (CRR III) and Capital Requirements Directive (CRD VI) disclosures on ESG risk.

If left unchanged, however, we are particularly concerned that acceptance and reporting quality will be limited. Specifically, if comparability among financial institutions is not achieved, general-purpose financing will be systematically prioritised over project financing. Consequently, financing of green investments, especially by SMEs, will be unintentionally discouraged.

We are providing you with concrete technical proposals and effective recommendations to simplify that you can find attached to this letter. They can be incorporated into the omnibus initiative.

We, public long-term investors, stand ready to engage in a close dialogue in these matters.

Annex

Double Materiality Assessment & Sustainability Reporting challenges for companies

Firstly, we consider it essential to agree on clear industry-specific standards and benchmarks that reduce the uncertainty for companies and financial institutions to conduct double materiality assessments (DMA). Existing guidance[2] is still not specific enough to prevent inconsistent application and weakens comparability. Collaboration with standard-setting bodies, auditors and advisory firms to develop uniform guidelines would further ensure consistency and comparability across companies and industries. For example, it would support the DMA if there was a clarified value chain and separation between own operations and the banking business.

Similarly, the administrative burden for companies could be reduced by streamlining and increasing data coherence across all sustainability reporting. Defining a clear scope and boundaries for reporting obligations from different pieces of EU legislation (including e.g. EU funds reporting requirements) and harmonizing data reporting requirements is essential. For instance, data reporting requirements introduced by the Art 8 of EU Taxonomy, CSRD, and Pillar III disclosures on ESG risk are not harmonised, thus impacting data consistency and comparability. Ideally, the "once-only-principle" should be introduced to avoid reporting in different ways the same piece of information. Providing guidance for sustainability data consolidation would allow CSRD entities (and especially Groups operating in a variety of sectors) to report more accurate and comparable data.

Additionally, supporting companies in building capacity to collect and report sustainability data is also vital. The support could include funding for capacity building, technical advisory services, and new digital platforms to facilitate compliance with the CSRD and Taxonomy reporting. We would recommend setting up a separate advisory facility for this purpose. Finally, and while respecting the proportionality principle to reduce administrative burdens, capacity building for materiality assessments and reporting will be particularly important for SMEs subject to CSRD.

Existing data gaps could additionally be closed if European Single Access Point (ESAP) is operational earlier than the current timeline and if both financial and non-financial institutions in the "reporting value chain" could rely on this data without further verifying or validating that data, when relevant for their own reporting.

Lastly, coherent guidance and standards for auditors and advisors on all sustainability reporting standards and verification is urgently needed, as we are noting major divergence across sectors and countries as well as verification and evidence requirements from some auditors that go significantly beyond the (partly ambiguous) wording from regulations[3]. We also believe that, as the whole industry is undergoing this transformational change during these first years, to encourage and not disincentivise robust reporting, clear guidance is needed. To give some time for this transformation to take place, managers signing sustainability reports could not be held personally responsible for the first 3 years for example.

Sustainability reporting challenges specific to the financial sector

Firstly, in our view, it is important to promptly develop pragmatic reporting standards more suited and relevant for the financial sector and clearly adjusted from the standards for non-financial corporates. Financial institutions' sustainability impacts are in large part about the entities and investments they finance, with their own direct impacts being less significant. This makes the current corporate sustainability reporting standards difficult to apply, especially for banks. For public banks and financial institutions, the structure of the corporate standards is particularly challenging to use, to report and explain their sustainability approaches. We therefore consider that specific non-additional standards more suited and relevant to the specificities of the financial sector (and those of public banks and institutions) and including the definition of the financial sector value chain are urgently needed.

[2] E.g., from European Financial Reporting Advisory Group (EFRAG)

[3] Level 1 (e.g. Taxonomy Regulation) and level 2 regulation (e.g. implementing acts)

In addition, clear guidance for credit institutions on taxonomy-alignment assessment and verification for green investments is necessary, including on grandfathering of green debt. The current draft Commission guidance[4] indicates that detailed evidence is required at project level, making it unclear how to incorporate the counterparty's reported and verified taxonomy KPIs on economic activities; when taking account of the difference in timing from when the green financing should be reported by the bank, to when that activity can be reported and verified by the borrower. There is a risk of creating a double assessment process, which would be extremely resource-intensive and undermines the Taxonomy-reporting concept of investors (including banks) using information published and verified at the level of the promoter.

The requirement to collect detailed evidence at project level is particularly impacting those credit institutions that are focused on use-of-proceeds lending, including public promotional banks and institutions. If left unresolved, the imbalance with the unknown-use-of-proceeds (general lending) approach risks disincentivizing green financing efforts that are critical for all entities and in particular for smaller, low environmental impact SMEs, households and municipalities, who are not CSRD undertakings. Simplified reporting and verification approaches for intermediated financing, and a gradual approach to reporting are indispensable for these financing types.

Furthermore, simple certification and verification should be established for green measures, i.e. granular taxonomy-aligned investments and assets (e.g. green vehicles). Designing mechanisms for independent monitoring and verification of sustainability documents supplied by companies providing the assets would mitigate resource requirements and accelerate assessments by allowing borrowers, even small SMEs and households, to provide in turn such certificates to their banks without additional costs, and for the credit institutions to then rely on these externally audited sustainability certificates without further assessment.

Sustainability reporting on green and transition finance beyond taxonomy-alignment

We believe it is important to promote the green transition through green finance beyond taxonomy-alignment reporting, at same time as the current methodological and verification challenges of taxonomy-alignment reporting are resolved. Therefore, we recommend supporting green investments also in non-CSRD entities such as SMEs, local public entities, sovereigns/central governments, central banks, supranational issuers, and entities based in developing countries, and also green investments in other, non-taxonomy eligible sectors. However, supporting green financing to these entities is currently discouraged, as relevant financing operations are either excluded from the Green Asset Ratio (GAR) numerator while included in the denominator, or included but unable to prove alignment, or not included at all. We recommend correcting the mismatch, by allowing for inclusion of all these entities in the GAR numerator and denominator, perhaps under different categories. Finally, to increase investors' needed comparability, the calculation methodology of the GAR could exclude assets in the denominator such as cash that are not relevant for a green financing ratio. Another indicator that could be more meaningful, as long as the taxonomy only partially covers counterparts and sectors, is the ratio between alignment and eligibility.

Importantly, to address transition across the whole economy, we believe it is vital to recognise and encourage finance flows for non-financial corporates' decarbonization efforts and environmental transition, beyond green finance, through voluntary disclosures separately from regulatory KPIs. Additionally, we support phased delivery on different aspects of the Taxonomy, through partial alignment. This focus on wider transition finance, together with a phased approach, would accelerate the provision of taxonomy-based information to markets. We believe this can allow better and more timely monitoring of the gradual alignment of economic activities with the Taxonomy and the EU Green Bond Standard during the transition.

[4] DRAFT COMMISSION NOTICE on the interpretation and implementation of certain legal provisions of the Disclosures Delegated Act under Article 8 of the EU Taxonomy Regulation on the reporting of Taxonomy-eligible and Taxonomy-aligned economic activities and assets (third Commission Notice), 21 December 2023, https://ec.europa.eu/finance/docs/law/231221-draft-commission-notice-eu-taxonomy-reporting-financials_en.pdf.