



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB staff opinion on the first set of European Sustainability Reporting Standards

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1 Introduction and legal basis

The European Central Bank (ECB) has been a strong supporter of EU efforts to improve corporate sustainability disclosures.

In September 2021 the ECB published an Opinion on the proposal for a Corporate Sustainability Reporting Directive (CSRD)¹, welcoming the Directive's aim of improving the quantity, quality and reliability of sustainability disclosures in the EU. The ECB actively contributed to the development of the European Sustainability Reporting Standards (ESRS) as an observer on the Sustainability Reporting Board of the European Financial Reporting Advisory Group (EFRAG). Furthermore, in July 2022 the ECB responded to a public consultation by EFRAG on the first set of draft ESRS, appreciating the high quality of the drafts and welcoming the high level of ambition of the climate standard, while providing specific comments on issues of relevance to the ECB.²

On 25 November 2022 the ECB was consulted by the European Commission on technical advice on the first set of ESRS,

which EFRAG submitted to the Commission on 22 November 2022.³ The consultation is based on the sixth subparagraph of Article 49(3b) of the Accounting Directive⁴ as amended by the CSRD⁵. On that basis, and in line with the ECB Opinion on the CSRD, ECB staff have prepared the following opinion for the Commission consultation. This ECB staff opinion focuses predominantly on the standards that were considered most relevant to the ECB's tasks: ESRS 1 (General Requirements), ESRS 2 (General Disclosures), ESRS E1 (Climate change) and other environmental standards. The assessments in Sections 3 and 4 of this staff opinion evaluate the consistency of the ESRS with, and their contribution to, the tasks of the ECB, as described in Section 2 below.

¹ Opinion of the European Central Bank of 7 September 2021 on a proposal for a directive amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting (CON/2021/27) (OJ C 446, 3.11.2021, p. 2).

² See ECB response to the EFRAG's public consultation on the first set of draft European Sustainability Reporting Standards, ECB, July 2022.

³ See "First Set of draft ESRS", EFRAG, November 2022.

⁴ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).

⁵ Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (OJ L 322, 16.12.2022, p. 15).

2 Relevance of the ESRS to the objectives and tasks of the ECB

As outlined in the ECB Opinion on the CSRD, sustainability-related issues, and in particular climate change, have an impact on the way the ECB discharges its mandate. Physical risks and transition risks associated with climate change can, among other things, affect the valuations and creditworthiness of companies with knock-on effects for credit institutions, the financial system, the economy at large and, ultimately, the ECB.

The information that will be provided under the ESRS can contribute to enhancing the risk management of the Eurosystem’s balance sheet, and compliance with the CSRD will be part of the future climate-related disclosure requirements for ECB collateral. When pursuing its objective of price stability, the Eurosystem must ensure adequate risk protection of its balance sheet through its risk control framework. The Eurosystem therefore needs to identify, monitor and mitigate the climate-related risks associated with its counterparties, the collateral it accepts for its refinancing operations and its holdings of assets. The ECB should ensure that the enhanced disclosure requirements under the ESRS and related reporting to authorities will improve the information available to the Eurosystem to assess the climate risks to which it is exposed. Furthermore, as announced on 4 July 2022⁶, once the CSRD is fully implemented, the Eurosystem will only accept marketable assets and credit claims from companies and debtors that comply with the Directive as collateral in Eurosystem credit operations, and reporting in accordance with the ESRS is part of the Directive’s legal requirements.

The ESRS can contribute to enhancing the analysis and monitoring of climate-related financial risks. The ECB has, in multiple reports, emphasised that enhanced disclosures on the exposure of undertakings to climate change-related risks is a prerequisite for accurately assessing the risks arising from climate change for both financial institutions and financial markets.⁷ Thus the ECB has an interest in ensuring that the ESRS contain the corporate information required to enable such analysis and that this is of sufficient quality, reliability and comparability, including, among other things, greenhouse gas (GHG) emissions and firms’ forward-looking emission targets. Reporting this information to authorities is a prerequisite to enhancing the capability of the ECB and other authorities to monitor and address the impact of climate change on financial stability.

⁶ See “[ECB takes further steps to incorporate climate change into its monetary policy operations](#)”, *press release*, ECB, 4 July 2022.

⁷ See Alogoskoufis, S. et al., “[Climate-related risks to financial stability](#)”, *Financial Stability Review*, ECB, May 2021; ECB/ESRB Project Team on climate risk monitoring, “[Climate-related risk and financial stability](#)”, ECB, July 2021; Carbone, S. et al., “[The low-carbon transition, climate commitments and firm credit risk](#)”, *Working Paper Series*, No 2631, ECB, December 2021; Emambakhsh, T. et al., “[Climate-related risks to financial stability](#)”, *Financial Stability Review*, ECB, May 2022; and ECB/ESRB Project Team on climate risk monitoring, “[The macroprudential challenge of climate change](#)”, ECB, July 2022.

The ESRS will improve the availability of climate and environmental information from companies, which is key for credit institutions under ECB supervision to properly identify, manage and disclose risks.

As part of its prudential supervisory tasks, the ECB must ensure that banks detect, manage and disclose risks properly, including those stemming from climate change. This is necessary to ensure that banks are resilient to physical and transition risk, which in turn contributes to the safety and soundness of the euro area banking sector. In this context, the ECB expects the ESRS to further enhance the quality and availability of corporate sustainability information and improve the ability of financial institutions, and in particular credit institutions, to properly measure and disclose more granular climate and environmental metrics, including information relevant under the prudential framework, such as Pillar III disclosures on environmental, social and governance (ESG) risks, related supervisory reporting and information included in the ECB's supervisory expectations.⁸

The ESRS will also enable the ECB to better fulfil its statistical function by compiling indicators relating to climate change and sustainable finance, supporting the ECB's tasks.

