European Insurance and Occupational Pensions Authority

EIOPA REGULAR USE
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Chairperson

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Per email only

Subject: EIOPA Staff Comments on the Amended ESRS Exposure Drafts 2025

Dear Mr. de Cambourg, Dear Mr. Jaspar,

EIOPA welcomes the opportunity to provide feedback to the Amended ESRS Exposure Drafts. We would like to congratulate EFRAG on its excellent work to simplify and streamline the European Sustainability Reporting Standards (ESRS) by reducing substantially the number of mandatory datapoints, clarifying unclear provisions, and further enhancing interoperability with international reporting standards such as the ISSB.

EIOPA strongly supports the objectives of simplification and burden reduction, as also reflected in our public statement of April 2025 "*Bolder, Simpler, Faster: EIOPA's views for better regulation and supervision*". The key components of our approach are to prioritize a European perspective, undertake simplification in a holistic way to avoid fragmentation or a mere shift of regulatory burden and to take a long-term perspective to ensure that current simplifications do not compromise data quality and data availability or lead to increased regulatory demands in the future. Finally, simplification must not lead to a weakening of risk management processes aiming to identify, assess, mitigate and manage sustainability-related risks.

From a risk management perspective, it is crucial that the (re)insurance and occupational pensions sectors retain access to reliable, standardized and consistent sustainability data to enable sound assessment and management of sustainability-related risks as well as the provision of reliable information to consumers. The ESRS play a crucial role in identifying sustainability-related risks and opportunities. They enable users of general-purpose financial reports to assess an entity's strategy for managing environmental, social, and governance risks and opportunities, as well as its related performance. A more efficient and proportionate ESRS will enable (re)insurers and pension funds to increase their productivity and competitiveness, as well as allowing them to provide innovative, affordable and sustainable products to citizens and business in the European Union.

EIOPA supports most of the proposed amendments to the ESRS. Nevertheless, we would like to raise concerns on certain proposed amendments regarding potential unintended consequences for the (re)insurance and occupational pensions sectors, and the supervisory community as users of the ESRS data. EIOPA identified a limited set of proposed ESRS amendments that are likely to have a significant adverse impact.

Notwithstanding the existing limitations in data availability, and the need for further development of robust and widely accepted methodologies to calculate certain datapoints, EIOPA is concerned that certain amendments could result in:

- A lack of publicly available data to perform investment decisions and risk management;
- A shift of reporting burden from the industry to data users;
- Insufficient information for supervisors to evaluate sustainability-related risks effectively;
- Distorted incentives for undertakings, potentially leading to inconsistent or inadequate evaluation of sustainability-related material risks due to the absence of harmonised data requirements.

These amendments may have adverse effects on the quality and availability of data required for the assessment and management of sustainability risks, as well as create distorted incentives for undertakings in the long-term.

I kindly refer to the Annex for further details on our comments and observations in response to the public consultation on the Amended ESRS Exposure Drafts 2025. Furthermore, EIOPA Staff stands ready to provide additional information or clarifications on the points raised.

Yours sincerely,

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ANNEX - EIOPA STAFF COMMENTS ON ESRS EXPOSURE DRAFTS

ESRS 1

Reliefs on value chain

According to paragraph 62, undertakings may use information collected directly from counterparties in the upstream and downstream value chain, or estimates based on internal and external information, depending on practicability and reliability considerations related to the necessary input. Additionally, paragraph 65 specifies that the materiality assessment regarding the upstream and downstream value chain may be conducted without direct information from counterparts, using average regional or sector data, or generally information about the incidence of impacts, risks and opportunities (IROs). Finally, paragraph 67 proposes that undertakings may comply with the reporting requirements, in particular for topical metrics, by using an estimate without collecting data directly from its counterparts in its upstream and downstream value chain.

The (re)insurance sector's ability to collect and analyse value chain data is crucial for its risk management, underwriting and pricing, as well as investment activities. By understanding the impact of material sustainability risks in its upstream and downstream value chain, (re)insurers can identify, assess and manage risks and opportunities more effectively. This enables them to make informed decisions.

While we acknowledge the current limitations in robust and widely accepted methodologies for calculating certain topical metrics, such as GHG Scope 3 emissions and other climate-risk related metrics, we believe that undertakings should prioritize collecting primary data and use estimates as a fall-back solution when, after making reasonable efforts, upstream and downstream value chain data cannot be collected or is deemed unreliable. Upfront reliance on estimated data from external providers, which may vary depending on the methodologies used, could lead to inconsistent and potentially inaccurate data. This, in turn, could create significant challenges for supervisors and (re)insurers when comparing disclosures across undertakings and companies, and assessing the impact of material sustainability risks on the (re)insurance sector and its financial position, respectively.

