

To: Corporate Reporting - Investments & Sustainable Finance WG
From: Cléa Gobet
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Reference: ECO-CRISF-26-034

Subject: ESMA publishes an opinion on the draft revised ESRS

Summary

On 17 February, ESMA published its [opinion](#) on the draft revised European Sustainability Reporting Standards (ESRS) developed by EFRAG.

While welcoming many of the proposed improvements, including greater clarity, better drafting, and reduced reporting volume, ESMA finds that the draft standards only partly meet the objectives of investor protection and financial stability. Key issues identified include:

- **Permanent reliefs:** While reliefs can support proportionality, ESMA considers that their breadth and indefinite duration may reduce the quality and completeness of material sustainability data, create risks of opportunistic behaviour and weaken interoperability with IFRS sustainability standards, particularly regarding the expanded “undue cost or effort” exemption.
- **Anticipated Financial Effects (AFE):** ESMA welcomes the requirement to provide qualitative and quantitative information but finds that the permanent exemption based on lacking skills, capabilities and resources disproportionate given existing reliefs.

Recommendation: Introduce a time-limit (until FY2029) for the “undue cost or effort” relief for metrics, the partial reporting of metrics available only with disproportionate cost or effort, the omission of quantitative Anticipated Financial Effects (AFE) information where companies lack skills/capabilities/resources and the exclusion of joint operations from environmental metrics.

- **Double Materiality Assessment (DMA):**
 - Value chain: flexibility to use estimates may reduce reporting quality; monitoring will be important.
 - Top-down vs bottom-up: the term “not evident” is unclear; ESMA suggests replacing or complementing it with the concept of “objective uncertainty” and adding guidance.
 - Financial materiality: concerns regarding the exemption for subsidiaries excluded from financial consolidation.

Recommendation: Remove or re-draft the exemption to ensure material subsidiaries remain in scope of sustainability reporting even if they are excluded from financial statements.

- **Reporting on actions (ESRS 2, GDR A):** ESMA is concerned that application provisions allow companies to focus only on *announced* actions and planned funding sources, which could reduce transparency on actual financial resources allocated to sustainability actions and could conflict with IFRS S1 expectations.

Recommendation: Delete or fundamentally amend AR 42 to ensure disclosure of significant financial resources allocated to actions.

- **Transition plan for climate change mitigation:** ESMA identifies a risk of divergent interpretation concerning “compatibility with limiting global warming to 1.5°C.”

Recommendation: Provide or reference a definition of “compatibility” and clarify how it applies both to strategy and business model disclosures and to GHG-reduction targets. ESMA will also encourage EFRAG to issue

implementation guidance not only the transition plan for climate mitigation but also the biodiversity and ecosystems transition plan.

- **Climate targets:** ESMA suggests clearer drafting regarding financial institutions' disclosure of absolute financed emissions corresponding to scope 3 intensity targets to support comparability.
- **Relationship with other EU legislation:**
 - SFDR: ESMA stresses the need for consistency between ESRS datapoints and the evolving SFDR framework, particularly in relation to PAI indicators.
 - Taxonomy: ESMA regrets that several taxonomy references were removed, which could weaken connections between ESRS and taxonomy disclosures.
- **Interoperability with non-EU legislations:** ESMA notes significant efforts to enhance interoperability with IFRS and GRI standards. It welcomes the inclusion of the fair presentation principle, although wording could be more closely aligned with IFRS S1. Some references (e.g., "materiality filter") risk being misinterpreted and may require refinement.

Next steps

The Commission will consider ESMA's opinion alongside opinions submitted by the [EBA](#), EIOPA ([ECO-CRISF-26-031](#)), the ECB ([ECO-CRISF-26-033](#)) and other public bodies, with the aim to adopt the revised ESRS into a delegated act by summer 2026.