EUROPEAN CENTRAL BANK

EUROSYSTEM

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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)

Introduction and legal basis

On 29 June 2021 the European Central Bank (ECB) received a request from the European Parliament for an opinion on a proposal for a directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting[1] (hereinafter the 'proposed directive').

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union, since the proposed directive contains provisions falling within the ECB's fields of competence, including, in particular, the implementation of monetary policy pursuant to the first indent of Article 127(2), and Article 282(1) of the Treaty, the prudential supervision of credit institutions pursuant to Article 127(6) of the Treaty and the contribution to the smooth conduct of policies pursued by competent authorities relating to the stability of the financial system pursuant to Article 127(5) of the Treaty. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

1. General observations

1.1 The ECB welcomes the proposed directive's objective of improving the quantity, quality and availability of sustainability-related information, as part of the European Commission's broader sustainable finance agenda[2], and in line with the objectives of the European Green Deal[3]. The ECB further welcomes the timeline set out in the proposed directive, in particular the adoption of the first set of sustainability reporting standards by October 2022.

1.2 The current corporate disclosure regime of the European Union (EU) on sustainability does not ensure sufficient, consistent and comparable information for the private sector or public authorities. Stakeholders are unable to assess the impact of companies on sustainability and in particular on climate change. Better disclosures on forward-looking indicators would not only allow stakeholders to monitor companies' progress in aligning their business models and operations with trajectories that are consistent with a low-carbon, and thereafter a net-zero carbon, economy, as envisaged in

1 COM(2021) 189 final.

2 See 'Overview of sustainable finance', available on the Commission's website at www.ec.europa.eu.

3 The Commission published its communication on 'The European Green Deal' on 11 December 2019; see COM(2019) 640 final.

the European Green Deal, but also help to assess risks to companies from potential revaluations of assets in the event of misaligned trajectories. In this context, the proposed directive supports and complements the information which companies will have to disclose under Regulation (EU) 2020/852 of the European Parliament and of the Council[4] (hereinafter the 'Taxonomy Regulation') and brings the EU economy closer to the goals of the European Green Deal.

1.3 The standards on sustainability disclosure that currently prevail in financial markets are insufficient to ensure that sustainability-related financial risks are properly understood and fully priced by all market participants. The limited quality and quantity of corporate-level sustainability information limits the information available to investors and financial market participants. It reduces transparency, increases information asymmetries, harms comparability and in general hinders the development of sustainable finance and informed investment decisions. Furthermore, as also indicated in the recitals of the proposed directive, multiple investment decisions that do not take adequate account of sustainability-related risks can lead to aggregated and amplified effects that have the potential to create systemic risks that threaten financial stability[5]. Moreover, the poor state of corporate disclosure on sustainability prevents regulators, supervisors, financial stability authorities and central banks from appropriately assessing the exposure to sustainability and, notably, climate-related risks of corporates and of credit and financial institutions that make use of corporate disclosures to take financing decisions. Therefore, the ECB considers the proposed directive as a necessary step to address the data gap that currently hinders the development of appropriate sustainability policy, risk assessment and risk monitoring frameworks for the financial sector[6].

1.4 The ECB considers the proposed directive an important step towards the completion of the Capital Markets Union and in particular the development of integrated, sizeable and mature EU green capital markets that transcend national borders[7]. A green Capital Markets Union would further reinforce the EU's role in green capital markets worldwide[8] and thus enhance the euro's role as a global currency. By creating common standards and infrastructures for green EU capital markets, it could thereby act as a catalyst for EU capital market integration at large[9]. In particular, standardised and robust (sustainability) disclosure is a prerequisite for ensuring that investors have sound and comparable data to inform their investment decisions and thus essential for facilitating the allocation of capital to the most desirable projects across the EU, in line with the objectives of the single market. The resulting enhanced allocation of capital can help to improve private cross-

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4 Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

5 See recital 12. See also 'Climate-related risks to financial stability', Special Feature in ECB Financial Stability Review, May 2021, available on the ECB's website at www.ecb.europa.eu.

6 See p. 24 et seq of the Eurosystem reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive, available on the ECB's website at www.ecb.europa.eu.

7 See speech by Christine Lagarde, 'Towards a green capital markets union for Europe', available on the ECB's website at www.ecb.europa.eu.

8 For example, around 60% of all green senior unsecured bonds issued globally in 2020 originated in the EU. Environmental, social and corporate governance investment is also concentrated in Europe, with over half of bond funds domiciled in the euro area. Moreover, in 2020, around half of the green bonds issued worldwide were in euro.