In this context, we recommend retaining ESRS 1, Appendix A - AR 17 "Estimation using sector and proxies", which establishes a data hierarchy for input to be used in value chain metrics and applying it to paragraphs 62, 65 and 67. Furthermore, for climate-risk related metrics where primary data from counterparts cannot be collected or is deemed unreliable, we recommend applying the reliefs presented in paragraph 67 on a temporary basis, following the undertakings' assessment that direct data from counterpart is unreliable.

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Reliefs for metrics

Paragraph 91 enables undertakings to report only part of the scope of the relevant reporting boundary, when the corresponding metric can only be partially estimated. In such case, the undertaking shall disclose the actions it has taken to increase the reporting coverage and quality in future periods, as well as the progress compared to the previous reporting period. Additionally, Paragraph 92 allows undertakings to exclude joint operations over which it does not have operational control from the calculation scope of environmental metrics related to amended ESRS E2 Pollution, Amended ESRS E3 Water, Amended ESRS E4 Biodiversity and Ecosystems, and Amended ESRS E5 Resource Use and Circular Economy. These proposed reliefs have no time limits.

EIOPA recognizes the need to avoid unnecessary efforts from undertakings on estimating and publishing results that are not reliable due to the lack of data quality. We also acknowledge that data availability and robust methodologies for calculating some of the climate-risk related datapoints are still developing. However, we are concerned that the relief presented in Paragraph 91 could lead to inappropriate reporting practices, such as selectively reporting only the parts of the business leading to most favourable metrics, using weak justifications. Furthermore, we consider that joint operations can lead to material sustainability risks with a negative financial impact on the undertakings' balance sheet and cash flows, regardless of whether the undertaking has or does not have operational control on them. Hence, it is in the best interest of the undertaking to try to obtain, to the best of its ability, the inputs to calculate the above mentioned environmental metrics in order to enable robust internal risk management processes.

Therefore, we recommend the reliefs for metrics to be temporary despite the considerations of market discipline incentivising undertakings not to abuse on partial reporting indefinitely nor to selectively reporting their most favourable metrics.

ESRS 2

Certain governance and risk management related datapoints relocated to NMIG or removed

On GOV-5–Risk management and internal controls over sustainability reporting, Paragraphs 36b, 36d and 36e have been relocated to the NMIG, while Paragraph 36c has been deleted. Paragraph 36 provides relevant insights into the undertaking's risk management approach, the main risks identified and their mitigation strategies, as well as how these findings are integrated into internal functions and processes. However, moving Paragraph 36 to the NMIG may compromise the quality of reporting and result in a lack of detailed data needed by user of general-purpose financial reports and supervisors. This, in turn, may hinder their ability to assess whether the undertaking is taking adequate measures to identify, monitor and manage material sustainability risks and integrate them into its internal control and risk management systems.

Against this background, we suggest reconsidering the amendments made in section GOV-5. The information required by this section is likely to be readily available and should not pose significant burden. Reinstating these changes would ensure that stakeholders have access to essential information

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to make informed decisions and assess the undertaking's governance and risk management practices effectively.

Anticipated Financial Effects

The disclosure requirement SBM-3 aims to provide transparency into the interaction of material impacts, risks, and opportunities, with the undertaking's strategy, business model, and financial effects. Two options are proposed for disclosing anticipated financial effects in former Paragraph 48e:

1. Option 1: quantitative information is mandatory. If it cannot be disclosed, reliefs based on IFRS S1 apply, and the undertaking must provide only qualitative information instead.
2. Option 2: only qualitative information is mandatory, while quantitative information is provided on a voluntary basis.

Quantitative data on anticipated financial effects on the financial position, financial performance and cash flows, is essential to monitor the financial impact of material sustainability risks on the undertaking's solvency and liquidity positions. This includes estimating the financial impact, to the best of the undertaking's abilities, at the short-, medium- and long-term in order to manage adequately the liquidity needs, prevent significant liquidity and solvency shocks, and fulfil the liability obligations. EIOPA acknowledges the challenges and uncertainties associated with these disclosures, as highlighted by preparers and respondents to the public survey. However, the importance of these disclosures outweighs the implementation challenges.

Against this background, we consider option 1 the most adequate and aligned with the European Commission mandate objectives, which prioritize quantitative datapoints over narrative text.

