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**Adaptation of cross-sector ESRS to financial institutions**


***Synthesis***

The current cross-sector ESRS raise numerous challenges for their implementation by financial institutions. A limited number of adaptations could facilitate sustainability reporting for entities engaged in banking, insurance, or asset management activities.

In general, stakeholders acknowledge the relevance of a quick-fix approach: the proposals set out herein are not intended to establish a sector-specific standard *per se*, as sectoral regulations (such as Pillar 3 ESG, SFDR, and SRD II) are already in place. The proposed amendments aim to:

(i) adapt certain concepts not suited to financial institutions, so as to bring ESRS terminology in line with the financial sector's lexicon

(ii) clarify the concept of the value chain and double materiality analysis for these industries, and

(iii) further leverage existing and upcoming sectoral regulations (e.g., SFDR for asset management and insurance activities, Pillar 3 ESG for banking activities, SRD II, etc.)

Asset management representatives emphasise the very limited coverage of the CSRD post-Omnibus among sector actors (only 2 undertakings fall within scope at the EU level). Any sector-specific regulation on entity-level disclosures should therefore prioritise the SFDR, which ensures much broader coverage, rather than amending the CSRD to apply to a particularly small number of asset management companies. Accordingly, it would appear more appropriate for asset management activities to rely on the SFDR rather than to introduce specific adjustments within the CSRD/ESRS framework.


- ***ESRS 1: DMA***:

  *Proposed application guidance ESRS 1 section 3*: "When assessing subtopics deriving from their value chain (see "Value chain" ESRS 1 §43), in particular their portfolio, financial undertaking shall assess assets and transactions for which the financial institution supports risks and rewards of ownership, ie excluding managed investments held on behalf of third parties."

- ***"Value chain"***

  *Amendment in ESRS 1 §43*: "The [downstream] value chain of financial institutions should be understood as assets and transactions for which the financial institution supports risks and rewards of ownership, i.e. comprises financial institution's investments of own funds and excludes managed investments held on behalf of third parties".

  *Proposed application guidance*: "The concept of "value chain" is fundamentally different for financial institutions, whose downstream value chain encompasses business relationships with clients, investees, and portfolio-related matters. The majority of impacts, risks, and opportunities (IROs) and material subtopics arise from this downstream value chain.

Third-party assets under management include:

- Assets not recognised in the financial statements, or off-balance-sheet amounts recognised as third-party assets under management in the financial statements of banks and asset managers;
- Unit-linked contract amounts, recorded on the balance sheet of insurers for an equivalent amount under both assets and liabilities - thereby reflecting that these assets are not owned by the insurers, but rather by third parties.

Disclosures on third-party AuM can be made through entity-specific disclosures, and is already covered by SFDR."

*Basis for conclusion*:

- o *Lack of operational control and fiduciary duty*: for investments held on behalf of third parties, investment decisions are made in accordance with third-party mandates, and all associated risks and returns are borne by those third parties: investment decisions (types of assets, issuer selection, exercise of options, etc.) lie exclusively with the third parties. Asset managers do not have operational control over investee companies nor proprietary ownership of assets under management.
  Similarly, the revenues and risks associated with these assets are borne entirely by the third parties on whose behalf the financial institution acts. Financial institutions receive a fee for managing these assets, unrelated to the performance generated by the assets and have no influence over the strategic direction of the investments.
  As a result, financial institutions cannot be held accountable for sustainability IROs over their value chains in the same way as entities with direct control over their value chain.
  Information relating to third-party assets under management is, in any case, disclosed under the SFDR or SRD reporting frameworks

- o *Risk of confusion*: Combining information on third-party assets with own operations could mislead users. Sustainability disclosures related to financial products should remain within the SFDR framework, while corporate sustainability disclosures should fall under the CSRD.