9 See speeches by Christine Lagarde, 'Towards a green capital markets union for Europe' and 'Financing a green and digital recovery', available on the ECB's website at www.ecb.europa.eu.

border risk-sharing and the resilience of the EU economy[10]. In this respect, the ECB also welcomes the fact that the proposed directive envisages the need for sustainability information disclosed by undertakings to be included in the forthcoming European Single Access Point[11]. By integrating sustainability disclosures with financial data, a 'one-stop shop' for all critical information about an undertaking, including its green credentials, would be created, which would benefit not only investors, but all private and public stakeholders interested in financial and sustainability reporting.

1.5 The ECB supports the proposed requirements for large EU undertakings and undertakings listed on EU regulated markets, including credit institutions, to disclose a range of sustainability targets and the progress towards achieving them. The reputation risk faced by undertakings failing to comply with their commitments to align with the Paris Agreement will help promote market discipline and constitute an important input to credit institutions' risk management and alignment strategies.

1.6 In order to improve transparency and foster proper supervisory monitoring, in particular of climate and environment-related risks, the ECB also considers that, as proposed in the Commission's new sustainable finance strategy[12], financial institutions should disclose their sustainability transition and decarbonisation plans, including intermediate and long-term targets and information on how they plan to reduce their environmental footprint. This can be a powerful tool by which to steer the financial system towards clear milestones to achieve consistency with the goal of limiting global warming to 1.5 °C in line with the Paris Agreement. Competent authorities should be provided with the tools to monitor and react to the risks arising from misalignment of credit institutions' portfolios with the transition targets.

2. Relevance of the proposed directive for the objectives and tasks of the ECB and the Eurosystem

2.1 Sustainability-related issues, and in particular climate change, can impact the manner in which central banks discharge their mandates, as set out below[13]. As part of its prudential supervisory tasks and its contribution to financial stability, the ECB supports the EU policy efforts aimed at improving the identification and management of financial risks related to sustainability, with a view to enhancing the safety and soundness of credit institutions and the stability of the financial system. In this context, sufficiently encompassing and granular disclosure on environmental risks will also facilitate market pricing of the related risks in line with the principle of an open market economy[14]. Moreover, such disclosure practices would also enhance the Eurosystem's capability to monitor and assess the impact of climate change on monetary policy transmission.

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10 The green bond market already exhibits almost twice the level of cross-border holdings than the rest of the European bond markets. This suggests that developing the green bond market further would deepen EU financial integration. See chapter 5 of the November 2020 ECB Financial Stability Review, November 2020, available on the ECB's website at www.ecb.europa.eu.

11 See recital 48 of the proposed directive.

12 See Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions of 6 July 2021: Strategy for Financing the Transition to a Sustainable Economy, COM(2021) 390 final.

13 See paragraph 2.4 of Opinion CON/2021/12. All ECB opinions are available on EUR-Lex.

14 See p. 2 of the Eurosystem reply cited in footnote 6.

2.2 *Relevance for monetary policy*

2.2.1 Climate change and the transition towards a more sustainable economy affect the outlook for price stability, the primary objective of the ESCB, through their impact on macroeconomic indicators such as inflation, output, employment, interest rates, investment and productivity; financial stability; and the transmission of monetary policy[15]. Physical risks and transition risks associated with climate change can, among other things, impact the valuations and creditworthiness of companies with knock-on effects for credit institutions and the financial system[16]. Although methodologies to assess the magnitude of climate-related risks for banks and financial stability are still being developed, available estimates suggest that the impact of these risks is likely to be significant[17]. This, in turn, could affect the transmission of monetary policy, for example via the stranding of assets and the sudden repricing of climate-related financial risks. Moreover, with regard to the banking sector, the value of collateral may be reduced and credit losses may materialise, which could dent the capital and liquidity position of credit institutions and other financial intermediaries, thereby weakening their ability to channel funds to the real economy. The Network of Central Banks and Supervisors for Greening the Financial System (NGFS), recommends, therefore, that central banks consider the possible effects of climate change on the economy. The NGFS argues that these effects may be relevant to monetary policy even if they only materialise beyond the conventional medium-term horizon of monetary policy[18].

2.2.2 Furthermore, 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 risks that are associated with its counterparties, the collateral it accepts in its refinancing operations and its holdings of assets arising from outright transactions, including under its non-monetary policy portfolio.

