

ESG Omnibus: sustainability reporting cuts progress amid diverging proposals

The European Commission, Council, and Parliament all aim to reduce ESG reporting, but their proposals vary widely. While awaiting the Parliament's final stance, the scope of cuts remains uncertain and the impact on banks will hinge on how deep those cuts go



While some financial institutions will benefit from the simplification by falling out of scope of sustainable disclosure requirements, those remaining in scope will not benefit from the change

Our view

The European Commission, Council, and Parliament are all proposing major cuts to ESG disclosure requirements, with the Parliament's position still in draft form. The extent of the cuts will be a central question during the next phase of the discussions in Parliament, but one thing remains certain: far fewer companies are expected to fall under the CSRD, CSDDD, and Taxonomy reporting requirements.

As pointed out by the ECB, this will represent a challenge not only for banks' reporting but also for the regulator, as sustainability-related data is necessary for banking supervision.

While those ESG-reporting Directives were designed to allow investors to make informed decisions, the move away from comprehensive standards raises concerns about slowing the EU's sustainable transition.

This article continues our earlier analysis of the Commission's ESG Omnibus proposal by examining the Council's suggested changes and the Parliament's draft position. You can read the full piece [here](#). After laying out the two new positions, we will discuss the impact that those could have on the European banking sector.

Where the Omnibus proposal stands

Following the Commission's sustainability Omnibus proposal, the Council of the European Union published its position on the topic while the Parliament issued a draft proposal, which is expected to be finalised in the coming months. As a reminder, the Commission published its plan in mid-February, which includes the merging and streamlining of multiple sustainable reporting policies through an Omnibus package. The goal is to reduce the reporting burden of ESG-related disclosures for corporations by 25%. It therefore simplifies the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD) and the European Taxonomy.

Omnibus legislative process

The sustainability Omnibus package follows the Union's Ordinary Legislative Procedure. Therefore, after the European Commission's initial proposal, both the European Parliament and the Council must review the text and come up with their own positions. While the Council published its final Omnibus proposal, the Parliament still must agree on its final position.

The Rapporteur to the Parliament's JURI committee drafted a report, Members of the European Parliament had until the end of June to submit their amendments to it. The Union's legislative body will, in the coming months, discuss the texts and vote on its final proposal.

Once all three institutions have shared their own final sustainability Omnibus proposal, they will enter inter-institutional talks, otherwise called Trilogue negotiations. The aim of these talks is to reach an agreement on one common Omnibus legislative proposal. If an agreement is reached, the text will be submitted to the Parliament's vote and, upon approval, enforced.

Before the Trilogue negotiations start, we deemed it important to complete our first piece (focused on the Commission's position) by diving into the Parliament JURI Rapporteur's draft report and Council's proposal for the Omnibus I.

The Council proposal and Parliament's draft

Four months after the Commission's initial proposal to merge the CSRD, CSDDD and Taxonomy, the rapporteur of the JURI Committee of the European Parliament published the draft report for the Omnibus I proposal. Less than two weeks later, it's the Council of the European Union's turn to share its proposal. While all pieces suggest significantly reducing the number of entities in scope of ESG reporting, we note several variations in their text. The four key variations to the Commission's proposal are the following:

1. Enforcement scope

The enforcement scope is at the centre of the discussions since the Commission pledged to reduce, by 80%, the number of entities required to report their ESG information. It also promises to be a major talking point at the Parliament and during the Trilogue negotiations as each institution

approaches the question differently.

Indeed, for European undertakings, the **Parliament's** draft introduces a radical reduction of the scope of both the CSRD and CSDDD to only include entities with over **3,000 employees and a net turnover over €450m**. That being said, several political groups have submitted amendments to the draft report, suggesting drastically smaller scope reductions. This highlights the widely divergent positions within the European Parliament on the topic. Therefore, the Parliament's final proposal might still vary from the draft discussed here.

The **Council's** proposal also suggests going further than the Commission but makes a distinction between the CSRD and CSDDD's scope. It put forward the inclusion of entities with **over 1,000 employees and a net turnover of over €450m for the CSRD**. However, for the **CSDDD, it wants to only include undertakings with over 5,000 employees and a net turnover over €1.5bn**.

The divergence between the three institutions remains when looking at the treatment of non-European undertakings. While the Parliament draft wants to fully align the scope with European entities to avoid competitive disadvantages, the Council's position is aligned with the Commission. It proposes to keep in scope at group level, entities generating over €450m in the Union and at branch level those generating over €50m.

2. ESRS simplification

Aside from reducing the scope of the three ESG disclosure regulations, the Commission also came up with proposals to cut the reporting burden for entities that would remain in scope of the policies. To do so, it proposes to simplify the European Sustainability Reporting Standards (ESRS), the CSRD's reporting guidelines. The complex task of reviewing the framework and reducing the number of data points to collect was assigned to the European Financial Reporting Advisory Group (EFRAG).

