IIF Position Paper on the European Commission's Omnibus Proposals on Sustainability Reporting and Due Diligence – April 2025

IIF members broadly welcome the European Commission's Omnibus proposals published on February 26, 2025. As set out in the IIF's February 2025 input to the Commission, IIF member financial institutions[1] strongly support the Commission's commitment to reviewing and simplifying the EU sustainable finance framework, and support several of the Commission's proposals. For example, in the areas of: extending certain implementation timelines; planned reductions to the European Sustainability Reporting Standards (ESRS); halting development of sector-specific ESRS; setting out more proportionate due diligence expectations; and removing the civil liability regime of the Corporate Sustainability Due Diligence Directive (CSDDD).

However, IIF member firms are concerned that the current Omnibus proposals do not yet adequately address some of the most challenging burdens and obstacles faced by financial institutions operating within the EU, including those stemming from prudential requirements and supervisory expectations. In order for the Commission's objectives of simplification and burden reduction to be delivered for financial institutions, and to ensure consistency of EU-wide requirements and expectations, **the EU's financial sector regulatory and supervisory framework should also be reviewed in the context of the Simplification Omnibus process.** Certain requirements and guidelines should be paused pending the outcome of the review.

Our overarching issues and recommendations are as follows.

The prudential and supervisory frameworks need to be brought in scope of the Omnibus review process to achieve a consistent outcome; at the least, a separate but aligned review needs to be conducted in parallel. The Omnibus proposals have not addressed or accounted for EU prudential requirements and supervisory expectations in relation to ESG risks, including EBA Pillar 3 reporting, EBA Guidelines on ESG risk management and scenario analysis, and ECB/SSM expectations that require banks to undertake highly granular assessments of clients and counterparties and can be overly prescriptive with respect to firms' business strategies. Nor does the Omnibus address the requirement for insurance companies to put in place a sustainability risk plan (SRP) as set forth in the Solvency II Amending Directive. **If left as is, the prudential regime will materially impede the effectiveness of the Omnibus simplification objectives for the financial services industry.** In fact, the Omnibus proposals would create additional frictions for financial institutions that need to meet current prudential and supervisory expectations, for example due to significantly reduced CSRD reporting by companies across sectors. In this regard, the information gap that financial institutions will face given the reduction of companies in scope of the CSRD will need to be addressed in value chain requirements for companies that remain subject to the CSRD, and Level 2 requirements such as EBA Pillar 3 disclosures,[2] EBA Guidelines on the Management of ESG risks[3] (to be implemented by large institutions by January 11, 2026) and Guidelines on ESG Scenario Analysis[4] (under consultation), and EIOPA Regulatory Technical Standards (RTS) on management of sustainability risks including

[1] The Institute of International Finance (IIF) is the global association of the financial industry. The IIF has nearly 400 members from more than 60 countries. The comments in this paper represent consensus or majority views of the IIF members we engaged with on this topic, however some member firms may take a different view on certain issues.
[2] https://www.eba.europa.eu/publications-and-media/press-releases/eba-publishes-binding-standards-pillar-3-disclosures-esg.
[3] https://www.eba.europa.eu/publications-and-media/press-releases/eba-publishes-its-final-guidelines-management-esg-risks.
[4] https://www.eba.europa.eu/publications-and-media/press-releases/eba-consults-guidelines-esg-scenario-analysis.

SRPs.[5] Changes made through the Omnibus process should be reflected in an aligned set of supervisory and prudential requirements for financial institutions.

Considering this, the Commission should take a holistic approach during the Omnibus process that either scopes in, or reviews in parallel, all relevant sustainability-related EU Level 1 provisions, Level 2 and 3 requirements and guidance developed by the EBA, EIOPA and ESMA, as well as the ECB/SSM's supervisory materials. This would ensure that: (1) the Commission's simplification objective is executed; (2) there is clear reconciliation of any points of misalignment; and (3) any overlap or duplication is eliminated. For example, financial institutions should not be required to take account of data that has not met the threshold for inclusion in the reporting requirements for corporates within the CSRD. Certain requirements and guidelines should be paused pending this reconciliation, including the above-mentioned EBA and EIOPA RTS and EU Taxonomy-related data within the EBA's ESG Pillar 3 reporting[6]; ultimately, some of these requirements may need to be removed or amended to align with the outcomes of the Omnibus review (e.g., see the IIF recommendations below about the GAR metric).