In January 2023 the ECB published its new experimental and analytical indicators on climate change⁹, which will gradually be enhanced, including through increased data availability. The coming into force of the CSRD and the ESRS will substantially increase the availability of granular, externally verified corporate-level climate-related information and should allow the ECB to request such information to further improve the statistics it produces for the fulfilment of its tasks and the tasks of the European System of Central Banks (ESCB).

⁸ According to Article 449a of the [Capital Requirements Regulation \(CRR\)](#), large institutions which have issued securities that are admitted to trading on a regulated market of any Member State, as defined in point (21) of Article 4(1) of Directive 2014/65/EU, shall disclose information on ESG risks, including physical risks and transition risks, as defined in [Commission Implementing Regulation \(EU\) 2022/2453 of 30 November 2022 amending the implementing technical standards laid down in Implementing Regulation \(EU\) 2021/637 as regards the disclosure of environmental, social and governance risks \(OJ L 324, 19.12.2022, p. 1\)](#). A phase-in period for these disclosures was introduced to also account for the implementation of the ESRS. Furthermore, significant institutions directly supervised by the ECB are expected to disclose climate-related risks that are material. In particular, significant institutions are expected to disclose the GHG emissions for the whole group, including downstream emissions, as well as key performance indicators (KPIs) and key risk indicators (KRIs) they use for the purpose of strategy-setting and risk management. See [Guide on climate-related and environmental risks](#), ECB, November 2020.

⁹ See ["ECB publishes new climate-related statistical indicators to narrow climate data gap"](#), *press release*, ECB, 24 January 2023.

3 General assessment of the ESRS

Overall, the first set of ESRS broadly address the main needs from the perspective of the ECB. Assessed against the consistency with and contribution to the tasks of the ECB, the first set of ESRS appear capable of substantially improving the quantity, quality, reliability and comparability of corporate sustainability disclosures, supporting the ECB in its monetary policy, financial stability, prudential supervisory and statistical tasks. ECB staff consider the ESRS to be a significant improvement compared with the status quo. The standards are generally of good quality, they require the disclosure of key information of relevance to the ECB, they provide an appropriate degree of comparability and verifiability, they are broadly consistent with data needs stemming from EU legislation of relevance to the ECB and, in general, they appear fit to deliver on the key requirements from the perspective of the ECB as set out on the ECB Opinion on the CSRD.

ECB staff appreciate the ambitions and mandatory nature of the climate standard (ESRS E1)¹⁰. ECB staff welcome in particular the reliance on quantitative metrics, the requirement to disclose detailed transition plans in line with the 1.5°C goal of the Paris Agreement, the inclusion of Scope 1, 2 and 3 GHG emissions and well-defined forward-looking targets, as well as quantitative estimates of exposures to physical and transition risks. ECB staff strongly support EFRAG's decision to make all disclosure requirements of ESRS E1 always mandatory, irrespective of any materiality assessment.

However, ECB staff recommend a limited number of adjustments to the ESRS which would be beneficial and invite the Commission to consider such amendments before adoption. The general requirements for materiality assessment would benefit from more granular and clearer guidance on the process to be followed by compilers; the use of estimates and the calculation of GHG emissions would benefit from further specification; the difference between the scope of consolidation under the CSRD and prudential consolidation may create challenges for the incorporation by reference of Pillar III disclosures as well as inconsistencies in relation to Taxonomy disclosures; a Legal Entity Identifier (LEI) requirement should be included in ESRS 2; sector-specific intensity-based GHG emission metrics should be included in the sectoral standards to ensure alignment with Pillar III requirements. Finally, ECB staff note that the exemption from subsidiary reporting of subsidiaries that are included in the consolidated reporting of a controlling entity may introduce discrepancies relative to the ECB's statistical and supervisory data collections. This could hamper the interoperability of CSRD information and have a negative impact on the reporting burden of the relevant undertakings. Section 4 below elaborates in more detail on the specific amendments to the ESRS recommended by the ECB.

Going forward, ECB staff stress the need for the timely development of additional guidance and sectoral standards for financial institutions. The first set of ESRS (the subject of this staff opinion) comprise sector-agnostic standards,

¹⁰ See [Draft European Sustainability Reporting Standards – ESRS E1 Climate change](#).

i.e. standards which apply to all undertakings irrespective of their economic sector. These will be complemented by additional sectoral standards which EFRAG intends to develop over time in separate sets and which will then be adopted by the Commission. ECB staff are of the view that the standard for financial institutions, including credit institutions, should be prioritised and ideally adopted before the first reporting cycle foreseen in the CSRD. Such prioritisation is justified by the key role of financial intermediaries in the transition to a sustainable economy, but also pragmatically by the need to bring clarity to the financial industry on what and how to report, ensuring coherence across the multiple reporting obligations under EU sustainable finance legislation, including the interactions with prudential disclosure requirements. In addition, ECB staff highlight the urgent need to develop specific guidance for the definition of the value chain of financial institutions. While general principles on the definition of value chains are provided in Chapter 5 of ESRS 1, the specific nature of financial institutions and the peculiar characteristics of their business relationships requires additional guidance for a clear delineation of the reporting boundaries well before financial institutions begin using the first set of ESRS.

ECB staff emphasise the need for interpretative support and proper maintenance of the standards over time, including revisions of the first set of ESRS based on experience gained by preparers, auditors and users. It is acknowledged that, given its novelty, reporting in accordance with the ESRS might be challenging for some preparers, especially in the first years of implementation and particularly for entities not previously subject to sustainability reporting. In this context, the successful application of ESRS will benefit greatly from a centralised process to address interpretation questions from stakeholders. Furthermore, given the novelty and complexity of the ESRS and the rapid evolution of the regulatory landscape and reporting practices, further improvements of the standard are likely to be necessary to address any shortcomings that become apparent over time as preparers, auditors and users gain more experience. A well-structured process should be put in place to ensure that all relevant input and experience is considered in the regular maintenance of the ESRS, which should, as a minimum, include technical advice from EFRAG's Sustainability Reporting Board and reflect the parallel development of international standards.