2.2.3 In this respect, better sustainability-related corporate disclosure practices would significantly enhance the Eurosystem's capability to monitor and assess the impact of climate change on monetary policy transmission, address the climate-related financial risks it already holds on its balance sheet, and ensure adequate risk protection of the Eurosystem's balance sheet.

2.2.4 Moreover, as announced in its action plan to include climate change considerations in its monetary policy strategy[19], the Eurosystem will introduce disclosure requirements for private sector assets as a new eligibility criterion or as a basis for a differentiated treatment for collateral and asset purchases. Such requirements will take into account EU policies and initiatives, including the proposed directive, and will thereby promote consistent disclosure practices in the market.

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15 See press release 'ECB presents action plan to include climate change considerations in its monetary policy strategy', 8 July 2021, available on the ECB's website at www.ecb.europa.eu.

16 See 'Climate-related risks to financial stability', Special Feature in ECB Financial Stability Review, May 2021, available on the ECB's website at www.ecb.europa.eu.

17 See paragraph 2.4 of Opinion CON/2021/12; paragraph 2.2 of Opinion CON/2021/22; Isabel Schnabel, 'Never waste a crisis: COVID-19, climate change and monetary policy', virtual roundtable on 'Sustainable Crisis Responses in Europe', INSPIRE Research Network, 17 July 2020, available on the ECB's website at www.ecb.europa.eu.

18 See paragraph 2.4 of Opinion CON/2021/12; 'Climate Change and Monetary Policy: Initial Takeaways', June 2020, available on the Network of Central Banks and Supervisors for Greening the Financial System's website at www.ngfs.net, at p. 3.

19 See press release 'ECB presents action plan to include climate change considerations in its monetary policy strategy', 8 July 2021, available on the ECB's website at www.ecb.europa.eu.

2.3 *Relevance for financial stability*

2.3.1 The proposed directive's goal of ensuring reliable, consistent and comparable information on the exposure of undertakings across different sectors to climate change-related risks is a prerequisite for accurately assessing the financial risks arising from climate change[20]. Better sustainability-related disclosures based on unified reporting standards and submitted in machine-readable form would substantially enhance the ECB's capability to monitor and address the impact of climate change on financial stability.

2.4 *Relevance for the prudential supervision of credit institutions*

2.4.1 Significant institutions directly supervised by the ECB are expected to disclose climate-related risks that are material[21]. In particular, they are expected to disclose the greenhouse gas 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[22]. Moreover, the ECB is committed to developing new indicators that help to assess credit institutions' carbon footprints[23].

2.4.2 Furthermore, in line with the requirements laid down in Article 449a of Regulation (EU) No 575/2013 of the European Parliament and of the Council[24] (hereinafter the 'Capital Requirements Regulation' or 'CRR'), the European Banking Authority (EBA) published in March 2021 draft implementing technical standards (ITS)[25], which propose comparable quantitative disclosures on climate change-related transition and physical risks for certain credit institutions, including information on exposures towards carbon-related assets and assets subject to chronic and acute climate-change events.

2.4.3 Therefore, reliable and comparable climate and environment-related data from companies are crucial in order for financial institutions, including credit institutions, to properly calculate and subsequently disclose climate and environment metrics, including information relevant under the prudential framework. The proposal to extend the current scope of application of Directive 2014/95/EU of the European Parliament and of the Council[26] (hereinafter the 'Non-Financial Reporting Directive' or 'NFRD') to all large undertakings will support institutions' efforts to collect relevant data. The more detailed requirements of the proposed directive and the proposed digitalisation of the requested data will facilitate their collection in a consistent way.

20 See ECB/ESRB Project Team on climate risk modelling, 'Climate-related risk and financial stability', July 2021, at p. 9, available on the ECB's website at www.ecb.europa.eu.

21 See ECB Banking Supervision, 'Guide on climate-related and environmental risks', May 2020, available on the ECB's website at www.ecb.europa.eu.

22 See ECB Banking Supervision, 'Guide on climate-related and environmental risks', May 2020, available on the ECB's website at www.ecb.europa.eu.

23 See press release 'ECB presents action plan to include climate change considerations in its monetary policy strategy', 8 July 2021, available on the ECB's website at www.ecb.europa.eu.

24 Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

25 See 'Implementing Technical Standards (ITS) on prudential disclosures on ESG risks in accordance with Article 449a CRR', available on the EBA's website at www.eba.europa.eu.

26 Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (OJ L 330, 15.11.2014, p. 1).

