LMA Position Paper - Sustainability Omnibus Simplification Proposal (the Omnibus)

The LMA would like to take this opportunity to share our views with the Commission following the recent Simplification Roundtable discussions in relation to the Omnibus. Please note that these views represent our high-level comments only and we intend to also submit more detailed proposals following more extensive consultation with our members.

We welcome the Commission's intention to tackle the compliance burden (including administrative, assurance and regulatory compliance burden and associated costs) (**Compliance Burden**) associated with sustainability reporting for corporates and financial institutions. Further, we believe this presents opportunities for EU to be more globally competitive, in line with its Competitiveness Compass and Savings and Investment Union (**SIU**) agenda.

However, we believe that caution is needed in the approach to the Omnibus in order to ensure that simplification measures do not inadvertently add complexity, undermine the legal certainty needed to drive investment decisions, or lead to an erosion of the quality or ambition of the underlying standards and legislation.

With this in mind, we have set out below our **five key recommendations** for the Commission in relation to the Omnibus:

1. **Sustainability reporting should be clear, practicable and comparable across different frameworks**

   Sustainability reporting requirements have developed at different paces, and in parallel processes, which has resulted in areas of inconsistency across the different layers of sustainability reporting, leading to confusion amongst market participants and increasing their Compliance Burden.

   These challenges could be addressed as follows:

   a) **Identify areas of duplication and inconsistency across different reporting regimes**, including the Corporate Sustainability Reporting Directive (**CSRD**), the EU Taxonomy (**EUT**) and the Corporate Sustainability Due Diligence Directive (**CSDDD**), including in relation to timings under each of these initiatives. Key definitions should be aligned across all reporting frameworks.

   b) **Align reporting definitions across sustainability frameworks to ensure usability comparability and transparency.** Financial institutions are subject to a wide regime of reporting requirements, including under the Sustainable Finance Disclosure Regulation (**SFDR**), Pillar 3 disclosures as well as rules such as ESMA's fund name guidelines. These should all form part of a consistent and comparable ecosystem together with corporate sustainability reporting rules across the EU since financial institutions depend on sustainability data to be able to comply with their own reporting requirements.

   c) **Identify opportunities for greater interoperability of European Sustainability Reporting Standards (ESRS) and ESRS for non-EU Groups with international standards,** in particular with the International Sustainability Standards Board's IFRS Sustainability Disclosure Standards, which have been developed alongside industry and which focus on sustainability risks and opportunities through a financial lens. Given the cross-border nature of business and finance, it is important that disclosure standards are as closely aligned as possible to ensure usability and to reduce reporting costs and friction for multi-national businesses and non-EU investors operating in the EU.

2. **Existing usability challenges should be addressed as part of the Omnibus**

   The Omnibus provides an opportunity to address key usability challenges which have been well-documented in relation to certain sustainability reporting requirements under the CSRD, CSDDD and EUT, and the value case for retaining existing requirements should be carefully considered alongside industry (with input from market-participants across a wide-range of sectors including financial institutions, corporates and investors).

   We note the recent report from the EU Platform on Sustainable Finance (**PSF**) on, "*Simplifying the EU Taxonomy to Foster Sustainable Finance Report on Usability and Data*" setting out the PSF's recommendations for simplifying the EUT. We are working with our members to evaluate these proposals and to get their views on whether these proposals will be sufficient to tackle existing usability challenges in relation to the EUT.

3. **Industry collaboration will be key to the success of the Omnibus**

   As mentioned above, we believe that close collaboration with industry (with input from market-participants across a wide-range of sectors including financial institutions, corporates and investors) will be key to securing the success of the Omnibus, in reducing Compliance Burden and ensuring that financial institutions have access going forward to decision-useful sustainability information, without unintended consequences. Companies have already invested (both in terms of time and cost) in alignment with the reporting requirements to prepare for and meet the requirements of the CSRD, CSDDD and EUT, and this needs to be taken carefully into account in relation to any changes proposed by the Omnibus.

   Crucially, any reduction in sustainability reporting requirements should not be based on arbitrary targets but on fact-gathering from users and reporters of sustainability information from across the value chain to understand where key reporting challenges lie and based on evidence of which data is decision-useful for investors.

   Finally, targeted on the ground support, especially for small and medium enterprises (**SMEs**), may help to reduce the Compliance Burden without a need to reduce decision-useful information reporting.

4. **Transition must be incorporated into existing regulatory frameworks**

   The LMA supports the significant progress that has already been made with regards to the availability of sustainability data which has provided financial institutions with the data needed to develop their own transition plans, to assess sustainability-related risks and to channel capital towards sustainable outcomes.

   However, the existing regulatory framework does not currently provide sufficient clarity around what the EU considers to be credible investment in transition activities. To drive capital flows to support the decarbonisation of the EU, it is important that regulatory frameworks provide clear signals to the market and to support investment decisions. We believe that there are two key steps that could be taken to support investment flows in this way:

a) **The development of sectoral decarbonisation pathways** to help guide investment decisions and to support companies developing their own transition plans.

b) **The provision of a labelling system**, when the SFDR review is completed, which can be used in the market, and which includes a transition category aligned with definitions used across other frameworks.

5. **Simplification alone is not enough and has the potential to create legal uncertainty**

Whilst we are supportive of the Commission's aims of simplifying the regulatory environment, reducing burden (particularly for SMEs), and driving the competitiveness of the EU on the global stage, we do not believe that deregulation alone will be enough to secure the competitiveness of the EU on the global stage.

Indeed, the regulations subject to review under the Omnibus (although not fully implemented) have already helped provide policy signals for investors and have provided decision-useful information to help channel capital to sustainable outcomes. The availability of sustainability information will be key going forwards to managing financial risk and unlocking the opportunities associated with the transition to net zero, and ensuring a just transition.

As mentioned above, there are other supporting policies which should be considered, and which may be used to help capital towards transition and securing the competitiveness of the EU. These include but are not limited to:

- as mentioned above, the development of sectoral decarbonisation roadmaps;
- innovative public-private investment structures to de-risk investments in new technologies and bridge the innovation gap; and
- capacity building across the EU to fill skills gaps.

Finally, the Commission should carefully consider the implications of simplification measures in terms of the potential impact on legal certainty. This is because market confidence and investment decisions are underpinned by legal certainty. Therefore, any potential legal uncertainty created by the Omnibus (for example, in relation to what is legally required of organisations and with regards to the policy direction of the EU) may lead to additional costs, increased complexity in short- and medium- term decision making, and, ultimately, delays in the implementation of key regulatory requirements.

Loan Market Association

The Loan Market Association is the voice of the loan markets across EMEA. With over 850 members across over 65 jurisdictions, we represent an ever-growing diversity of participants in international capital markets, including institutional investors, private and public sector issuers, banks, non-banks, technology solution platforms and market infrastructure providers, spanning EMEA and other global jurisdictions

Our work on sustainable finance aims at protecting integrity in the sustainable lending market, supporting innovation and driving increased liquidity towards sustainable outcomes. We have had a leading role in developing market standards in sustainable finance, such as the Green Loan Principles, Sustainability-Linked Loan Principles and Social Loan Principles (together with supporting guidance and documentation) which are widely used throughout the loan markets globally. To inform our work, we have a dedicated Sustainability Committee as well as a Sustainable Finance Regulatory Committee comprising of leading financial institutions active in sustainable finance (full details can be found here).

If you'd like to discuss this Position Paper in more detail, please contact:

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