ECB staff appreciate the significant efforts made by both EFRAG and the International Sustainability Standard Board (ISSB) to align their respective standards and ensure their interoperability. Based on the latest information available¹¹, ECB staff consider that the structure of the ESRS is essentially aligned with the structure of the corresponding International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards. In terms of substantive requirements of the climate standards, it appears that all the requirements in the ISSB climate standard (IFRS S2) are included, generally with more granular guidance and detail, in the corresponding requirements in ESRS E1. ECB staff assess that the overlapping elements of the two standards display a high level of correspondence

¹¹ The ISSB met on 13 December 2022 to redeliberate some of the proposals in its Exposure Draft IFRS S1 to confirm or clarify points which, if reflected in the final IFRS Sustainability Disclosure Standards, would further ease interoperability with the ESRS.

and that their alignment is sufficient to ensure that compliance with the ESRS ensures – in virtually all cases – full compliance with the (narrower and in most cases less numerous) ISSB disclosure requirements.¹² Accordingly, ECB staff consider that reporting in accordance with the ESRS should automatically be recognised as compliance with the ISSB standards, thereby avoiding double reporting, and call on the relevant authorities to take the necessary steps towards formalising their interoperability. This could include the development and joint endorsement of a reconciliation table between the ESRS and ISSB standards.

¹² See Section 4.7 for a more detail assessment of the alignment of the ESRS with ISSB standards.

4 Specific observations

4.1 ESRS 1 – General requirements

4.1.1 Mandatory disclosure requirements

ECB staff fully support the decision to make some disclosure requirements applicable irrespective of the outcome of the undertaking's materiality assessment, in particular the ESRS E1 climate standard. The disclosure requirements listed in Appendix C of ESRS 2 include the data points in cross-cutting and topical standards that are directly or indirectly required by EU law, such as the Sustainable Finance Disclosure Regulation (SFDR), the Pillar III requirements for eligible credit institutions, the Benchmarks Regulation and the European Climate Law. Should they be subject to a materiality assessment, the outcome of the assessment would, by definition, always be positive, given the relevance of the disclosure requirements for other stakeholders subject to the above-mentioned legal obligations. If they were accidentally omitted by the preparer, this would generate critical data gaps, undermining the implementation of other EU legislation. Regarding ESRS E1, ECB staff share the view that, as the activities of all undertakings contribute to GHG emissions and hence affect climate change, climate-related information should always be seen as material.

Furthermore, the vast majority of the disclosure requirements in ESRS E1 are necessary, directly or indirectly, to comply with other EU legislation (i.e. the European Climate Law, the Climate Benchmark Standards Regulation, the SFDR, the Taxonomy Regulation and Pillar III disclosure requirements). These requirements are key to enhancing the availability of standardised corporate information. From a banking supervision perspective, the disclosure requirements in ESRS will contribute to improving banks' approaches when aligning with supervisory expectations concerning climate-related and environmental risks. Finally, the compulsory nature of corporate climate disclosures will facilitate the implementation of the Governing Council's climate action plan by increasing the availability of climate-related corporate data.

4.1.2 Guidance for materiality assessment

ECB staff would encourage the Commission to consider additional guidance for the process of materiality assessment. It will be critical in the next phases of development of ESRS to develop more practical guidance on the methodologies and processes to be used by preparers to conduct their materiality assessments. Specifically, the general requirements for materiality assessment outlined in Chapter 3 of ESRS 1 and the disclosure requirements in ESRS 2 concerning the explanation of the interaction between the outcome of the materiality process and selected

requirements would benefit from more structured and clearer guidance on the materiality process to be followed by preparers. Ideally indicative thresholds to support the identification of material sustainability matters should be provided to preparers in order to reduce the qualitative and discretionary aspects of the materiality assessment. This would greatly facilitate implementation and would significantly improve the quality of reporting, both by avoiding the risk of over-reporting by preparers concerned about the reputational risk of under-reporting, and by limiting the risk of opportunistically restrictive interpretations of materiality. ECB staff would therefore advise the Commission to provide such additional guidance either through an amendment of the application requirements of ESRS 1 and ESRS 2 in the next set of ESRS or in the context of interpretative guidance published well before the first reporting exercise.

4.1.3 Definition of value chain for financial institutions

ECB staff highlight the urgent need to develop specific guidance on the definition of the value chain of financial institutions. While general principles on the definition of value chains are provided in Chapter 5 of ESRS 1, the guidance appears more suited to non-financial corporates and falls short of the degree of clarity needed to reflect the specific nature of financial institutions and the peculiar characteristics of their business relationships. Additional guidance is therefore needed for a clear delineation of the reporting boundaries of financial institutions, also with a view to ensuring consistency with parallel prudential disclosure and reporting requirements and with proper risk management. In order to facilitate the use of the ESRS by financial institutions and ensure legal clarity, such specific guidance should be produced well before financial institutions begin using the first set of ESRS. This could take the form of interpretative guidance issued by the Commission or, preferably, an explicit addition to or amendment of Section 5.1 of ESRS 1. Alternatively, this additional guidance could be included in the sectoral standard for financial institutions.