2.5 *Relevance for the collection of statistical information*

2.5.1 Article 5 of the Statute of the European System of Central Banks and of the European Central Bank grants the ECB the power, with the assistance of national central banks, to collect statistical information that is necessary to undertake the tasks of the European System of Central Banks (ESCB) and to contribute to the harmonisation of rules and practices governing the collection, compilation and distribution of statistics in the areas within its fields of competence. In order to carry out its tasks and activities, the ECB relies as far as possible on existing data to limit the burden placed on reporting agents. As already indicated, the availability of sustainability-related information of a high quality at a granular and aggregated level is a necessity for informed decisions in relation to the implementation of monetary policy, the prudential supervision of credit institutions and the contribution to the smooth conduct of policies pursued by competent authorities relating to the stability of the financial system. In this context, the development of sustainability reporting standards which specify the information that undertakings are to disclose about sustainability factors would also enable the ECB to better fulfil its functions by compiling statistical indicators relating to sustainable finance[27]. This would in turn allow the ECB to potentially enhance its own collection of statistical information to reflect and focus on environmental sustainability factors.

2.5.2 For these reasons, the ECB welcomes the fact that under the proposed directive, undertakings will prepare their sustainability reporting in a single electronic reporting (XHTML) format[28]. The wealth of data that will be produced by the implementation of the proposed directive should meet the objectives of the EU's strategy for data and the Digital Finance Strategy[29], in particular to create a single market in which data can flow within the EU and across sectors in order to utilise the potential of new-generation data in the public interest and to promote data-driven finance. Meeting these objectives would help official statisticians to improve the salience, timeliness and depth of their data and metadata.

2.5.3 To this end, the ECB strongly supports the use by reporting entities of internationally agreed standards, such as the global Legal Entity Identifier as recommended by the European Systemic Risk Board in 2020[30], or other agreed standards as unique identifiers to meet reporting requirements. The ECB considers that the use of these identifiers, where possible in the reporting standards that are to be developed, will improve the reliability of statistical information, as well as its scope, by allowing corporate sustainability data to be linked with other sources of statistical information collected by the ESCB (e.g. individual balance sheet data and/or AnaCredit individual bank loan data), thereby facilitating analytical work and supporting policy making.

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27 See also press release 'ECB presents action plan to include climate change considerations in its monetary policy strategy', 8 July 2021, available on the ECB's website at www.ecb.europa.eu, in which it is confirmed that the ECB will develop indicators on green financial instruments, the exposure of financial institutions to climate-related physical risks through their portfolios and on the carbon footprint of financial institutions.

28 See recital 48 and point 4 of Article 1 of the proposed directive, inserting the new Article 19d into 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) (hereinafter the 'Accounting Directive').

29 See recital 48 of the proposed directive.

30 See Recommendations of the European Systematic Risk Board of 24 September 2020 on identifying legal entities (ESRB/2020/12).

2.6 *Non-monetary policy portfolios*

2.6.1 Reliable data on sustainability issues will equally be key for sustainable investments in non-monetary policy portfolios. The Eurosystem has recently agreed on a common stance for climate change-related sustainable and responsible investments in euro-denominated non-monetary policy portfolios, aiming to start climate-related disclosures for these types of portfolios within two years[31].

3. Application of proposed directive to central banks

3.1 The proposed directive provides that Member States may choose not to apply the obligation to disclose sustainability-related information to certain undertakings excluded from the scope of the Directive 2013/36/EU of the European Parliament and of the Council[32] (hereinafter the 'Capital Requirements Directive'), including central banks[33]. As certain central banks may indeed qualify as undertakings under the Accounting Directive[34] and would, therefore, fall in principle within the scope of the proposed directive, granting the concerned Member States the opportunity to exclude central banks from this scope is welcomed.

3.2 While the ECB does not fall within the scope of application of the proposed directive, its own disclosures could benefit from the common reporting standards under the proposed directive to the extent that they can be tailored to the ECB's specific purposes. For instance, the ECB has already begun work on expanding its own existing environmental reporting framework to include economic, governance and social matters in 2021, taking into account the requirements of the NFRD[35]. The ECB aims to start publishing sustainability disclosures in 2022 with reference to the ECB's performance in 2021[36].

3.3 Furthermore, as stated above, the Eurosystem has committed to start making climate change-related disclosures on its euro-denominated non-monetary policy portfolios in the coming two years[37] and will disclose climate change-related information on assets purchased under the monetary policy corporate sector purchase programme from the first quarter of 2023. Moreover, the implementation of the ECB's recently presented action plan to include climate change considerations in its monetary policy strategy will, at a minimum, be in line with the progress on the EU policies and initiatives in the field of environmental sustainability disclosure and reporting, including the proposed directive[38]. Considering the current lack of high-quality data, the

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31 See press release, 'Eurosystem agrees on common stance for climate change-related sustainable investments in non-monetary policy portfolios', 4 February 2021, available on the ECB's website at www.ecb.europa.eu.

