Overarching Comments

on the European Sustainability Reporting Standard

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent approximately 1,700 banks.

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Comments on the **European Sustainability Reporting Standard**

EFRAG has recently published its proposal for a European Sustainability Reporting Standards (ESRS) under the forthcoming EU Corporate Sustainability Reporting Directive (CSRD). While the CSRD is still being finalised, proposals for its associated ESRS are already subject to a public consultation. As the German Banking Industry Committee, we intend to respond to said consultation. However, we see numerous overarching issues with the proposals, which – in our view – must be addressed separately, as they concern basic concepts and do not fit the consultation’s limited scope.

Proportionality and streamlining
The ESRS reporting requirements lack proportionality, even though this principle is repeatedly emphasised in the CSRD. Instead of a streamlined reporting framework resulting in meaningful information, the reporting requirements will likely lead to an information overload due to their extent and level of detail. This applies to all entities in the scope, but particularly to companies that are currently not subject to sustainability-related reporting obligations. The sheer level of detail of the disclosure requirements will overburden reporting entities (over 600 requirements, incl. more than 170 quantitative data points sometimes with two or more reporting dates or forecast values), necessitating immense administrative overheads and produce additional costs, while users of the reports could be overwhelmed with information, complicating the identification of key data. As a result, the quality of information may suffer.
Comprehensive and compact reports enhance the practicability of the framework as well as the overall quality and verifiability of the reports. Other stakeholders, such as the users of sustainability-related information, also benefit from information that is focused and can be grasped quickly. Moreover, a focus on meaningful information would accelerate the implementation of the reporting standards in corporates and release additional resources necessary to advise companies on their transition pathways.

The ESRS should recognise the additional burden on SMEs and thus provide significant simplifications within the SME standard. This also applies to smaller banks, whose reporting requirements should take into account their smaller size and complexity as well as their private customers and the bulk of SME-clients, which are usually not reporting.

Sensitive information
The ESRS should avoid situations where certain reporting obligations require corporates to disclose information that other legislative frameworks place under particular protection (e.g. personal information, labour law, confidentiality requirements) or information that may negatively impact competitiveness (see Article 432 CRR). Some information required by the ESRS is highly confidential (e.g. on strategic plans and resources). That information could give competitors a competitive advantage.

Consistency with other sustainability reporting standards and the European Climate Change Act
EFRAG’s proposals are based on the TCFD recommendations and GRI standards, which are already being used by many larger corporates and financial institutions. As EFRAG is utilising these existing standards, its own ESRS should be fully compatible therewith, to prevent unnecessary adaptation efforts and methodological discrepancies complicating analysis of a company over longer periods. Moreover, EFRAG should recognise that the GRI standards are a highly complex and detailed system that cannot be implemented by SMEs and smaller banks to the same degree as larger corporates and institutions.
The ESRS must also be compatible with other international initiatives, such as the global baseline standard for sustainability reporting of the International Sustainability Standards Board (ISSB). Initial proposals for that standard have received positive feedback from various jurisdictions, particularly due to its principle-oriented and proportional approach. Therefore, we expect the ISSB standards to become the market standard for sustainability-related disclosures by globally active corporates and banks. Deviations from that global baseline through the European standard should be limited to situations where this is absolutely necessary. This could be ensured by following a building block approach similar to that used by the EU with regards to financial reporting under IFRS. Otherwise, the resulting double reporting due to the overly complex and strict ESRS requirements will be a major competitive disadvantage for European corporates and banks.

Furthermore, it is not consistent with the requirements of the European Climate Change Act if the target and the reporting of net emissions are not equally reflected in the disclosure requirements. It should be permitted to use GHG offsets as a means of achieving the target, insofar as this is presented in a transparent manner and insofar as the GHG offsets are credible and objectively verifiable. In line with the European Climate Change Act, this should also apply to the targets for reducing net emissions by 2030 – not just for achieving climate neutrality by 2050. In this respect, the net emissions and the associated reduction targets should be disclosed.

Value chain

Numerous terms used in the ESRS are currently only insufficiently clear. The value chain concept is particularly unambiguous. This results in considerable scope for interpretation regarding those disclosure requirements that concern the reporting entity's value chain. The efforts necessary for data procurement and the complexity of the procedural implementation in the disclosure are fully dependent on the definition of the value chain. Thus, a clear definition is necessary. This definition should be compatible with the definition used in EU Corporate Sustainability Due Diligence Directive (CSDDD). In our view, it is thus vital to await the finalisation of the CSDDD (only an initial proposal by the Commission exists at this point). Numerous unanswered questions remain, particularly concerning the application of the value chain concept to credit institutions.

While the CSDDD is intended to define the due diligence requirements, the ESRS-S already seeks to determine the way in which these due diligence requirements have to be reported subsequently, even though the due diligence requirements are neither fully formulated nor finalised. The definition of the reporting requirements should follow the definition of the relevant subject matter – not the other way around. Otherwise, the necessary adjustments in data collection – shortly after initial data collection processes were established – would result in further burdens for reporting entities.

Gradual implementation

Implementing the ESRS will require time. Not all reporting requirements should apply from the first reporting period. In line with the EU-taxonomy as well as the international sustainability reporting standards of the ISSB, climate-related and entity-specific ESRS should be prioritised, followed by additional environment-related standards. The ESRS for social and governance aspects should be delayed to a later date.

A gradual implementation is also necessary, as information from and therefore on the financial institution's value chain is currently not available. In their own reporting, financial institutions rely on the information of their customers and business partners (e.g. scope 3 GHG emissions). Calculating scope 3 emissions in a meaningful way is currently very challenging, particularly with regards to private customers and SMEs. While this also applies to non-financial corporates, financial institutions are particularly challenged due to their immense number of counterparties.

Moreover, indicators allowing the estimation of that data are not available in the market. In the first reporting periods, credit institutions can thus only report on their own activities. Financial institutions should thus only be subject to reporting obligations concerning the value chain and financed assets after the CSDDD's finalisation and two years after non-financial entities. Within the social standards, S2 to S4 should be reported later than S1. Insofar as all sector-agnostic EFRAG standards must be brought towards publication without regard to these ambiguities (CSDDD), banks should be exempted from ESRS S2-S4. Instead, the matters should be addressed in the sector-specific standards for financial institutions.

The reporting obligations under Article 8 of the Taxonomy Regulation follow a similar approach that provides for a one year delay between the disclosure obligations of non-financial and financial undertakings. This general approach should be transferred to the CSRD reporting obligations, though the implementation period should be extended to two years considering the CSRD's significantly expanded scope and phase-in periods for entities newly subject to reporting requirements.