4.1.4 Use of estimates

ECB staff are of the view that the use of estimates¹³ would benefit from further specification. One concern is that the use of proxies as estimates may have a negative impact on the comparability of disclosures along the value chain. ECB staff welcome the general principles in Section 7.2 of ESRS 1, as well as the presence of Appendix C of ESRS 1, which establishes the qualitative characteristics that quantitative data are required to have. However, additional guidance on the use of estimates would be desirable. For example, currently there is no differentiation between sector average data, third-party data and expenditure-based data, nor any preference given to one of these. Building on Appendix C, ECB staff would welcome

¹³ See [Draft European Sustainability Reporting Standards – ESRS 1 General requirements](#), Section 7.2 Sources of estimation and outcome uncertainty, paragraphs 92-95; and Appendix C: Qualitative characteristics of information.

the establishment of a hierarchy among the different types of estimates used to provide value chain-related information, particularly regarding the calculation of GHG emissions and the selection of emissions factors. This would enhance the comparability and understandability of all metrics that apply across an undertaking's value chain. If such additional guidance is not provided, the ESRS should include, as a minimum, disclosures about the significant judgements that an undertaking uses to estimate the information that it cannot collect from its value chain partners. ECB staff recommend that these topics be addressed in detail in the sector-specific standards for financial institutions.

4.1.5 Incorporation by reference of Pillar III disclosures

ECB staff support allowing incorporation by reference of Pillar III disclosures¹⁴, as provided for in paragraph 120(e) of ESRS 1. At the same time, paragraph 122 provides that “the undertaking shall ensure that the information incorporated by reference is produced using the same basis for preparation of ESRS information, including scope of consolidation and treatment of value chain information”.

However, the prudential scope of consolidation used for Pillar III disclosures may in some instances differ from the scope of consolidation used in the CSRD/Accounting Directive. In such cases, where the scope of prudential consolidation used for Pillar III disclosures differs from the scope of consolidation for the CSRD, the additional conditions for incorporation by reference set out in paragraph 122 appear to contradict the intent of allowing incorporation by reference of Pillar III disclosures. ECB staff recommend that the Commission adjust the text of paragraph 122 accordingly to avoid a restrictive interpretation of that paragraph ruling out de facto the possibility of any incorporation by reference of Pillar III disclosures, hence generating double reporting for the preparer. Avoiding double reporting should be achieved while avoiding a disproportionate relaxation of the general conditions for incorporation by reference, which could have undesirable knock-on effects on the integrity and transparency of the ESRS. ECB staff would encourage EFRAG and the European Supervisory Authorities (ESAs) to identify the overlapping disclosures arising from different frameworks and to clarify which may be considered fit for incorporation by reference and under which conditions. Regarding the definition of value chains, it is unclear at this stage how the definitions provided in Chapter 5 of ESRS 1 apply to credit institutions (see also Section 4.1.2 above), hence raising doubts as to whether Pillar III disclosures would be compatible with those definitions. Further clarifying the definition of value chains for financial institutions in general, and for credit institutions in particular (as called for in Section 4.1.3 above) is also necessary to enable proper incorporation by reference of Pillar III disclosures.

¹⁴ See [Draft European Sustainability Reporting Standards – ESRS 1 General requirements](#), Section 9.1 Incorporation by reference, paragraphs 120-123.

4.1.6 Consolidated reporting and subsidiary exemption

ECB staff would welcome further granularity on subsidiaries for undertakings reporting at consolidated level. The CSRD grants subsidiary exemption for those subsidiaries that are included in the consolidated sustainability reporting of a controlling entity. Accordingly, Chapter 5 of ESRS 1 requires that “the reporting undertaking for the sustainability statements shall be the one retained for the related financial statements”, extended to include material value chain information. Typically, for ECB statistical collections, entities report on an individual basis at country level, which may lead to a different approach to CSRD information in cases where undertakings make use of the derogation for subsidiary reporting under the CSRD. Hence the derogation for subsidiary reporting under the CSRD reduces interoperability with ECB statistics. While the exemption of subsidiary reporting stems directly from the (level 1) CSRD text, and therefore cannot be addressed at the root by the ESRS, it is recommended that appropriate consideration be given to the compatibility and interoperability of the level of aggregation of the ESRS with parallel statistical and supervisory data which may be more granular than the consolidated level. In this respect, it is welcome that Section 3.7 of ESRS 1 (paragraphs 58-61) already provides that, when needed for a proper understanding, the undertaking shall disaggregate by country, site and, depending on the facts and circumstances, by subsidiary. Furthermore, in accordance with the requirement envisaged in Article 29a(4) of the Accounting Directive as amended by the CSRD, it is welcome that Section 7.6 of ESRS 1 (paragraph 106) already foresees that, if an undertaking identifies significant differences between material impacts, risks or opportunities at group level and material impacts, risks or opportunities of one or more of its subsidiaries, it shall provide an adequate description at the subsidiary level. Clear guidance should be provided to preparers to ensure that these breakdowns are not overlooked and are properly disclosed. Specific guidance may in particular need to be provided for financial groups, also with a view to ensuring consistency with parallel reporting obligations for different financial institutions.

4.2 ESRS 2 – General disclosures

4.2.1 Legal Entity Identifier

ECB staff recommend the inclusion in ESRS 2 of a dedicated disclosure requirement regarding the LEI of the undertaking as a mandatory attribute. The ESRS currently omits the disclosure of LEIs by undertakings. ECB staff strongly support its inclusion, as this would facilitate not only the identification of entities but also the accuracy, searchability, retrieval, use and interoperability of the information provided under the CSRD. More generally, the LEI should be a mandatory requirement for the entirety of the undertaking’s annual reporting package – including the sustainability statements subject to the ESRS. In the absence of LEIs for some undertakings, ECB staff recommend alternative means of efficiently ensuring the unique identification of the entities concerned. In particular, this could

include a reference to a set of national and industry identifiers commonly used and widely available in the Member States that is published and maintained by the ECB.¹⁵

The inclusion of an LEI requirement in ESRS 2 would greatly enhance the interoperability of ESRS information once it is brought under the scope of the European Single Access Point (ESAP). ECB staff reiterate the view that the inclusion of CSRD information in the ESAP should occur without delay.¹⁶ The ESAP should ensure that these data are disclosed centrally with adequate metadata, as well as the interoperability of formats and technical functions to disclose and download the data in a structured machine-readable format. The inclusion of LEIs in ESRS 1 is key to ensuring the interoperability of ESRS with other information available in the ESAP.