32 Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).

33 See the second subparagraph of Article 1(1) of the proposed directive which refers to Article 2(5), points (2) to (23) of the Capital Requirements Directive.

34 See Annexes I and II to the Accounting Directive.

35 See 'Feedback on the input provided by the European Parliament as part of its resolution on the ECB Annual Report 2019', available on the ECB's website at www.ecb.europa.eu.

36 See 'Feedback on the input provided by the European Parliament as part of its resolution on the ECB Annual Report 2019', available on the ECB's website at www.ecb.europa.eu.

37 See press release, 'Eurosystem agrees on common stance for climate change-related sustainable investments in non-monetary policy portfolios', 4 February 2021, available on the ECB's website at www.ecb.europa.eu.

38 See press release 'ECB presents action plan to include climate change considerations in its monetary policy strategy', 8 July 2021, available on the ECB's website at www.ecb.europa.eu.

Eurosystem's sustainability disclosures would benefit substantially from the disclosures of undertakings that fall within the scope of the proposed directive once they are available. Hence, by supporting standardisation of climate change-related reporting, the disclosure standards under the proposed directive could in turn facilitate the Eurosystem's own future climate-related disclosures. The ECB will consider whether the common reporting standards or parts thereof could be used in the future as a basis for its own climate-related disclosures, while being mindful of the specificities of the ECB's tasks and objectives.

4. Scope of the proposed directive

4.1 Under the proposed directive, disclosing sustainability-related information would become mandatory as of 1 January 2023 for all large undertakings, and as of 1 January 2026 for all small and medium-sized undertakings whose transferable securities are admitted to trading on an EU regulated market[39]. The ECB welcomes the extended scope of the proposed directive to all large undertakings as defined in the Accounting Directive as compared to the narrower scope of the NFRD which required mandatory disclosures only from large public-interest entities with at least 500 employees[40]. The ECB also welcomes the extension of the proposed directive to include small and medium-sized enterprises (SMEs) that are listed on EU regulated markets. Expanding the scope of corporates' disclosures is necessary to put financial institutions, and in particular credit institutions, in a better position to fulfil their own sustainability disclosure requirements and enable them to manage their own exposures to sustainability, and especially climate-related, risks. SMEs in particular play a central role in the European economy and are not only exposed to climate-related risks themselves but also play an important role in ensuring the transition of the EU towards a low-carbon economy. Obtaining reliable, consistent and comparable sustainability-related disclosures from SMEs is therefore important for all stakeholders, including, as already indicated, for financial institutions that need to obtain relevant information on their counterparts in order to enhance their own risk management and make informed financing decisions in relation to SMEs.

4.2 At the same time, the ECB acknowledges that the administrative burden associated with additional reporting requirements can have a disproportionate impact on smaller companies and underlines the importance of avoiding an excessive administrative burden on SMEs. In this respect, the ECB welcomes that the proposed directive seeks to moderate the additional reporting burden for smaller companies, by providing for a gradual phase-in approach and simplified reporting standards for listed SMEs to be developed by the European Financial Reporting Advisory Group (EFRAG)[41]. This proportionate approach should also ensure that the additional reporting requirements for credit institutions regarding their counterparties do not adversely affect SMEs' access to finance.

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39 See point 3 of Article 1 of the proposed directive, replacing Article 19a of the Accounting Directive.

40 'Large undertakings' are defined in Article 3(4) of the Accounting Directive as undertakings 'which on their balance sheet dates exceed at least two of the three following criteria: (a) balance sheet total: EUR 20 000 000; (b) net turnover: EUR 40 000 000; (c) average number of employees during the financial year: 250'. The NFRD, in contrast, only covers large undertakings with more than 500 employees which are public-interest entities as defined in Article 2(1) of the Accounting Directive (current Article 19a(1) of the Accounting Directive).

41 See point 4 of Article 1 of the proposed directive inserting Article 19c on sustainability reporting standards for SMEs into the Accounting Directive.

4.3 While generally supporting, for the above reasons, a proportionate approach to SMEs, the ECB is of the view that the timeline for the application of the simplified reporting standards could be brought forward compared to what is currently envisaged in the proposed directive. Furthermore, it will be important that the simplified reporting standards proposed for SMEs will ensure a sufficient level of comparable and consistent information to allow for an appropriate assessment of sustainability-related risks and the alignment of the respective SMEs with the transition to a low-carbon economy.