Uncertainty about important details of the Omnibus proposals needs to be addressed. Many open questions remain about details of the proposals – including the development of reporting standards for non-EU companies (or the "NESRS") and voluntary standards for firms not subject to the CSRD – which will significantly influence the final impact of the Omnibus process on in-scope firms. Uncertainty relating to future changes to CSRD or CSDDD requirements, including those pending the negotiation of the Omnibus package and technical finalization, pose a major barrier to companies' efforts to prepare for them. This needs to be reflected in the implementation timelines. More broadly, IIF members are concerned that the Omnibus proposals lack the 'connective tissue' needed to deliver internal consistency between these different pieces of EU legislation.

Opportunities to foster international alignment should not be missed. In the Omnibus proposals, there appears to be insufficient focus on fostering alignment with international standards, such as those developed by the International Sustainability Standards Board (ISSB). We welcome Commissioner Albuquerque's request to EFRAG to develop technical guidance on how to modify the ESRS to, among other things, "further enhance the already very high degree of interoperability with global sustainability reporting standards."[7] Achieving greater alignment with international standards, including through efforts to foster equivalence and interoperability between frameworks, would enable the EU framework to be more internationally effective, which would support EU competitiveness – while also streamlining the reporting process for many corporates and financial institutions. It is also important for the EU to continue to engage with the ISSB on its sustainability disclosure standards so that the global baseline remains as simple and decision useful as possible.

Several elements of extraterritoriality in the EU sustainable finance framework have not been addressed in the Omnibus proposals, resulting in continued additional complexity and burden for non-EU headquartered firms that seek to contribute to the EU economy. The proposals do not substantively address the significant concerns about extraterritoriality that have been voiced by large international firms with respect to the CSRD and CSDDD. In fact, they introduce some further differences between EU and non-EU entities. For example, no changes have been made in the proposed revised CSRD to the EU employee threshold for non-EU entities reporting under Article 40a of the Accounting Directive, meaning non-EU parent entities may be caught even if the EU subsidiaries of that group are now out of scope. This leads to unnecessary complexity and duplicative reporting. In some cases,

---

[5] See: https://www.eiopa.europa.eu/consultations/consultation-proposal-regulatory-technical-standards-management-sustainability-risks-including_en. The EIOPA Chairperson has recently indicated that "the timeline for finalizing the RTS should be extended until there is stability on the scope and extent of the revised CSRD/ESRS requirements. This would ensure our approach remains aligned with the broader simplification efforts"; see: Keynote speech by Petra Hielkema at the EIOPA Sustainable Finance Conference - EIOPA.

[6] EBA Templates requiring disclosure related to the Green Asset Ratio (GAR) and Banking Book Taxonomy Alignment Ratio (BTAR).

[7] Commissioner Albuquerque's letter to Patrick de Cambourg and Benoit Jaspar (EFRAG), March 20, 2025.

international firms who already disclose under internationally recognized standards, such as those developed by the ISSB, for the consolidated group would have to duplicate their reporting as a compliance exercise. In areas such as this, we urge the Commission to investigate and explore avenues for equivalence and interoperability as part of the Omnibus process, recognizing the core objective of achieving a comprehensive yet simplified reporting framework.

The remainder of this document summarizes current IIF member views on key challenges and outstanding issues with the Omnibus proposals, which require attention and resolution.