4.3 ESRS E1 – Climate change

4.3.1 Transition plans

ECB staff strongly support the development and disclosure of transition plans¹⁷ for climate change mitigation. The disclosure requirement of transition plans for corporates will be instrumental in improving banks' data availability on the transition strategies and targets of their customers. This will ensure that banks better understand the risks arising from counterparties' misalignment with the relevant sectoral pathways. It will also enable banks to develop a greater understanding of the transition needs of their counterparties and to adapt, if necessary, their product offering, thereby increasing the likelihood of catching transition finance opportunities. ECB staff are of the view that the proposed requirement is appropriate to allow a clear and direct assessment and comparison of a company's GHG emission reductions, while the harmonised methodology put forward for the presentation of such plans appears sufficient to allow comparability across companies and facilitate the monitoring of progress by all stakeholders.

For credit institutions, while the climate transition plans under the ESRS and the proposed prudential transition plans under the Capital Requirements Directive (CRD VI) serve different purposes, alignment between the two should be ensured. The ESRS will apply to credit institutions within the scope of the CSRD, thus making the disclosure of transition plans for climate change mitigation mandatory for such credit institutions. For financial institutions specifically, the requirement also complements the parallel provisions under the proposed CRD VI helping banks to understand and manage the risks of misalignment with respect to

¹⁵ See "List of national identifiers", ECB.

¹⁶ See [Opinion of the European Central Bank of 7 June 2022 on the establishment and functioning of the European Single Access Point \(ESAP\) \(CON/2022/20\) \(OJ C 307, 12.8.2022, p. 3\)](#).

¹⁷ See [Draft European Sustainability Reporting Standards – ESRS E1 Climate change](#), Disclosure Requirement E1-1 – Transition plan for climate change mitigation, paragraphs 13-16; and Appendix B: Application Requirements, AR 1 to 6.

the EU transition pathways.¹⁸ ECB staff expect the assumptions, methodologies, targets and milestones underlying the disclosure of transition plans for climate change mitigation to be aligned and consistent with other actions performed by financial institutions in the area of climate change mitigation, including the proposed CRD VI requirements. The ESRS could further specify whether and, if so, why disclosing entities should use significantly different assumptions, methodologies, targets and milestones for other purposes.

The scopes of the CSRD and the Corporate Sustainability Due Diligence Directive (CSDDD) should ideally be aligned. ECB staff note that the CSRD only prescribes the disclosure of transition plans, while the obligation to draw up such plans is imposed by the CSDDD. Given that the CSDDD and the CSRD differ in terms of scope (with the scope of the CSDDD being narrower than that of the CSRD), some companies in the scope of the CSRD may not have transition plans to disclose. To avoid critical data gaps, and in line with the intended goals of the CSRD of enhancing comparability of sustainability information, ECB staff would encourage the EU legislator to align the scopes of the two directives.

4.3.2 Scenario analysis

ECB staff support the reference to scenario analysis¹⁹. ECB staff appreciate that ESRS E1 explicitly refers to the use of climate scenarios to support the resilience analysis in SBM-3 as well as to identify and assess physical and transition risks in IRO-1 but note that the use of scenario analysis is never explicitly prescribed and the text of paragraphs 17(c), 18(b), 18(c) and 19 is ambiguous as to whether scenario analysis is always expected to be used by undertakings for the purpose of SBM-3 and IRO-1. For clarity, it is recommended that the use of scenario analysis be prescribed more explicitly, e.g. by providing that “the undertaking shall use climate-related scenario analysis...” in both SBM-3 and IRO-1.

ECB staff recommend the inclusion of explicit references to the scenarios developed by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), given their widespread use among financial institutions. NGFS scenarios are widely used by financial institutions and the ECB, as well as globally by other central banks and prudential supervisors. In particular, the results of the ECB supervisory climate stress test have shown that, among the banks participating in the exercise, the NGFS was by far the most common source of

¹⁸ See [Proposal for a Directive amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks, and amending Directive 2014/59/EU](#). The ECB considers it crucial that banks measure climate-related risks over long-time horizons. To ensure the ongoing resilience of banks' business models in a transitioning economy and to avoid the build-up of excessive transition risk in bank's portfolios, it is further important for banks to set concrete timelines, including intermediate milestones, in their transition planning.

¹⁹ See [Draft European Sustainability Reporting Standards – ESRS E1 Climate change](#), Disclosure Requirement related to ESRS 2 SBM-3 – Material impacts, risks and opportunities and their interaction with strategy and business model(s), paragraph 17; Appendix B: Application Requirements, AR 8 and 9; Disclosure requirement related to ESRS 2 IRO-1 – Description of the processes to identify and assess material climate-related impacts, risks and opportunities, paragraphs 18-19; and Appendix B: Application Requirements, AR 12 to 16.

climate scenarios.²⁰ Hence ECB staff strongly recommend that the European Commission include explicit reference to NGFS scenarios in AR 12(d) and AR 13(c) and to NGFS documents in AR 15 as another source of guidance.²¹

4.3.3 Climate targets

ECB staff support the proposed disclosure of measurable targets²², which are key to ensuring the disclosure of comparable and reliable forward-looking data. The suggested disclosure standards provide sufficiently precise guidance for firms to report their forward-looking targets.

ECB staff appreciate that reporting on carbon removals and offsets is to be done separately from disclosures on targets. ECB staff agree with the adopted view that the GHG emission reduction targets should be disclosed gross without offsetting. ECB staff consider that reporting on progress against the targets including carbon offsets would make the targets less transparent, potentially misleading, and generally less credible.