4.4 The ECB notes that most parts of the proposed directive would also apply to credit institutions. In particular, credit institutions will be required to disclose sustainability-related information under the proposed directive. However, it is unclear from the current drafting whether the proposed directive intends to cover all credit institutions, regardless of their respective size, or only credit institutions that qualify as large undertakings or as undertakings whose transferable securities are admitted to trading on EU regulated markets. The recitals of the proposed directive[42] state that credit institutions should be subject to sustainability reporting requirements provided that they meet certain size criteria. However, this limitation of applicability to credit institutions based on certain size criteria does not clearly follow from the articles of the proposed directive[43]. Rather, the relevant provisions could also be read as providing that credit institutions would be covered by the coordination measures regardless of their size. In line with the legislative intention of the proposed directive expressed in its recitals, the ECB suggests clarifying this point so that only credit institutions which also meet the size criteria will be subject to sustainability reporting requirements[44]. Moreover, minimal alignment with the scope of the disclosure of environmental, social and governance risks under the CRR, especially Article 449a of that Regulation, under which both size and complexity criteria are taken into account in assessing whether a credit institution qualifies as large, should be ensured.

5. Mandatory common reporting standards

5.1 The proposed directive will introduce mandatory common reporting standards, to be adopted by the Commission as delegated acts[45]. Common reporting standards of sufficient quality that underpin comparable, transparent and reliable sustainability-related disclosure are essential for developing more comparable and reliable sustainability metrics, the correct assessment of sustainability-related (financial and non-financial) risks and, therefore, the pricing of assets and the calibration of risk control measures. This would be beneficial for credit institutions’ risk management, internal reporting and public disclosures on environmental, social, and governance (ESG) risks, and, as already indicated, for central banks and supervisors in conducting analyses and incorporating climate-related considerations in the execution of their mandates[46].

42 See recital 23 of the proposed directive.

43 See points 1 and 3 of Article 1 of the proposed directive, amending Article 1 and replacing Article 19a of the Accounting Directive, respectively.

44 As proposed in the Technical Annex attached hereto.

45 See point 4 of Article 1 of the proposed directive, inserting Article 19b into the Accounting Directive.

46 See p. 26 of the Eurosystem reply cited in footnote 6.

5.2 In line with the content of the proposed directive, the common reporting standards to be adopted should also contain a double-materiality perspective, focusing on issues that influence companies' performance, position and development ('financial materiality'), but also information on companies' broader environmental and social impact ('environmental and social materiality'). The common reporting standards should include, at minimum, standardised and comparable data items that are relevant for the analysis of climate-related financial risks, both transitional and physical[47]. These include, for example, the geographical location and business activities of assets/facilities and the associated environmental pressures, the sectoral classification of undertakings and the respective sectoral concentration of financial exposures, greenhouse gas emissions (scope 1-3)[48], and carbon intensity. The common reporting standards should contain clear guidelines on the methodologies that are used to quantify the financial impact of climate change-related risks for the disclosing undertaking. The ECB also welcomes that the proposed directive provides for the adoption of delegated acts specifying information that undertakings must report that is specific to the sector in which they operate[49]. In line with the content already contained in the proposed directive, the common reporting standards should also provide for comprehensive and comparable disclosures about the policies that undertakings carry out to address and manage the potential impact of those risks[50]. In that context, the reporting standards should include quantitative indicators which go beyond the largely qualitative nature of existing disclosures and which would facilitate the usability and comparability of sustainability-related disclosures.

5.3 In this regard, the ECB also welcomes the inclusion of forward-looking targets in the proposal. The NFRD currently lacks forward-looking sustainability metrics which are, however, a crucial ingredient for the early identification of risks and the proactive formulation of mitigation responses. This is a necessary component for target-setting and scenario analysis. The ECB thus strongly supports the stipulation in the proposed directive that the information to be reported should include the 'plans… to ensure that [the undertaking's] business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement'[51]. Such forward-looking information should be expressed in standardised and easily comparable terms, backed by harmonised methodologies, and be externally verified by third parties, as provided for in the proposed directive, in order to ensure their credibility and reliability.

5.4 The proposed directive envisages the consultation of the ECB on the sustainability reporting standards, and states that the ECB should submit its opinion on such standards, should it decide to submit one, within two months from the date of being consulted by the Commission[52]. The ECB stands ready to deliver such an opinion within the proposed two-month period. Moreover, the ECB

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47 See also the ECB Banking Supervision, 'Guide on climate-related and environmental risks', May 2020, available on the ECB's website at www.ecb.europa.eu.