While the Group published its progress report on the ESRS review in June, the Council doesn't agree with the Commission's (and Parliament's draft) proposal to finalise the new reporting framework within six months after the adoption of the Omnibus. Instead, the Council wants to see the process conclude faster, within a four-month period after the Omnibus enforcement.

3. Value chain reporting

The Commission also introduces changes focusing on the CSDDD. The main one concerns the definition of business partners strictly as direct suppliers instead of the whole value chain. In this regard, the Commission, Council and Parliament's draft position are aligned. However, when it comes to the extension of the disclosures to the full value chain in cases of potential adverse impacts, divergences emerge.

The Parliament's JURI Rapporteur draft adds to the Commission's proposal by specifying that entities should run a prior assessment. This should take into account business operations, and geographical and contextual risk factors to determine the possible presence of adverse impacts. Only in the case of plausible information indicating adverse impact should the undertaking report on its full value chain.

For its part, the Council proposes the enforcement of a risk-based general scoping to identify any adverse impact, without going into as much detail as the Parliament's draft proposal.

4. Climate transition plans

We also note that while the Commission proposes to simplify the climate transition plan requirement, the Parliament’s draft goes a step further and wants to make it optional. Removing the transition plan obligation is also part of the Council’s proposal but in addition, the institution suggests that supervisory authorities advise companies on the design and implementation of those plans.

These are the four main differences between the three proposals. However, as shown in the summary table below, the three institutions’ views vary on many points proposed by the Commission. As a reminder, the Parliament’s draft proposal is not the institution’s final position as MEPs will discuss and vote on the official position in the coming months. This is important to highlight as significant divergences have already emerged from the amendments proposed to the current Parliament’s draft.

Summary of each institution's Omnibus position*

	Commission's proposal	Parliament's proposal	Council's proposal
General	<p>CSRD & CSDDD: 1000 employees & a turnover of more than €40m or a balance sheet of more than €25m</p> <p>Taxonomy: 1000 employees & a turnover of more than €450m or a balance sheet of more than €250m</p>	<p>CSRD & CSDDD: 1000 employees & a turnover of more than €40m</p> <p>Taxonomy: 1000 employees & a turnover of more than €450m</p>	<p>CSRD: 1000 employees & a turnover of more than €40m</p> <p>CSDDD: 1000 employees & a turnover of more than €40m</p> <p>Taxonomy: 1000 employees & a turnover of more than €450m</p>
Non-EU entities in scope	<ul style="list-style-type: none"> Group disclosures >€450m generated in EU Branch disclosures >€50m generated in EU 	<ul style="list-style-type: none"> Scope aligned to EU entities 	<ul style="list-style-type: none"> Group disclosures >€450m generated in EU Branch disclosures >€50m generated in EU
Climate transition plan	<ul style="list-style-type: none"> Simplification of climate transition plans 	<ul style="list-style-type: none"> Removal of climate transition plan 	<ul style="list-style-type: none"> Removal of planning obligation and regulator advice request
Sector specific standards	<ul style="list-style-type: none"> Removal of sector-specific standards 	<ul style="list-style-type: none"> Removal of sector-specific standards 	<ul style="list-style-type: none"> Removal of sector-specific standards
CSRD			
ESRS simplification	<ul style="list-style-type: none"> By EFRAG within 6 months after enforcement 	<ul style="list-style-type: none"> By EFRAG within 6 months after enforcement 	<ul style="list-style-type: none"> By EFRAG within 4 months after enforcement
CSDDD			
Financial services	<ul style="list-style-type: none"> Removal of potential extension 5 years 	<ul style="list-style-type: none"> Removal of potential extension 	<ul style="list-style-type: none"> N/A 5 years
Fine cap	<ul style="list-style-type: none"> Removal of minimum fine cap 	<ul style="list-style-type: none"> Removal of minimum fine cap 	<ul style="list-style-type: none"> Development of fining guidelines
Civil liability	<ul style="list-style-type: none"> Removal of civil liability 	<ul style="list-style-type: none"> Removal of civil liability 	

*Excludes proposed changes for the EU Taxonomy as the Parliament and Council have not commented on the Commission's draft proposal Source: European Commission, European Parliament, Council of the European Union, ING

Various proposals, varying impact on the banking sector

In our previous publication, we estimated the impact the Commission’s proposal could have on the European banking sector. We identified three channels through which these changes would affect the financial sector, namely:

1. Smaller banks falling out of scope
2. Lower data availability
3. Legislative uncertainty

While those three points remain true for each one of the proposals, the difference in the scope change would have varying impacts on the sector.