CSRD

- **With regards to the so-called Wave 1 filers under the CSRD, there should be a pragmatic approach to oversight and enforcement. It important to provide relief to all companies and take a pragmatic approach to enforcement for Wave 1 companies to avoid those companies having to implement further costly changes pending the finalization of the revised ESRS.** Such an approach should recognize the unique position Wave 1 filers find themselves in, including from the inconsistent implementation status of the current CSRD across EU Member States. For example, in Member States that have already transposed the CSRD and the first year of reporting has been completed, the current CSRD's phase-in regime for additional datapoints should be suspended pending the finalization and adoption of the simplified ESRS.[8] More generally, to address the current legal uncertainty facing many firms, it would be helpful for Member States to provide updated guidance on their reporting expectations in light of the ongoing Omnibus process.
- **In-scope companies should not be required to report on value chain details where companies in the value chain are out of scope of the CSRD and choose not to voluntarily disclose the necessary information.** If the significant reduction in scope of entities subject to the CSRD is implemented as proposed, as well as the value-chain cap, the ESRS reporting requirements for in-scope companies should explicitly recognize the significant changes to the data landscape, where economy-wide mandatory ESG disclosure will be more limited than was anticipated under the current CSRD. Similarly, as described above, **prudential and supervisory expectations on financial institutions linked to the ESRS should also explicitly recognize and be aligned with these changes**. Furthermore, careful attention needs to be given to how the voluntary standard for non-listed micro, small and medium undertakings (VSME) is finalized. For example, it will be important that the VSME is coherent with the ESRS in terms of structure and definitions so that CSRD companies may readily use any data reported that way for their own reporting purposes, and that it is focused on the highest priority information. Larger companies that are in-scope of the CSRD should not be (explicitly or implicitly) held accountable for influencing out-of-scope companies to disclose under the VSME standards, nor should in-scope firms be expected to verify the accuracy of voluntarily disclosed data by their clients or counterparties. This would, in practice, only shift accountability for reporting from EU legislators to larger companies and would diminish the realization of the Commission's simplification objective.
- **Financial institutions are awaiting more information and clarification on the streamlined ESRS and their application**. While many IIF members welcome the removal of the mandate for EFRAG to develop sector-specific ESRS and focus on sector-agnostic standards, some members believe that EFRAG still needs to provide more clarity for financial institutions on how to apply the sector-agnostic standards in a meaningful way. We await the detailed ESRS streamlining proposals and would welcome an opportunity for engagement and public

[8] If the phase-in requirements are maintained, companies would be exposed to a significant implementation effort and reporting cost regarding data that could be eliminated or minimized as a result of the outcome of the Omnibus. These phase-ins, if kept after the Omnibus review, should be implemented in alignment with the implementation dates for Wave 2 companies. Otherwise, it would put companies that have already disclosed under CSRD for FY 2024 at a disadvantage vis-á-vis companies that have not yet reported.

comment on them.[9] The review and simplification of the ESRS ought to be ambitious. It is important that the EU takes a pragmatic approach to sustainability reporting and focuses on the topics that are mature today such as climate, own workforce or business conduct.