48 The Greenhouse Gas Protocol distinguishes between direct greenhouse gas emissions of companies from owned or controlled sources (scope 1), indirect emissions from purchased electricity, steam, heating or cooling (scope 2) and all other indirect emissions, including in particular occurring along the corporate value chain, either upstream or downstream (scope 3); see Greenhouse Gas Protocol website at ghgprotocol.org.

49 See point 4 of Article 1 of the proposed directive, inserting Article 19b(1)(b)(ii) into the Accounting Directive.

50 See also point 3 of Article 1 of the proposed directive, in which Article 19a of the Accounting Directive is replaced and a new point (d) is introduced in paragraph 2 of that article.

51 See point 3 of Article 1 of the proposed directive, replacing Article 19a(2) of the Accounting Directive.

52 See point 11 of Article 1 of the proposed directive, amending Article 49 of the Accounting Directive.

welcomes the strong importance given to public authorities and European institutions in the legislative process for the delegated acts[53] and will seek collaboration efforts among them.

6. Alignment with other EU legislation

6.1 The ECB strongly supports the proposed directive's stated goal of ensuring the consistency of the sustainability reporting standards with the requirements set by other EU legislation[54]. The standards should in particular be aligned with the disclosure requirements laid down in Regulation (EU) 2019/2088 of the European Parliament and of the Council[55] and they should take account of underlying indicators and methodologies set out in the various delegated acts adopted pursuant to the Taxonomy Regulation, disclosure requirements applicable to benchmark administrators pursuant to Regulation (EU) 2016/1011 of the European Parliament and of the Council[56], the minimum standards for the construction of EU climate transition benchmarks and EU Paris-aligned benchmarks, and of any work carried out by the EBA in the implementation of the Pillar III disclosure requirements of the CRR[57]. The ECB supports initiatives aimed at ensuring consistency and minimising the complexity of the reporting obligations stemming from different legislative texts. The duplication of obligations and inconsistency in the definitions, scope and objectives of applicable requirements introduce unnecessary complications and ambiguity for undertakings[58], and overall reduces the transparency and international attractiveness of the EU regulatory framework. Where such redundancies and inconsistencies cannot be reconciled by means of their synthesis in the EU sustainability reporting standard, as is the case when they stem from the legislative texts, the Commission should consider an overall review of the sustainable finance legislative framework, including possible targeted legal amendments to streamline and simplify the legislative landscape.

6.2 The ECB stresses that the proposed directive should aim towards full alignment with other EU legislative acts and should minimise, and ideally eliminate, the risk of present or future inconsistencies which may dynamically emerge, as the various legislative instruments evolve in parallel over time. As the abovementioned legislative instruments are all interrelated and rely for their correct functioning on the information requirements mutually provided by one to the other, the framework might not be resilient to uncoordinated changes of individual components. In particular, the proposed directive provides for review of the sustainability reporting standards every three years[59], while other legislative texts will remain static. This entails the risk of leading to discrepancies over time. The ECB supports holistic reviews of the sustainable finance framework as a whole, rather than parallel and uncoordinated reviews of each legislative instrument individually.

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53 See point 11 of Article 1 of the proposed directive, amending Article 49 of the Accounting Directive.

54 See recital 35 of the proposed directive.

55 Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 1).

56 Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L 171, 29.6.2016, p. 1).

57 See recital 35 of the proposed directive.

58 See p. 29 of the Eurosystem reply cited in footnote 6.

59 See point 4 of Article 1 of the proposed directive, inserting Article 19b(1) into the Accounting Directive.

6.3 Given the centrality of the Taxonomy Regulation in the EU sustainable finance agenda, the information disclosed under the proposed corporate sustainability disclosure directive should be consistent with the informational requirements under the Taxonomy Regulation and allow companies and any other agents in the scope of the Taxonomy obligations of the Taxonomy Regulation to obtain all the relevant information they need to comply with the product and corporate-level disclosure obligations laid down in the Taxonomy Regulation.

