POSITION PAPER

Consultation Document

EFRAG public consultation on draft ESRS

ESBG (European Savings and Retail Banking Group)

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ESBG

2. ESRS implementation prioritisation / phasing-in

Application provisions

In order to facilitate the first-time application of set 1, ESRS 1 includes two provisions: Application Provision AP1 which exempts undertaking to reports comparatives for the first reporting period, and

Application Provision AP2 which proposes transitional measures for entity-specific disclosures which consists in allowing the undertaking to continue to use, for 2 years, disclosures it has consistently used in the past, providing certain conditions are met, as described in paragraph 154.

1 **Question 51: to what extent do you support the implementation of Application Provision AP1?**

1/ Not at all	
2/ To a limited extent with strong reservations	
3/ To a large extent with some reservations	
4/ Fully	X
5/ No opinion	

2 **Question 52: to what extent do you support the implementation of Application Provision AP2?**

ESBG supports the implementation of Application Provision AP2.

3 **Question 53: what other application provision facilitating first-time application would you suggest being considered? Please explain why**

We propose two phase-in solutions that are mutually complementary: 1. First year reporting on own operations and gradual reporting on information

from the value chain;

2. Prioritization of climate topics and gradual consideration of other environmental, social and governance topics.

The data availability issue is the most critical challenge for financial institutions, as they rely on the information provided by different types of counterparties with different abilities to disclose sustainability information, mainly driven by the size of the corporation.

From the preparer perspective, the concept of value chain and boundaries is not mature enough. The concept included in ESRS is too broad and wide. Given the nature of our activity, in which our indirect impact from our value chain is more important that the impact directly produced by our own operations, this lack of clarity is more critical compared to other sectors.

In particular,

1. Reporting on value chain should be practical. Financial institutions should be allowed to report only on their own operations in the first year of reporting and then gradually include information from the value chain as they become capable of producing it in succeeding years[1].

   A phase-in period, with a similar reasoning as in the case of corporate reporting requirements under Article 8 of the Taxonomy Regulation, must be included for financial undertakings to allow them to adapt their processes to collect the necessary information from their value chain given that financial undertaking are depended on their counterparties for reporting on the activities of the latter. In particular, an one year reporting gap is needed for financial institutions to accommodate the required data from CSRD undertakings. This phase-in period is needed given the fact that:

   - Large non-financial undertakings that are currently subject to the NFRD will report under the new requirements for the first time in 2025. As a consequence, their data will not be available to financial undertakings to whom value chain they belong for the first year of application of the EFRAG ESRS;
   - Large non-financial undertakings that not currently subject to the NFRD will not report under the new requirements until 2026;
   - Listed SMEs might not fully report under new requirements until 2028.

   To be consistent with the proportionality principle, other counterparties not listed above (mainly non-listed SMEs) should have more time to adapt their processes to produce

[1] Art 19a/29a (3) Accounting Directive (CSRD, Council of the EU Press release 21 June 2022/ 30 June 2022):

"For the first three years of the application of this Directive, in the event that not all the necessary information regarding the value chain is available, the undertaking shall explain the efforts made to obtain the information about its value chain, the reasons why this information could not be obtained, and the plans of the undertaking to obtain such information in the future."

sustainability information. Without these phase-in measures, financial institutions would be forced to request sustainability information from counterparties who have less capacity to do so in order to meet their reporting obligations.

For example, financial undertakings are dependent on their counterparties for Scope 3 GHG emissions disclosures. Thus, financial undertakings should disclose all information from the value chain, including GHG emissions, two years after the reporting of non-financial institutions.

Therefore, in the first reporting year, banks can only report on their own activities.

2. In addition, there is a need for prioritising the reporting on certain standards. Not all standards should be considered from the first year of reporting. We consider it legit that ESRS E1 climate change is prioritized followed by the other environmental ESRS (to be aligned with work in the EU Taxonomy, ISSB Standards and Pillar 3 Reporting obligations). Social and Governance ESRS can be considered at a later stage.

ESRS implementation prioritisation / phasing-in options

Set 1 proposes a comprehensive set of standards aimed at achieving the objectives of the CSRD proposal, with the exception of the standards to be included in Set 2.

Acknowledging the fact that the proposed vision of a comprehensive sustainability reporting might be challenging to implement in year one for the new preparers and potentially to some of the large preparers as well, EFRAG will consider using some prioritisation / phasing-in levers to smoothen out the implementation of the first set of standards.

The following questions aim at informing EFRAG's and ultimately the European Commission's decision as to what disclosure requirements should be considered for phasing-in, based on implementation feasibility / challenges and potentially other criteria, and over what period of time their implementation should be phased-in.

4 Question 54: for which one of the current ESRS disclosure requirements (see Appendix I) do you think implementation feasibility will prove challenging? and why? Given the critical importance of implementation prioritisation / phasing-in, please justify and illustrate your response

ESBG believes that the implementation of the implementation of almost all reporting requirements is challenging. Especially, the ESRS disclosure requirements for social and governance standards are challenged by a lack of data maturity in the market as well as a limited development of the respective framework.

Some specific examples of disclosure requirements that can only be fulfilled over time include:

- DR E1-7 to DR E1-10 with regards to GHG emissions: At the beginning, only reporting on scope 1 and 2 CO2 emissions should be required. Moreover, the reporting on scope 3 emissions should be subject to an implementation period (DR E1-9).
- DR E1-12 should only be applied after the finalisation of the Corporate Sustainability Due Diligence Directive.

Other particularly challenging disclosure requirements include: DR E1-13, DR E1-15 to E1-17, quantitative data in E2 to E5 as well as quantitative data in S2 to S4.

5 Question 55: over what period of time would you think the implementation of such "challenging" disclosure requirements should be phased-in? and why? Given the critical importance of implementation prioritisation / phasing-in, please justify and illustrate your response

Financial institutions should be allowed to report only on their own operations in the first year of reporting and then gradually include information from the value chain as they become capable of producing it in succeeding years (please refer to question 53).

We believe that there is a need for a phase-in period for the implementation of certain challenging disclosure requirements. Not all standards should be considered from the first reporting year. We consider it legit that the environmental ESRS on climate change should be prioritized followed by the other environmental ESRS, i.e. pollution, water and marine resources, biodiversity, resource use and circular economy, to be aligned with the work on the EU Taxonomy Regulation, ISSB Standards and Pillar 3 Reporting obligations. Social and Governance ESRS can be considered at a later stage.

6 Question 56: beyond feasibility of implementation, what other criteria for implementation prioritisation / phasing-in would recommend being considered? And why? Given the critical importance of implementation prioritisation / phasing-in, please justify and illustrate your response

Please refer to question 53.

7 Question 57: please share any other comments you might have regarding ESRS implementation priortisation / phasing-in

We consider that the preparation of such an ambitious amount of disclosure requirements and the limited time to react to the content of the Exposure Drafts might jeopardise the objectives of ESRS.

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) below. **Please make sure you do not include any personal data in the file you upload if you want to remain anonymous.**

The maximum file size is 1 MB.
You can upload several files.
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