- **The Commission should take this opportunity to further align with the ISSB's global baseline for sustainability disclosure standards, which are currently being implemented in several key jurisdictions across the world.[10]**
    - In the process of revising the ESRS, the IFRS S1 and S2 standards should be referenced as much as possible to make the EU framework more internationally effective and, thereby, support EU competitiveness. Achieving and recognizing equivalence between the ISSB standards and the CSRD would be the most significant, cost reducing reform that the EU could implement.
    - The NESRS should continue to be developed and used in a way that also reduces burden for non-EU headquartered firms doing business in and contributing to the EU economy. While the EFRAG Secretariat has previously indicated that it does not view its role as implementing proportionate standards specifically for non-EU entities,[11] many IIF members consider that the CSRD should take a more proportionate approach for non-EU entities where those entities already make other sustainability disclosures. For example, the proposed option in the draft NESRS standard for non-EU firms to "prepare sustainability reports excluding information about their impacts that are not related to the sale of goods or the provision of services to natural and legal persons located in the EU"[12] is welcomed.
    - Given that the NESRS will deliberately focus on impact materiality, while the ISSB's standards cover risks and opportunities, the EU authorities could work towards an equivalence solution where, in order to be able to use the subsidiary reporting exemption, a third-country entity's ISSB-aligned disclosures would be acceptable for risks & opportunities disclosure items and the forthcoming NESRS would be appropriate for the impact disclosure items.
- **The reporting exemption should be extended to subsidiary companies if those entities' reporting is included in the consolidated CSRD reporting of the parent company.** The provision should also be made maximum harmonising so that individual member states cannot restrict the scope of this exemption and there is a level playing field across the EU. At present, subsidiaries that are classed as large undertakings and public-interest entities, and whose transferable securities are admitted to trading on a regulated market of a Member State, need to report at an entity level – sometimes reporting for more than one entity. This is both burdensome and misaligned with the way many financial institutions manage sustainability strategies, risks and target setting, which is typically done in a groupwide way.
- **The exemptions from consolidated financial and sustainability reporting should be extended to entities such as Intermediate Holding Companies (IHCs).** CSRD Recital 26 indicates that the consolidation-based exemption regime for financial statements/management reports operates independently from the exemption regime for sustainability reporting. As a result, entities such as IHCs will in principle be in scope of the CSRD if they satisfy the threshold criteria and will be required to prepare consolidated sustainability reporting, regardless of

[9] As set out in the IIF's February 2025 input to the Commission, some IIF members have significant concerns with the lack of clarity around the double materiality assessment, the overly broad requirement to report Scope 3 greenhouse gas (GHG) emissions for significant categories, and the requirement for companies to report absolute values associated with GHG intensity reduction targets.
[10] As of November 2024, the International Financial Reporting Standards (IFRS) reported that 30 jurisdictions are progressing towards introducing International Sustainability Standards Board (ISSB) standards into their regulatory frameworks. See: https://www.ifrs.org/news-and-events/news/2024/11/new-report-global-progress-corporate-climate-related-disclosures/.
[11] See paragraph 7 of "EFRAG SF TEG Meeting Paper 07-02: "Non-EU ESRS: Decision Tree for Standard Setting," October 22, 2024.
[12] 06-02 NESRS 1 ED SRB 250115.pdf.

whether they have subsidiaries inside or outside the EU/EEA.[13] We recommend a change to the CSRD to exempt IHCs that do not have any footprint in the EU/EEA, other than by virtue of being incorporated in the EU, from preparing sustainability reporting under the CSRD. Alternatively, they should be allowed to be assessed and report as a large undertaking subject to meeting the threshold criteria and not as a parent entity.

CSDDD

- **A large number of IIF members think that the proposed changes to transition plan requirements do not go far enough, and require clarification.[14]** In particular, the proposal still includes the requirement that transition plans be oriented towards an expectation of 1.5C alignment, despite the fact that scientific evidence indicates that this goal may no longer be achievable. The CSDDD should more clearly recognize that a company's transition plan needs to reflect and respond to the policy context in all the jurisdictions in which it operates. As such, it may be preferable to refer to alignment with the Paris Agreement, and/or allow flexibility for disclosing entities to indicate their own transition strategy and underlying assumptions, recognizing that national policies in their jurisdictions may not be aligned with specific temperature goals. Furthermore, it is unclear what the statement "subject to administrative supervision" implies with respect to transition plans. If it implies prudential supervisory direction of a financial institution's transition strategy, this would raise significant concerns.
- **Strategic transition planning should not be conflated with climate-related risk management activities**. Strategic transition planning as referenced in the CSDDD and CSRD should not be conflated with prudential expectations for climate-related risk management as developed by the EBA for banks and EIOPA for insurers for reasons set out in IIF (2024)[15] and IIF (2025)[16]. The distinctions could be further clarified in the Level 2 requirements and, specifically with respect to requirements for insurers, the provision on SRPs in the Solvency II Amending Directive should be deleted, or at least modified, to clarify the distinction with a strategic transition plan and avoid additional reporting requirements. Reducing the scope of the CSRD would not significantly benefit (re)insurers if this requirement is maintained, as even undertakings with only a handful of employees are covered by it. Aligned with the recent remarks by EIOPA's Chairperson, IIF members recommend that EIOPA's development of the RTS on SRPs should be paused until a thorough analysis of the value added by SRPs has been conducted, considering the numerous overlaps with existing frameworks (e.g., CSRD and risk management under the Own Risk and Solvency Assessment (ORSA)).
- **IIF members support the removal of the review clause for financial undertakings** that could have imposed downstream due diligence requirements in relation to the provision of financial services and investment activities.