ECB staff note that the ESRS E1 does not provide a definition of “intensity value” emission reduction targets, seemingly leaving the choice of the intensity measure to the preparer. For clarity and comparability, ECB staff would strongly recommend clarifying that the generic intensity value referred to in paragraph 32(a) should be understood as referring to turnover-based carbon intensity, which seems appropriate as a horizontal requirement in the cross-cutting ESRS E1.

4.3.4 GHG emissions

ECB staff welcome the detailed disclosure requirements on GHG emissions²³, including Scope 3 emissions. ECB staff welcome in particular the detailed methodology used to compute GHG emissions, the transparency required with regard to Scope 3 emission boundaries in line with the GHG Protocol recommendations²⁴, the disclosure of the percentage of emissions calculated using primary data obtained from suppliers or from other value chain partners, the justification for the omitted categories, the granular breakdowns of Scope 1 and Scope 2 emissions between entities, and the detailed and highly comparable table provided in the application requirements. Overall, ECB staff consider that these

²⁰ See [ECB report on good practices for climate stress testing](#), ECB, December 2022.

²¹ See the [NGFS Scenarios Portal](#).

²² See [Draft European Sustainability Reporting Standards – ESRS E1 Climate change](#), Disclosure Requirement E1-4 –Targets related to climate change mitigation and adaptation, paragraphs 28-32; and Appendix B: Application Requirements, AR 24 to 31.

²³ See [Draft European Sustainability Reporting Standards – ESRS E1 Climate change](#), Disclosure Requirement E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions, paragraphs 41-49; and Appendix B: Application Requirements, AR 39 to 53.

²⁴ GHG Protocol Initiative, [The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard](#), Revised edition.

disclosures will significantly enhance transparency and help users to better understand and compare GHG emissions across entities.

Interpretative guidance on the definition of value chains will be of great importance to facilitate application. ECB staff welcome the fact that ESRS E1 introduces specific rules on reporting boundaries along the value chain, based on the requirements of ESRS 1. However, the application of the specific requirements may raise clarification questions (due to the complexity of the value chain topic) and further strengthens the case for developing dedicated additional guidance on value chains for financial institutions (see Section 4.1.3). ECB staff welcome the encouragement given to financial institutions to consider the GHG Accounting and Reporting Standard for the Financial Industry from the Partnership for Carbon Accounting Financial (PCAF). Considering the divergence in estimated emissions resulting from the different methodological approaches allowed under PCAF, ECB staff expect that the sector-specific standards will ensure some minimum standards regarding the estimations of Scope 3 GHG emissions. ECB staff would recommend introducing some additional guidance regarding the quality of emission factors used in the Scope 3 calculation to help institutions rate the reliability of their information. This guidance could take the form of a hierarchy of emission factors.

The disclosure of intensity-based emissions in ESRS E1 should be complemented with industry-specific output-based intensity metrics in the sectoral standards. ECB staff welcome the requirement to disclose GHG intensity (based on net revenue) in addition to gross emissions, which will facilitate the comparison of decarbonisation efforts over time and within sectors. Turnover-based carbon intensity is appropriate as a horizontal requirement in the cross-cutting ESRS E1. However, ECB staff consider it to be crucial that this horizontal intensity metric is complemented in the sectoral standards by industry-specific intensity metrics based on industry-specific outputs. In addition to the considerably superior information value of such sector-specific intensity metrics, industry-specific outputs are essential for the ESRS to be compatible with the information requirements stemming from Pillar III requirements for credit institutions, which in Pillar III disclosures require institutions to report alignment metrics, defined as emission intensity per unit of production (varying depending on the sector).²⁵

4.3.5 Financial effects from physical and transition risks

ECB staff welcome the requirement to disclose the potential financial effects arising from physical and transition risks²⁶. This requirement appears to include all relevant information which credit institutions need in order to fulfil their own disclosure requirement and would significantly enhance their ability to identify and

²⁵ See [Commission Implementing Regulation \(EU\) 2022/2453 of 30 November 2022 amending the implementing technical standards laid down in Implementing Regulation \(EU\) 2021/637 as regards the disclosure of environmental, social and governance risks \(OJ L 324, 19.12.2022, p. 1\)](#), Template 3: Banking book – Indicators of potential climate change transition risk: Alignment metrics.

²⁶ See [Draft European Sustainability Reporting Standards – ESRS E1 Climate change](#), Disclosure Requirement E1-9 – Potential financial effects from material physical and transition risks and potential climate-related opportunities, paragraphs 61-67; and Appendix B: Application Requirements, AR 62 to 72.

manage physical and transition risks of their counterparties. It will also help the Eurosystem to better assess the climate-related risks associated with the collateral it accepts in its monetary policy operations. More specifically, for physical risk, identifying risk for each specific hazard with a precise (at address level) geographical location of key assets will increase the usefulness of ESRS data for ECB statistics and broaden the scope of application of collected data. In addition, while ECB staff appreciate the requirement to disclose the proportion of assets at material transition risk addressed by the climate change adaptation actions (which is understood to also include insurance), more targeted information on insurance policies against the physical hazard would allow a better reflection of reconstruction capacity and a more precise assessment of the related exposures of credit institutions.²⁷

4.4 Other environmental standards

ECB staff appreciate the significant efforts made towards the development of the other environmental standards²⁸: ESRS E2 pollution, E3 water, E4 biodiversity and E5 circular economy. These provide a comprehensive conceptual framework of nature-related risks that can empower undertakings to adopt an integrated approach to all environmental threats. As articulated in the ECB Guide on climate-related and environmental risks of November 2020²⁹, banks are expected to adopt a strategic, comprehensive and forward-looking approach to the management of these risks, and to integrate them into their strategies, governance and risk management frameworks and processes. A consistent information architecture on nature-related impacts and risk is key to enable banks and prudential supervisors to ensure the resilience of the financial sector to such risks.

