

BETTER FINANCE responds to European Commission's revised mandatory sustainability reporting standards (ESRS)

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Executive Summary

BETTER FINANCE welcomes the substantial simplification already achieved through EFRAG's revised ESRS and supports efforts to reduce disproportionate reporting burdens. BETTER FINANCE also welcomes the retention of important principles including **fair presentation and double materiality**. However, several additional amendments introduced by the Commission may have broader implications for transparency, comparability and the usefulness of sustainability information relied upon by investors and financial services users.

BETTER FINANCE particularly wishes to highlight:

- financial institution exemptions;
- cumulative effects of reliefs and phase-ins;
- comparability risks arising from methodological flexibility;

BETTER FINANCE therefore encourages the Commission to further assess whether the cumulative effects of EFRAG's datapoint reductions combined with additional exemptions, reliefs, phase-ins and methodological flexibilities introduced by the Commission may unintentionally reduce the comparability, consistency and decision-usefulness of sustainability information. Particular consideration should be given to areas relating to **asset management-related exemptions** as information increasingly relied upon by investors and end users.

About BETTER FINANCE

BETTER FINANCE — the European Federation of Investors and Financial Services Users — is the voice of European citizens as savers, investors, and financial users at the EU level. Working independently from the industry, BETTER FINANCE serves as an independent hub of financial expertise for the direct benefit of individual shareholders, investors, savers, life insurance policyholders, pension fund participants, and mortgage borrowers across Europe. Their work aims to promote research, information, and training on investments, savings, and personal finances to lawmakers and the public. BETTER FINANCE counts 40 independent, national, and international member organisations, sharing similar objectives from the EU Member States as well as Iceland, Norway, Turkey, Lebanon, and Cameroon.

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Preservation of key principles for investors

BETTER FINANCE welcomes the retention of important principles including **fair presentation and double materiality**, which remained subject to debate throughout the revision process. These principles are fundamental to ensuring sustainability information remains meaningful, understandable and decision-useful for investors and end users. Fair presentation helps ensure that disclosures provide a balanced and faithful representation of material sustainability matters, while double materiality remains central to understanding both sustainability impacts and sustainability-related financial risks.

The retention of these principles is particularly important given the substantial simplification already introduced through datapoint reductions and broader Omnibus changes. Preserving a coherent disclosure architecture contributes to maintaining consistency across reporting practices and avoiding fragmentation.

BETTER FINANCE therefore welcomes the Commission's decision to retain these principles and considers that future simplification efforts should continue to preserve the conceptual foundations that support the usability and integrity of sustainability reporting.

Asset management & transparency

BETTER FINANCE is concerned by the introduction of additional exemptions affecting parts of the financial sector, particularly regarding investments managed on behalf of clients.

This exemption may affect a substantial share of investment companies, including entities operating within larger financial groups. Combined with broader developments under SFDR, these changes may reduce transparency across parts of the investment ecosystem.

Individual investors increasingly rely on sustainability disclosures not only to assess the sustainability profile of investment products, but also to understand stewardship approaches, sustainability risks and broader investment practices of institutions managing their assets.

Asset managers are also increasingly expected to provide sustainability-related information to clients and frequently make sustainability or ESG-related claims regarding investment products and strategies. Exempting certain managed investments from disclosure obligations may therefore create inconsistencies between sustainability-related representations and the underlying information available to investors, potentially reducing transparency and increasing the risk of information gaps.

Furthermore, in the absence of sector-specific standards, ensuring that the generic ESRS remain capable of capturing sustainability-related risks and impacts relevant to financial institutions becomes increasingly important.

BETTER FINANCE therefore encourages reconsideration or clarification of the scope and practical implications of these exemptions and considers that minimum reporting requirements should be maintained where necessary to preserve transparency and decision-useful information for investors and end users.

Cumulative effects of reliefs, exemptions and phase-ins

EFRAG's revised ESRS already represented a substantial simplification exercise through datapoint reductions, relief mechanisms and broader proportionality measures. Additional simplification measures introduced through the Commission's Delegated Act should therefore also be assessed collectively rather than individually.

