BPFI Position on Simplification of the EU Sustainable Finance Framework Omnibus Legislative Proposal

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EXECUTIVE SUMMARY

In its Omnibus Package of 26th February, the European Commission (EC) has demonstrated its commitment to simplify the burden of regulation on sustainability reporting and due diligence that arose from the ambitious Action Plan: Financing Sustainable Growth and related initiatives.

Banking & Payments Federation Ireland (BPFI) welcomes the Commission's Omnibus initiative to streamline and simplify the EU Sustainable Finance framework and to reduce reporting burdens on businesses, particularly SMEs. The proposed actions in the Omnibus proposal include the reduction of the number of templates in the Taxonomy, the removal of a significant number of businesses from the scope of the Corporate Sustainability Reporting Directive (CSRD) reporting obligations and postponement of compliance by two years for CSRD. This extension provides smaller companies with additional time to adjust to evolving regulatory requirements, ensuring more accurate and comprehensive disclosures.

Additionally, the proposed postponement of the CSDDD reporting, along with the changes to its civil liability regime, will help companies navigate the complexities of due diligence more effectively. These changes will help create a more balanced and manageable compliance environment while still promoting sustainability goals.

However, BPFI believe there is room for further harmonisation of the sustainability framework. This would ensure that financial institutions' reporting obligations are fully aligned to the reduced reporting scope of companies under CSRD and the EU Taxonomy. The Omnibus proposal should take a broader view of the sustainability framework to ensure greater consistency across related regulatory files, such as the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD), MiFID, and the Sustainable Finance Disclosure Regulation (SFDR).

Aligning these frameworks would reduce regulatory fragmentation and enable financial institutions and companies to adhere to consistent standards across all relevant areas.

Recognising the important role of the banking sector in supporting sustainability in the real economy and helping the EU meet its climate targets. BPFI wishes to draw attention of policymakers in the EU and Ireland to some key matters. From our perspective, generally, the Omnibus Proposal to simplify the EU Sustainable Finance Framework helps ensure the new legislative regime does not burden European business sectors but rather supports and enables them to effectively move to a less carbon intensive economy in a fair and balanced way. The proposals (in particular, the proposed changes to the CSRD's reporting standards, the European Sustainability Reporting Standards) no longer require companies to provide detailed information that does not necessarily prompt more sustainable business decisions. Streamlining and simplifying the rules around sustainable finance reporting will allow banks and businesses to focus on product development and activities that deliver climate and environment action, support the objectives of the European Green Deal (that is, support investments to meet the €620 billion annually (3.7% of GDP) required to 2030.

KEY RECCOMENDATIONS

In finalising the Omnibus initiative, the financial sector regulatory and supervisory framework needs to be reviewed to ensure consistency and that the obligations for financial institutions fully reflect the availability of the data reported by the companies. This review is essential to ensure that the financial sector's sustainability requirements align with the data available from their clients and customers and their reporting capabilities. A timely review will allow for a more accurate assessment of the existing framework, addressing any gaps or inconsistencies and ensuring that regulations are based on data that can be reliably gathered and reported. This proactive approach will help ensure that the financial sector can meet its sustainability obligations without unnecessary burdens or limitations.

Policymakers need to provide further clarity. To that end, we recommend the following adjustments to the initial proposal, with further details provided in the subsequent sections:

1. Seek that supervisors align related requirements (for example, the ECB Guidance on Climate and Environment-related Risk and the new EBA ESG Risk Guidelines) until finalisation of the Omnibus proposal to ensure consistency and symmetry across financial sector regulations.
2. Consider the suspension of the Greet Asset Ratio (GAR) under Taxonomy to avoid reporting that is not comparable while changes envisaged in the Omnibus proposal are underway, including the review of the GAR, and consider with supervisors the merits of the ratio, given that it has not provided insights envisaged.
3. Provide clarification regarding the inclusion of non-EU parents in scope.

1. Delay application of EBA Risk Guidelines until finalisation of the Omnibus followed by "fitness check" of financial sector regulation:

Postponing the application of the new EBA Risk Guidelines (implementation date is January 2026) until finalisation of the Omnibus proposal and subsequent fitness check is essential to ensure consistency and symmetry across financial sector regulations. By postponing the application of ESG Risk Management Guidelines until these actions are completed, regulators can avoid unnecessary reporting burdens and confusion. This approach will allow for a structured review that aligns the CSRD, Taxonomy, and financial sector regulations, such as CRR/CRD, SFDR, and Pillar 3. Aligning these requirements for both banks and non-financial sectors is crucial to streamline disclosures and ensure a unified approach to sustainability reporting. Without this comprehensive review and alignment, the intended simplification of regulatory requirements will not be achieved, as banks will be forced to collect data from multiple sources, including third parties, leading to inefficiencies and increased complexity.

2. GAR and Taxonomy should be further simplified:

The reporting of the Green Asset Ratio (GAR) under the Taxonomy Article 8 Delegated Act and Pillar 3 ESG Implementing Technical Standard should be further simplified in the Omnibus package. Banks in Ireland have successfully managed the navigation of the complex and evolving regulatory landscape on sustainable finance, and the current level of detail required for GAR reporting places a significant strain on resources without delivering in terms of informing correctly on the sustainability of their business. By removing or amending the GAR reporting requirements, banks in Ireland would be able to focus on more accurate and meaningful disclosures that properly inform their risk management framework, rather than spending excessive resources on data management and reporting tasks that do not enhance the climate-

related information required by investors and other stakeholders. Streamlining these requirements would also promote greater consistency and clarity, making it easier for banks to align with EU sustainability goals while enhancing their overall compliance efficiency. This would ultimately support the broader goal of integrating sustainability into the financial system without overburdening banks with unnecessarily complex reporting frameworks.