To estimate this impact, we replicated the exercise done in our previous publication on the Commission’s proposal. We retrieved the average number of employees for our sample of 140 banks from 15 jurisdictions and estimated the number of European institutions that would fall out of scope of the CSRD. Naturally, the actual impact would also depend on the financial threshold

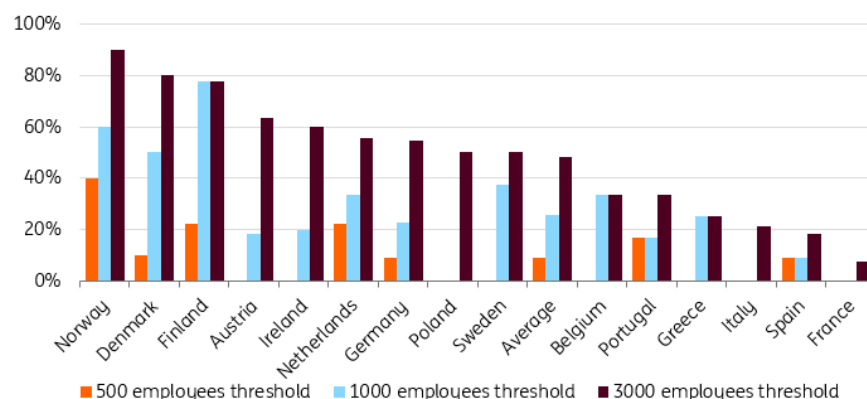
proposed but looking at employees already gives a first idea of the degree of impact. Currently, the CSRD applies to entities with over 500 employees. As mentioned before, both the Commission and the Council propose raising the threshold to 1,000 employees while the Parliament's draft wants it to be set at 3,000 employees. The graph below thus shows the national share of banks that would fall out of scope under each limit.

Without much surprise, the more significant scope reduction proposed by the Parliament's draft would drastically increase the number of banks not required to report their ESG information under the CSRD. In fact, all jurisdictions in our sample would see part of their financial sector fall out of scope.

For nine countries, this would represent over 50% of the banks sampled. This is a significant increase compared to the Commission's proposal where only three countries passed this level. Additionally, this would make up to 90% of our Norwegian sample and 80% of the Danish one.

In our sample, the podium is held by Nordic countries when computing the impact of both the 1,000 employees and 3,000 employees' threshold proposals.

Estimated share of banks out of scope of the CSRD per employees threshold



Naturally, the higher the scope threshold, the larger the impact on data availability for banks. In this regard, both the Council and the Parliament's draft proposal go against the European Central Bank's opinion. Indeed, the ECB published its views on the Commission's proposal back in May. It stressed the importance of sustainability data in making informed investment decisions and ensuring considerations for sustainability-related risks. The ECB also highlighted the role these data points play in the central bank's supervision activities as well as for financial stability and monetary policy.

Overall, the ECB estimates that the Commission's scope reduction would result in one-eighth of significant institutions and the majority of smaller banks not being required to disclose their ESG information. While this would translate into a lighter reporting burden for the institutions falling out of scope, the ECB underlines that it would make the set of ESG information incomplete. Therefore, the ECB recommends that at least all significant institutions, regardless of the number of employees, remain in scope of sustainable reporting requirements.

The report also suggests reducing the enforcement scope of the CSRD to a lesser extent by including undertakings with over 500 employees. Read our full piece on the ECB Omnibus opinion [here](#). Despite the ECB's push, both the Parliament's draft and Council opted for an even stronger proposal, going further than the Commission.

Conclusion

Our first analysis of the Commission's Omnibus I proposal pointed to ambiguous impacts on the European banking sector. While some financial institutions will benefit from the simplification by falling out of scope of sustainable disclosure requirements, those remaining in scope will not benefit from the change. This mainly stems from the drop in data quality and availability that will arise from the scope reduction. As most corporates would fall out of scope of ESG reporting requirements, banks will not have access to the information for their own disclosures. We expect this to negatively impact banks' reporting.

Despite variations in their plan and the ECB's diverging opinion, both the Commission and Council as well as the Parliament's draft are pencilling in very significant reductions in the overall requirement to disclose ESG information.

The exact threshold will be a central question during the Parliament's discussions and the Trilogue negotiations, but one thing remains certain: the number of undertakings in scope of the CSRD, CSDDD and Taxonomy will dramatically drop.

As pointed out by the ECB, this will represent a challenge not only for banks' reporting but also for the regulator, as sustainability-related data is necessary for banking supervision.

While those ESG-reporting Directives were designed to allow investors to make informed decisions, one wonders if the shift away from comprehensive and rigorous reporting standards will slow down the EU's path towards a sustainable transition.

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