Examples include:

- additional phase-ins for specific disclosures;
- expanded reporting reliefs;
- broader methodological flexibility;

Particular attention may be warranted regarding the newly proposed two-year phase-in for undertakings beginning reporting in 2028 ("Wave 2") covering disclosures relating to biodiversity, workers in the value chain, affected communities and consumers and end users.

The CSRD already provides transitional mechanisms for value-chain information, allowing undertakings during an initial period to explain efforts undertaken, identify reasons why information could not be obtained and describe plans to progressively improve information availability. Additional reliefs linked to situations involving undue cost or effort are also available.

Against this background, introducing additional phase-ins on top of existing transition mechanisms may warrant further consideration. While intended to support simplification objectives, layering multiple relief measures may unintentionally reduce incentives for gradual improvement in the identification and reporting of material impacts, risks and opportunities and delay the availability of decision-useful information.

BETTER FINANCE therefore encourages further assessment of the cumulative impact of additional reliefs and phase-ins introduced beyond EFRAG's technical advice to ensure that simplification does not unintentionally weaken transparency, comparability or the progressive improvement of sustainability disclosures over time.

GHG reporting boundaries and comparability for investment decision-making

From an investor perspective, greenhouse gas emissions represent one of the most widely used and decision-relevant sustainability metrics. Investors increasingly rely on emissions information to support portfolio construction, portfolio decarbonisation strategies, benchmarking exercises, stewardship activities, climate-risk analysis and broader long-term capital allocation decisions.

The Commission's proposed revisions introduce additional flexibility regarding the reporting boundaries used for greenhouse gas emissions. While EFRAG's technical advice retained financial control as the primary reporting basis, with operational control used in defined circumstances where financial control would not sufficiently portray emissions from operated assets, the Commission's approach introduces broader flexibility through multiple reporting methodologies.

This may create greater divergence in reporting outcomes for undertakings with similar emissions profiles. Depending on the methodological approach selected, undertakings could report materially different emissions results despite having comparable underlying activities.

Such flexibility may have broader implications for:

- portfolio decarbonisation strategies and investment decisions;
- benchmarking and sector comparisons;
- climate-related target setting and transition assessments;
- broader consistency across sustainability reporting frameworks and policy use.

From an investor perspective, comparability across greenhouse gas reporting remains particularly important. Sustainability information becomes less decision-useful where identical or similar economic activities may generate substantially different reported outcomes because of methodological choices rather than underlying sustainability performance.

BETTER FINANCE therefore considers that additional safeguards or a clearer hierarchy between methodologies may warrant consideration. Maintaining financial control as the principal reporting approach, while allowing operational control in clearly defined circumstances as envisaged in EFRAG's technical advice, may better preserve comparability while continuing to support simplification objectives.

Moreover, further consideration may also be warranted regarding climate-related reliefs affecting the financial sector, including exemptions concerning absolute GHG reduction targets and the voluntary treatment of climate scenario analysis.

Given the increasing role of climate scenarios in assessing transition and physical risks, preserving decision-useful and comparable climate information remains particularly relevant for investors and financial services users.

Recommendation

BETTER FINANCE supports the objective of simplifying sustainability reporting requirements and strengthening the competitiveness of European companies. However, simplification should continue to preserve information that remains decision-useful for investors and end users.

BETTER FINANCE therefore encourages the Commission to further assess the cumulative effects of additional exemptions, reliefs, methodological flexibilities and phase-ins introduced beyond EFRAG's technical advice. Where such measures risk reducing transparency, comparability or consistency, additional safeguards or clarifications should be considered.

This approach would continue supporting simplification objectives while reducing the risk of unintended information gaps and preserving the usefulness of sustainability information for investors and financial services users.

Given the additional relief measures and flexibilities introduced beyond EFRAG's original recommendations, maintaining an appropriate balance between simplification and the continued availability of decision-useful sustainability information becomes increasingly important not only for preparers of that information, but also for investors and end users.