Taxonomy Regulation

- **The EU Taxonomy should cease to function as a tool to inform disclosures. The Green Asset Ratio (GAR) should be removed as a disclosure metric as it does not add value for investors.** As described in the aforementioned IIF input paper to the Commission, the experience of many financial institutions has been that the GAR does not add value for investors and does not reflect a firm's transition efforts – while at the same time, it is extremely resource intensive to calculate and disclose (e.g., requiring 150+ pages of disclosure). We note that a deeper review of the GAR is slated for later through the ongoing review of the

---

[13] Under the CSRD, it is expected that the consolidated sustainability reporting needs to be included in the consolidated financial statement, however where these entities are exempted from preparing consolidated financial statements, this would not exist. Further, the consolidated entities could bring a large number of non-EU undertakings in scope of CSRD that would not otherwise be expected to report under CSRD.

[14] However, a few IIF members support the current transition plan requirements within the CSDDD for financial institutions and non-financial firms.

[15] https://www.iif.com/Publications/ID/5749/IIF-response-to-EBA-on-draft-ESG-risk-management-guidelines.

[16] https://www.iif.com/Publications/ID/6055/IIF-Response-to-EIOPA-on-Proposal-for-RTS-on-Sustainability-Risks.

Disclosure Delegated Act. However, given the significant burden of producing a GAR and the apparently low value to the market, we think the option of removing the GAR (or making such disclosures voluntary) ought to be seriously considered as part of the fast-tracked Omnibus.

- **Notwithstanding the IIF recommendation to remove the GAR, the metric should at least be suspended under both Taxonomy Article 8 and the EBA ESG Pillar 3 Disclosures pending the Omnibus and Disclosure Delegated Act reviews.** Reporting should be suspended under both the Taxonomy and EBA Pillar 3 reporting while the review process of KPIs, templates simplification, and the Do No Significant Harm (DNSH) criteria is undertaken, and until the final requirements are adopted.
- **If it is decided to retain the GAR, actions must be taken to ensure that the metric is more meaningful, relevant, and easier to produce**; and it should be retained only under the Taxonomy Regulation and not Pillar 3 as it is not an evidenced risk-related metric.[17]
- **With respect to metrics for (re)insurers, the underwriting KPI that is linked to taxonomy-aligned premiums written should be removed or suspended** until a thorough review of its usefulness has been conducted.
- Key taxonomy criteria, including **DNSH criteria, Substantial Contribution Criteria, and Minimum Social Safeguards**, need further simplification for them to be applied in an efficient manner that does not impose major compliance costs and to focus on delivering the information that is most relevant to market participants.

Taking action to implement the aforementioned recommendations could enable the EU to remove impediments to growth and competitiveness across the Union, while still maintaining its leadership in sustainable finance. This approach would support businesses in their efforts to innovate and thrive, ensuring that resources are directed towards meaningful sustainability initiatives rather than being tied up in extensive reporting requirements. By streamlining the framework, the EU can foster a more dynamic and competitive business environment that supports both economic and environmental progress.

[17] For example, adjusting the definition to remove the current numerator/denominator asymmetry and removing non-EU and SMEs exposures from the denominator and not included in the numerator, significantly reducing the number of associated templates.