7. Alignment with international initiatives

7.1 The ECB also welcomes that the proposed directive stipulates that the EU sustainability reporting standards should build on and contribute to international sustainability reporting initiatives[60]. The absence of a globally standardised framework for disclosures results in insufficient comparability and consistency across jurisdictions, may generate unnecessary barriers to international flows of sustainable finance, and could lead to an uneven playing field across jurisdictions, which may affect EU companies unfavourably and may entail higher costs for EU companies and financial institutions. The ECB thus supports globally coordinated efforts aimed at convergence towards common transparency and disclosure standards on a global level, in particular, the proposal of the International Financial Reporting Standards (IFRS) Foundation to create a new Sustainability Standards Board and to develop standards for climate-related reporting and other sustainability topics. The IFRS Foundation should construct such a standard together with EFRAG, in order to ensure alignment and compatibility between the IFRS and EU standards. Any international standard should not fall short of global best practices and should ideally cover all aspects of sustainability, consistent with the content of the proposed directive. It should require companies to disclose not only issues that influence enterprise value, but also information on the company's broader environmental and social impact ('double materiality'). Initiatives taken on a regional or global level should not prevent the EU from going further when adapting its sustainability reporting standards under the proposed directive, in accordance with the EU's own ambitions and legal framework, while ensuring alignment and consistency with the international baseline.

8. Provisions on audit

8.1 The ECB welcomes the establishment of a verification process in respect of undertakings' sustainability reporting, as introduced by the mandatory audit[61]. The extension of the mandatory audit not only to retrospective but also forward-looking information is essential to provide certainty to all stakeholders and ensure credibility of the disclosures and commitments. The increased reliability of the information provided will support the development and subsequent deepening of financial markets, not only with respect to the needed financing of the transitions but also for hedging sustainability-related risks.

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60 See recital 37 of the proposed directive.

61 See Article 3 of the proposed directive, amending Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (OJ L 157, 9.6.2006, p. 87).

Where the ECB recommends that the proposed directive is amended, a specific drafting proposal is set out in a separate technical working document accompanied by an explanatory text to this effect. The technical working document is available in English on EUR-Lex.

Done at Frankfurt am Main, 7 September 2021.

[signed]

The President of the ECB

Christine LAGARDE

EUROPEAN CENTRAL BANK

EUROSYSTEM

Technical working document

produced in connection with ECB Opinion [CON/2021/27] 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[1]

Drafting proposal

<table>
<tr><th>Text proposed by the Commission</th><th>Amendments proposed by the ECB[2]</th></tr>
<tr><td colspan="2">Amendment Article 1, point (1)</td></tr>
<tr><td>‘[…]
3. The coordination measures prescribed by Articles 19a, 19d, 29a, 30 and 33, Article 34(1), second subparagraph, point (aa), paragraphs 2 and 3 of Article 34, and Article 51 of this Directive shall also apply to the laws, regulations and administrative provisions of the Member States relating to the following undertakings regardless of their legal form:
(a) […];
(b) credit institutions as defined in Article 4(1), point (1), of Regulation (EU) No 575/2013 of the European Parliament and of the Council […]’</td><td>‘[…]
3. The coordination measures prescribed by Articles 19a, 19d, 29a, 30 and 33, Article 34(1), second subparagraph, point (aa), paragraphs 2 and 3 of Article 34, and Article 51 of this Directive shall also apply to the laws, regulations and administrative provisions of the Member States relating to the following undertakings regardless of their legal form, provided they are either (i) large undertakings or (ii) as of 1 January 2026, small and medium-sized undertakings which are undertakings referred to in Article 2, point (1) (a) of this Directive:
(a) […];
(b) credit institutions as defined in Article 4(1), point (1), of Regulation (EU) No 575/2013 of the European Parliament and of the Council […]’</td></tr>
<tr><td colspan="2"><u>Explanation</u>
The recitals to the proposed directive state that credit institutions should be subject to sustainability reporting requirements provided that they meet certain size criteria. However, the fact that the applicability of these requirements (coordination measures) to credit institutions would depend on certain size criteria does not clearly follow from the provisions of the proposed directive, which could also be read in a way that credit institutions would be covered by the coordination measures regardless of their size. The ECB suggests clarifying this point, for the avoidance of doubt, by providing that these requirements would apply to those credit institutions which are either (1) large undertakings within the meaning of Article 3(4) of Directive 2013/34/EU or (2) small and</td></tr>
</table>

1 This technical working document is produced in English only and communicated to the consulting Union institution(s) after adoption of the opinion. It is also published on EUR-Lex alongside the opinion itself.

2 Bold in the body of the text indicates where the ECB proposes inserting new text. Strikethrough in the body of the text indicates where the ECB proposes deleting text.

medium-sized undertakings which are listed on EU regulated markets. As a practical matter, this would imply that these requirements would be applicable to most, but not all, credit institutions.