As the EBF points out, s it currently stands, credit institutions are required to report information on their financing towards activities that are taxonomy aligned twice: once under the Taxonomy Regulation and once under Art. 449a of the CRR (CRR Pillar 3 ESG ITS). The disclosure requirements are similar but not identical and are becoming more divergent over time.

Pending the final text resulting from the Omnibus review both at level 1 and level 2 (ESRS revision for large companies and the L2 delegated acts on the EU Taxonomy), the provision of the Green Asset Ratios both in Article 8 and in Pillar 3 ITS should be suspended. Otherwise banks will be reporting the Green Asset Ratio for financial year 2024 based on the original (currently applicable) text of the Taxonomy Article 8 Delegated Act, in mid-2025 based on the Pillar 3 ITS, in 2026 (for financial year 2025) probably based on the revised Delegated Act which is anyhow envisaged only as a temporary solution and Pillar 3 ITS, and once the more comprehensive ongoing review announced with the Omnibus proposals is finalised, based on the final version of the Green Asset Ratio.

While no reporting is required from and on smaller and medium-sized companies that do not meet the new more narrow criteria for CSRD, banks are still expected to collect data from retail exposures. Given the lack of data, the challenging assessment and evaluation process and the resulting lack of comparability, thus the usefulness of the GAR, we believe its mandatory application should be abolished. This will provide a significant operational relief to banks and their clients while not affecting the green transition, as the GAR is not considered a useful indicator for the decision-making process, capital allocation or risk management.

Should the suspension of mandatory application of the GAR not be considered as an option, we would at least recommend its temporary suspension, pending the more holistic review envisaged for the second half of 2025.

Given the remaining reporting complexities of the temporary solution, the complexity and confusion in reporting GARs under different frameworks in the forthcoming periods, the lack of clarity of the temporary solution and the envisaged comprehensive revision, we believe that the GAR should be at least suspended temporarily pending the revision.

While the temporary solution proposed in the draft Delegated Act brought certain simplification for banks given the reduced scope of the companies under the CSRD and reduced number of templates as well as increased comparability by removing some companies from the denominator, significant complexities remain. These complexities concern the processes related to the assessment of the Taxonomy Technical screening criteria (including Do No Significant Harm and social safeguards) for “use of proceeds” (where the allocation of the proceeds of the loan are known) of exposures of corporates (those that remain in the scope of the CSRD) that banks need to evaluate on a case by case basis as well as retail exposures (mortgage, car loans etc).

3. Clarification regarding inclusion of non-EU parents in scope:

The Omnibus proposal introduces a 1000 employee threshold for EU companies under CSRD reporting, however, the current drafting creates issues for non- EU groups. Specifically, Article 40a of the CSRD, which applies to non-EU parent companies, references the definition of a "large EU subsidiary" from the Accounting Directive, which the Omnibus does not amend. As a result, non-EU groups could have their

non-EU parent company fall within the CSRD reporting scope from FY29, even without an EU subsidiary in scope. This contradicts Omnibus's stated goal of reducing the reporting burden on smaller firms. EU companies with fewer than 1,000 employees, exempted from CSRD reporting, could find themselves back under the CSRD's reporting requirements if they are required to report on behalf of their non-EU parent company. BPFI believes the intention of the threshold of 1000 employees should be applied directly within Article 40a to avoid this issue and ensure that smaller firms are not unintentionally brought back into the CSRD reporting obligations.

European policymakers should amend the current drafting to address the unintended consequences for smaller firms, as the existing provisions would create a significant additional burden. This would align the regulation with the original goal of easing the compliance burden on smaller companies, promoting fairness and clarity in the reporting process.

Unlevel Playing Field

One other matter we would like to raise is the concern arising from the unlevel playing field for entities impacted by the uneven implementation of the CSRD across member states. Given that several member states have not transposed CSRD, there is currently no legal basis for the submission or audit of a CSRD report in those member states. This has led to significant uncertainty regarding how multi-national firms with subsidiaries in multiple member states will manage their compliance obligations under the transposition requirements with respect to FY2024. For example, certain subsidiary companies had originally intended to rely upon the parent reporting exemption. However, the lack of transposition has meant that parent companies (which are not subject to CSRD by virtue of CSRD transposition not occurring) are no longer obligated to prepare a sustainability statement in accordance with CSRD or have a mandatory assurance opinion by an auditor on CSRD reporting which the subsidiary could rely upon. The subsidiary companies impacted by this are now required to prepare standalone sustainability reports under CSRD in short timelines in order to meet their compliance obligations under the transposition of CSRD in their specific Member State.

CONCLUSION

BPFI expects that delivery of the changes proposed in the EC's Omnibus Package to reduce the reporting burden on businesses and simplify sustainable finance rules will allow banks in Ireland to scale up their role to mitigate and adapt to climate and environmental change, effectively. We are hopeful that this more streamlined approach will allow banks and businesses to focus on transition activities and support green financial products.

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