Given the rapid evolution of reporting standards on nature-related impacts and risks, consistency and interoperability with ongoing international initiatives is of the essence. ECB staff expect the nature-based disclosure framework to evolve rapidly in the coming years. This includes the framework of the Taskforce for Nature-related Financial Disclosures (TNFD), the revision of the biodiversity indicators of the Global Reporting Initiative (GRI), the guidance of the Science Based Targets Network (SBTN), the Partnership for Biodiversity Accounting Financials (PBAF), and the plans recently announced by the ISSB to advance work on nature-focused disclosures.

In this context, ECB staff welcome the preliminary alignment of ESRS E2 to E5 with the TNFD methodology. ECB staff appreciate the inclusion of references to the TNFD in E2, E3 and E5, specifying that when conducting a materiality assessment on environmental subtopics, the undertaking shall consider the four phases of the “LEAP approach” proposed by the TNFD: (a) locate where in the own operations and along the value chain the interface with nature occurs at the priority

²⁷ See ECB/ESRB Project Team on climate risk monitoring, “[The macroprudential challenge of climate change](#)”, ECB, July 2022, Section 2.4.2.

²⁸ See [Draft European Sustainability Reporting Standards – ESRS E2 Pollution; ESRS E3 Water and marine resources; ESRS E4 Biodiversity and ecosystems; and ESRS E5 Resource use and circular economy](#).

²⁹ See [Guide on climate-related and environmental risks](#), ECB, November 2020.

locations; (b) evaluate the water and marine resources-related dependencies and impacts; (c) assess the material risks and opportunities; and (d) prepare and report the results of the materiality assessment. ECB staff would encourage the first maintenance process of ESRS E4 on biodiversity to occur sooner than in the scheduled three years to reflect the rapid evolution of the international landscape.

ECB staff fully support the requirement to disclose a biodiversity transition plan as well as quantitative biodiversity targets but are of the view that the inclusion of offsets risks harming their reliability and comparability. ECB staff welcome the inclusion of the disclosure requirement E4-1 on biodiversity transition plans as well as quantitative biodiversity targets in E4-4.³⁰ However, ECB staff are concerned that the inclusion of offsets in biodiversity targets risks harming their reliability and comparability and therefore welcome that ESRS 4 requests that, when an undertaking decides to integrate offsets into its transition plan, target or action plan, the undertaking explains where the offsets are planned to be used, the extent of use in relation to the overall transition plan and whether the mitigation hierarchy was considered. In the ESRS E4 maintenance process, it will be important to consider whether to extend to ESRS E4 the restrictive approach to offsets taken in ESRS E1 or to build on the global reference mechanism for biodiversity action currently in development to restrict the use of offsets to reliable mechanisms.

ECB staff appreciate that all environmental standards include requirements on the potential financial effects from impacts, risks and opportunities, but disagree with restricting reporting to qualitative information for E2 to E5 for the first three years of reporting. As is already the case for ESRS E1, reliance on qualitative disclosures should be possible when it is impossible or impractical to obtain quantitative information, but this should not be the default option for E2 to E5. ECB staff would encourage the Commission to revise accordingly Appendix D of ESRS 1: List of phased-in Disclosure Requirements.

4.5 Consistency with banking prudential legislation

ECB staff are generally satisfied with the very high degree of alignment between the ESRS and the Pillar III disclosure requirements on ESG risks for credit institutions. Virtually all the data points which are directly or indirectly required by the Pillar III requirements are included in the ESRS. The only exception, as described in Section 4.3.4 above, pertains to the absence of mandatory industry-specific output-based emission intensity metrics. This is entirely justified given that the first set of ESRS contains cross-sectoral standards and hence does not differentiate requirements across sectors. Nonetheless, ECB staff emphasise the importance of including explicit mandatory requirements for sector-varying output-based intensity metrics when developing sector-specific standards going forward.

³⁰ See [Draft European Sustainability Reporting Standards – ESRS E4 Biodiversity and ecosystems](#), Disclosure Requirement E4-1 – Transition plan on biodiversity and ecosystems, paragraphs 13-18; and Disclosure Requirement E4-4 – Targets related to biodiversity and ecosystems, paragraphs 32-35.

4.6 Consistency with other EU sustainable finance legislation

The ESRS appear consistent and interoperable with the SFDR. The ESRS incorporate SFDR principal adverse impacts (PAIs) that are applicable to all undertakings. ECB staff also welcome the intention to implement the remaining PAIs, which are specific to certain sectors (e.g. the PAIs applicable solely to real-estate investments), in the forthcoming sectoral standards. Information needed by financial market participants is generally easy to identify in the ESRS and should facilitate financial institutions' reporting under the SFDR.

The scope of consolidation of the CSRD appears to be in conflict with the Taxonomy disclosures incorporated in the ESRS. The ESRS incorporate in the relevant topical standards the respective Taxonomy disclosure (e.g. ESRS E1 incorporates in disclosure requirement E1-3 the key performance indicators on alignment with the objectives of climate change mitigation and adaptation required under Article 8 of the Taxonomy Regulation)³¹. However, ECB staff note that reporting in accordance with the ESRS should use the same consolidation approach used in the undertaking's financial statements, whereas the consolidation approach required for Taxonomy reporting – according to the European Commission FAQs on Article 8 disclosures³² – is supposed to be, at least for credit institutions, the prudential scope of consolidation, which for large institutions generally differs from the one used in the financial statements. This divergence appears to introduce an internal inconsistency within the ESRS requirements and may undermine comparability.

4.7 Consistency with global initiatives

ECB staff emphasise the importance of global coherence of sustainability disclosures and urge the Commission and the ISSB to continue their cooperation. ECB staff welcome the technical cooperation between EFRAG and the ISSB and appreciate that – as a result of these interactions – the draft climate standards have achieved a high level of alignment. ECB staff appreciate in particular the effort made by EFRAG in the reconciliation table delivered in Annex 5, which also provides a good basis for future mapping to be carried out by ISSB. ECB staff call on the Commission and EFRAG to continue bilateral interactions with the ISSB to ensure interoperability between the currently developed standards and standards that will be developed by both institutions going forward.

