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BVI[1] viewpoint: Why asset managers need sustainability data

European businesses urgently require investments and access to broader finance to achieve real progress in transitioning to a net-zero, environmentally sustainable and resilient economy. Private finance is essential in closing the investment gap needed to maintain the competitiveness and sustainability of the European industry estimated to be around EUR 750 - 800 billion annually, according to the Draghi report.

Transparency on material sustainability impacts, risks and opportunities is key for facilitating transition and enabling asset allocation that promotes sustainable growth. Asset managers and institutional investors need access to reliable and comparable ESG information for target companies in which they invest on behalf of EU citizens in order to:

- **identify and manage sustainability risks**, including physical climate risks and risks resulting from biodiversity loss, that can impact financial returns on their investments,
- **identify investment opportunities** in companies that provide enabling solutions to sustainability problems or undertake credible efforts for transitioning their business models,
- **integrate sustainability factors into the investment due diligence** for informing and guiding investment decisions with regard to long-term prosperity and value creation,
- **implement ESG investment strategies** and select investments in line with sustainability objectives or environmental / social characteristics relevant for investors,
- **meet their own sustainability commitments**, in particular regarding climate neutrality.

In the investment fund market, EU investors have invested nearly EUR 9.5 trillion in funds with sustainability characteristics (so-called Article 8 and Article 9 funds under SFDR) which roughly amounts to 53% of the total AuM.[2] Investments by such funds are selected and managed with reference to certain pre-defined sustainability metrics that rely on disclosures by investee companies.

Restricting the scope of mandatory sustainability reporting beyond the thresholds foreseen in the Omnibus I proposal would materially inhibit asset managers' access to high-quality information on ESG matters. Already under the Commission's proposal, the number of reporting companies/group of companies shall be reduced by 80% (from initially 55,000 to round about 11,000 companies). Looking at EU listed companies in scope of CSRD, 2,415 companies (or groups of companies) will be then exempted from the reporting obligations currently in place, amounting to nearly 50% of the market. This already leads to a significant and painful reduction of the reporting base. Any further increase of thresholds would further undermine the very purpose of sustainability reporting, in particular raising awareness for risks and opportunities stemming from climate change, resource depletion, environmental degradation or social issues and reorienting capital flows towards sustainable investments. For instance, an increase of the net revenues threshold to EUR 450 million (as argued in

[1] BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Asset managers act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's 116 members manage assets of EUR 4.5 trillion for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 26%, Germany represents the largest fund market in the EU. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.
[2] As of end 2024; source: EFAMA statistics.

favour of alignment with CSDDD) would lead to the loss of mandatory reporting for further 905 listed EU-companies (or groups of companies); in case of raising the bar to 3,000 employees and EUR 450 million net revenues, barely 854 companies/ groups would remain in scope.[3] This would frustrate the whole idea of standardised mandatory reporting on material sustainability issues.

Instead of raising the bar for the application of CSRD, the priority in policy terms should be thus shifted to the effective streamlining of the ESRS in order to focus the reporting on key information relating to material sustainability impacts, risks and opportunities. We **recommend rigorous simplification of the reporting standards** and **substantial reduction of datapoints**:

- The focus of the revised ESRS should be clearly on the **information needs of investors for assessing material risks, opportunities and impacts of their investee companies**. Mandatory reporting should be confined to key sustainability issues, including climate risks and impacts, climate-related transition plans and principal adverse impacts of a company's activities.

- We are currently working within EFAMA on an **ESG data catalogue reflecting the information needs of the fund industry** that we will shortly feed into the technical debate. This compilation is meant to **significantly shorten the reporting standard** (to around 200 datapoints that would be reported in line with the materiality principle), **prioritise quantitative elements** and ensure **further alignment with the international standardisation efforts**, in particular the IFRS sustainability standards and the TNFD framework. Full interoperability and enhanced international collaboration is important in order to alleviate the reporting burden for globally operating EU companies.

- To increase legal certainty and focus CSRD reporting on material sustainability issues, it would be **helpful to define the notion of the "value chain" under CSRD at Level 1 and to align it with the definition of the "chain of activities" in Article 3(1)(g) CSDDD**. Such alignment would generate efficiency gains through a streamlined approach to due diligence evaluation and reporting.

- **Sustainability reporting needs to be streamlined throughout the value chain**. In this regard, the future **VSME standard should be conceptually approached as a subset of the mandatory ESRS**, building upon the same concepts and definitions. This would lessen the transitional burden especially for mid-size companies that in future might grow beyond the thresholds for voluntary reporting and at the same time, increase the usability of VSME reports for large companies interested in ESG data on their value chain. For investors, referring to the same (basic) set of datapoints across companies of all sizes would also be very helpful for detecting major sources of risks and identifying laggards and champions in sustainability terms.

- It is of utmost importance that **any sustainability-related information to be reported by financial market participants under SFDR can still be sourced from CSRD reports by investee companies**. Any reductions or modifications of the CSRD reporting standards should be assessed against SFDR and if necessary, directly entail corresponding changes in the transparency requirements for the financial sector. **In no event asset managers and other financial market participants must be expected to compensate for the loss of reported data by companies.**

[3] Source: Morningstar Direct.