- o *Need for consistency and streamlined reporting*: To avoid duplication and ensure clarity, disclosures at the level of asset management entities must be harmonized. Under SFDR, each portfolio manager reports at both entity and product level, with managed assets already subject to detailed sustainability disclosures—clearly excluded from CSRD. SFDR therefore provides the appropriate framework for third-party investment disclosures, supported by SRD II requirements on voting and engagement.

- o *Comparability challenges*: Currently, only two EU asset managers are required to publish CSRD sustainability reports (only one of which is audited). Others fall under consolidated reporting by insurers or banks, or remain outside CSRD scope. In contrast, large non-EU competitors operating in the EU are unlikely to be subject to consolidated CSRD reporting, with subsidiaries often below the threshold. Yet under SFDR, all EU-operating entities and financial products are subject to consistent sustainability reporting.

- o *In conclusion*, given the existence of dedicated sustainability reporting frameworks for financial products and third-party investments, the CSRD should apply to asset managers only with respect to their own operations. It is not an appropriate framework for reporting on third-party investment-related sustainability matters.

- ***Glossary: "Net revenue"***: this notion is not relevant for financial institutions:
  - for banking activities, the accounting aggregate to refer to is "**net banking income**";
  - for underwriting activities, it is "**operating profit before tax**", as "insurance revenue" as defined by IFRS 17 does not encompass certain components of activities, including life insurance with a savings component and financial investment services;
  - for asset management activities, it is "**net adjusted revenues**".
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- ***ESRS E1: CapEx / OpEx / Amount of current and planned investments and funding allocated to decarbonation levers***
  - **Proposed application guidance: "FIs may instead disclose the relevant sectoral breakdown of their portfolio. For banking institutions, this can be achieved by referring to Pillar 3 ESG disclosures with regards to "banking book indicators of potential climate change transition risk: credit quality of exposures by sector, emissions and residual maturity"**.
  - Basis for conclusion: CapEx and OpEx relate to own operations. For financial institutions, this is corresponding to internal activities such as training or learning expenditures and do not adequately reflect the actions undertaken by financial institutions at portfolio level. CapEx and OpEx have a primary role in the transition of non-financial undertakings, but are not relevant for financial institutions (see "*Value Chain*", see "*Action plan / decarbonisation lever*").

- ***ESRS E1: Action plan / Decarbonisation lever***[1]

  **Proposed application guidance:**

  §1: "Similarly to non-financial institutions, undertakings in the financial sector can develop action plans or decarbonisation levers both at the level of their own operations and across their value chain. However, given the prominence of portfolio-related activities for financial institutions, it is expected that their action plans and decarbonisation levers will largely depend on measures taken at the portfolio level and on the actions undertaken by their clients and rely on the downstream value chain.

  §2: For instance, banks may influence decarbonisation by reallocating their portfolios towards counterparties engaged in the transition, setting sector-specific portfolio-level emission intensity targets. For insurers, action plans and decarbonisation levers can address investment activities (e.g. green investments, shareholder engagement), or underwriting activities such as underwriting policies that favour low-carbon or transitioning companies. Additionally, insurers can contribute through targeted pricing models, risk prevention initiatives, policyholder education, and claims management practices that promote reuse and repair and responsible partners/suppliers."

[1] Current definition: "Aggregated types of mitigation actions such as energy efficiency, electrification, fuel switching, use of renewable energy, products change, and supply-chain decarbonisation that fit with undertakings' specific actions"

- ***Interaction with other sectoral existing or upcoming regulations***:
    - "*When disclosing **E1-3** - Targets related to climate change mitigation, regulated financial institutions can refer to sections of other public regulatory or prudential reporting where relevant and when conditions set in ESRS 1 - 9.1 Incorporation by reference are met;*
    - Same proposal: "when disclosing **E1-5** - Gross Scopes 1, 2 and 3 GHG emissions, […];
    - Same proposal: "*when disclosing datapoints of **E1-8** - Anticipated financial effects from material physical and transition risks and potential climate-related opportunities*"