EU Datapoints

On EU Datapoints including SFDR, EFRAG has streamlined the process by eliminating overlapping datapoints and those that can be derived from other information. Additionally, EFRAG has merged datapoints to enhance efficiency in the ESRS. Notwithstanding the ongoing review of SFDR, EIOPA holds the view that ESRS datapoints, in particular EU Datapoints, have to be reviewed and streamlined in a manner that does not undermine reporting quality and alignment with other EU Regulations.

With this in mind, we would like to highlight a concern related to the deletion of specific datapoints. For instance, the removal of "ESRS E1-6 Gross Scope 1, 2, 3 and Total GHG emissions paragraph 44", and "ESRS E1-6 Gross GHG emissions intensity paragraphs 53 to 55", and "ESRS E1-5 Energy intensity associated with activities in high climate impact sectors paragraphs 40 to 43" may compromise the transparency of environmental reporting. These datapoints are mandatory under the current SFDR (as presented in SFDR Table 1, Annex 1). Although it is technically possible to derive these datapoints from other ESRS information, the deletion of these datapoints will shift the reporting burden to SFDR users, who will need to extract these metrics from other ESRS sources.

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TOPICAL STANDARDS

Environmental Standards

Disclosure Requirements E1-7, E1-8, E3-4, E4-1

Datapoints such as GHG intensity, Total GHG Emissions and Water Intensity have been removed. We recognize that it is technically possible to derive these datapoints from other ESRS information, however the deletion of these datapoints will shift the reporting burden to the data users including (re)insurers and occupational pension funds currently using these datapoints in their underwriting and investing activities, who will need to compute these metrics from other ESRS sources. These datapoints can serve as proxies for exposure to transition risks as well as physical risks. Additionally, it may reduce the capacity of policymakers and supervisors to efficiently analyse, monitor and manage risks emerging from (re)insurers highly exposed to clients involved in high GHG intensity and/or Water Intensity activities in relevant sectors of the EU economy, such as Agriculture, Forestry and Fishing, Mining and Quarrying, and Manufacturing.

The datapoint energy intensity has been deleted. Data on energy Intensity associated with activities in high climate impact sectors, such as Agriculture, Forestry and Fishing, Mining and Quarrying, Manufacturing, is essential from a policy and supervisory perspective. Energy intensity associated with activities in high climate impact sectors can serve as a proxy for exposure to transition risks. The reasoning behind is that sectors with higher energy intensity are more vulnerable to policy tightening and technological shifts. For supervisors, these datapoints help to identify concentration of risk in the financial system. For example, (re)insurers with high exposure to clients involved in high impact sectors can be identified. This, in turn, enables supervisors to better assess the effects of material sustainability risks, policy changes and technological shifts on financial stability. Additionally, this amendment may undermine the capacity of (re)insurers and occupational pension funds to analyse the impact of climate-related risks in their investments and underwriting activities.

We therefore recommend to reconsider retaining these datapoints, to ensure that undertakings implement accurate risk management processes, that environmental disclosures remain accurate and transparent, and that policymakers and supervisors are able to efficiently monitor the impact of transition and physical climate risks in the (re)insurance sector.

Lack of consideration of Insurance-associated Emissions

When preparing the information on gross Scope 3 GHG emissions required under paragraph 32 (E1-8, AR 25 - f), the undertaking shall, if it reports financed emissions, consider the GHG Accounting and Reporting Standard for the Financial Industry from the Partnership for Carbon Accounting Financial (PCAF), specifically Part A Financed Emissions. EIOPA appreciates EFRAG's efforts on providing additional relief and clarity on greenhouse gas emissions disclosure requirements. Furthermore, EIOPA acknowledges the lack of robust and widely accepted methodologies for calculating GHG emissions, namely concerning insured emissions. However, EIOPA is concerned that the lack of reference to insurance-associated emissions may lead to these emissions not being reported in the future even once robust and widely accepted methodologies for calculating GHG emissions are developed. Underwriting activities are at the core of the (re)insurance business model. As (re)insurers act as risk undertakers,

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excluding the disclosure of emissions associated with their underwriting portfolios would significantly constrain users of general purpose financial reports—particularly supervisors—in understanding the undertaking's business model, the undertaking's exposure to material sustainability risks and its management thereof.

Therefore, we recommend considering the inclusion of a review clause for including insured-associated emissions in E1-8 AR 25 once robust and widely accepted methodologies for calculating GHG emissions are developed.

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