ECB staff consider the alignment between the ESRS and the latest version of the standards of the ISSB to be satisfactory. ECB staff are conscious that a complete assessment of interoperability between the two sets of standards will only be possible when the final IFRS Sustainability Disclosures Standards are published.

³¹ See [Draft European Sustainability Reporting Standards – ESRS E1 Climate change](#), Disclosure Requirement E1-3 – Actions and resources in relation to climate change policies, paragraph 27(b).

³² See [“What is the EU Taxonomy Article 8 Delegated Act and how will it work in practice?”](#), *Frequently asked questions*, European Commission, 2021: “The GAR should be calculated based on the on-balance sheet exposures (total covered assets) according to the prudential scope of consolidation for the types of assets”.

However, based on the latest information available, ECB staff consider that the structure of ESRS is essentially aligned with the respective structures of the IFRS Sustainability Disclosure Standards.

In terms of the substantive requirements of the climate standards, ECB staff are of the view that all the requirements in the ISSB climate standard (IFRS S2) are included in the ESRS, generally with more granular guidance and detail, in the corresponding requirements in ESRS E1. Most of the differences between the two standards stem from specific legal requirements under the CSRD. Most notably, the ESRS adopt a double materiality approach which is different from (but overlaps with) the financial materiality adopted by the ISSB. In addition, the ESRS deviate from the ISSB on the scope of the materiality assessment, as some disclosure requirements related to EU legislation, as well as the entirety of the climate standard ESRS E1, are always mandatory and hence excluded from the scope of materiality assessment: the difference in the scope of materiality ensures that information disclosed in accordance with ESRS will never omit information deemed material under the ISSB standards. Furthermore, the ESRS do not allow the incorporation by reference of some information to the same degree allowed in the exposure draft of IFRS S1. Transition plans in ESRS E1 are expected to be compatible with the limiting of global warming to 1.5°C, while a broader range of options is allowed under IFRS S2 (while including the 1.5°C path). IFRS 2 allows the inclusion of offsets in the disclosure of emission reduction targets and transition plans, which is problematical, while ESRS does not allow this. IFRS S2 requires the use of scenario analysis (unless the entity is unable to do so) to assess the resilience of the undertaking in the strategy section of the standard, whereas ESRS E1 uses scenario analysis to inform both the resilience analysis and the materiality assessment of impacts, risks and opportunities. Overall, ECB staff assess that the overlapping elements of the two standards display a high level of correspondence, and their alignment is sufficient to ensure that compliance with the ESRS guarantees compliance with ISSB standards.

Accordingly, ECB staff consider that reporting in accordance with the ESRS should automatically be recognised as compliance with the ISSB standards, thereby avoiding double reporting. ECB staff call on the relevant authorities to take the necessary steps towards formalising their interoperability. This could include the development and joint endorsement of a reconciliation table between the ESRS and the ISSB standards.

ECB staff welcome the high level of convergence between the draft ESRS and the parts of the GRI standards also covered by the CSRD. While the degree of overlap between the GRI and the ESRS is very high, additional progress can still be made, in particular by including in the ESRS indicative thresholds to support the identification of material sustainability matters building on the GRI examples in this area.

4.8 Future development of sectoral standards for financial and credit institutions

ECB staff are firmly in favour of prioritising the development of sectoral standards for financial institutions by 2024. The first set of ESRS will be complemented by additional sectoral standards, which EFRAG intends to develop over time in separate batches and which will then be adopted by the Commission. ECB staff are of the view that the standard for financial institutions, including credit institutions, should be prioritised and adopted before the first reporting cycle foreseen in the CSRD. Such prioritisation is justified by the key role of financial intermediaries in the transition to a sustainable economy, but also pragmatically by the need to bring clarity to the financial industry on what and how to report, ensuring coherence across the multiple reporting obligations under the EU sustainable finance legislation, including the interactions with prudential disclosure requirements. From an ECB perspective, the early development of such standards will support the ECB in its tasks and objectives. The ECB stands ready to contribute to the technical work on the sectoral standard for financial and credit institutions.

4.9 Maintenance process

ECB staff emphasise the need for proper maintenance of the standards over time. Recital 54 of the CSRD states that the Commission should review the sustainability reporting standards, including the sustainability reporting standards for small and medium-sized undertakings, every three years to take account of relevant developments, including the development of international standards. Acknowledging the rapid and parallel development of other sustainability reporting initiatives and national regulations, in particular in the domain of climate and biodiversity, and acknowledging the difficulties preparers, compilers, auditors and users may face during the first years of implementation, ECB staff express the need for ongoing maintenance of the standards to fine tune the ESRS as experience of its use is gained. Sustainability disclosure is a new field that is developing rapidly: the maintenance process needs to be designed to adapt to this rapidly evolving environment. To achieve this, EFRAG should be equipped with the necessary resources to achieve the timely development of subsequent sets of standards while integrating the latest best practices and regulatory developments.

4.10 Audit standards

ECB staff would encourage the swift development of audit standards to ensure consistent implementation of the ESRS. The CSRD will impose a mandatory audit requirement based on a limited assurance opinion for all disclosures in the sustainability statements, including the disclosures pursuant to Article 8 of the Taxonomy Regulation. The CSRD empowers the European Commission to adopt limited assurance audit standards by 1 October 2026 and assurance standards for reasonable assurance no later than 1 October 2028. ECB staff are concerned that

the time lag between the first publication of the audit standards in 2025 in accordance with the CSRD and the adoption of those standards may lead to confusion about the extent of the assurance provided, which is likely to differ across European countries and over time. To secure consistent enforcement across Europe, ECB staff would encourage the Commission to adopt the audit standards before January 2025.

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