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BVI's[1] key messages on the EFRAG recommendations for simplifying the ESRS

As users of ESG data, BVI members highly value the benefits of standardised sustainability reporting under the ESRS. Data reported by companies is more accurate, timely and low-cost for investors than information obtained from commercial ESG data vendors and more reliable due to the limited assurance requirement. Reporting standards ensure comparability of ESG disclosures and are an important factor for informed investment decisions.

Nonetheless, being also affected as preparers of sustainability reports, we subscribe to the need for reducing complexity and onerousness of the ESRS application by cutting down data points not deemed decision-relevant, standardising the materiality assessment process and providing further guidance for application. In this respect, we welcome the EFRAG recommendations as an important step towards effective simplification of the ESRS. Our subsequent comments focus on specific clarifications in terms of reporting by asset managers and measures ensuring that the ESRS deliver decision-useful information for investors. They reflect our current assessment and may be further complemented in the course of advancing discussions.

1. Value chain boundaries for asset managers need to be eventually clarified

Contrary to the statements provided by the EU Commission in the mandate to EFRAG, the understanding of the value chain for financial institutions has not been clarified in the Omnibus I negotiations. Unfortunately, since the Commission instructed EFRAG not to deal with this issue due to the pending Level 1 negotiations, the final EFRAG recommendations do not include any clarification in this regard either.

We insist that it is now for the **Commission to provide such clarification when adopting the Delegated Regulation on the ESRS**. In our view, the **most urgent need for guidance pertains to the value chain in asset management which represents a distinct business model within the financial sector.** Contrary to banks and insurance companies who take the risk of their services on their own books, asset managers operate under an agency business model. This means that asset managers act in a fiduciary capacity as agents of their clients (through funds or mandates), conducting investments on behalf of their clients without acquiring legal or economic ownership. To this extent:

- Investments conducted on behalf of clients (assets under management, AuM) do not appear on the asset manager's balance sheets;
- Investment allocations within the AuM are subject to a fiduciary duty, with constraints and exogenous factors not being under the asset manager's control, such as investment guidelines and other product-level constraints, composition of benchmarks etc.;

[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 114 members manage assets of EUR 4.7 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.

BVI
Bundesverband Investment und Asset Management e.V.
Contact
Phone +49 69 15 40 90 0
www.bvi.de
BVI Berlin
Unter den Linden 42
10117 Berlin
BVI Brussels
Rue Belliard 15–17
1040 Bruxelles
BVI Frankfurt
Bockenheimer Anlage 15
60322 Frankfurt am Main
Executive Board
Thomas Richter CEO
Rudolf Siebel MD

.BVI

- Asset managers are usually minority shareholders, without joint control or significant influence on investee companies.

For these reasons, it would be inappropriate to treat AuM as part of the asset managers' value chain for the purpose of CSRD reporting. The distinct nature of the asset management business model justifies in our view a differentiated approach. Such differentiation could be facilitated in the ESRS 1 where EFRAG proposes to include a clarification on the treatment of investments as a new paragraph 70. Without compromising the sector-agnostic nature of the ESRS, paragraph 70 could be further specified as pertaining to investments on account of the reporting undertaking:

> *70. Investments **on the undertakings' own account**, including shareholding positions in associates and joint ventures, are treated as business relationships.*

For asset managers, this would greatly help to distinguish between investments on behalf of their clients and any investments of the managers' own assets, with the latter remaining relevant for the purpose of CSRD reporting. Moreover, the requirements to report scope 3 GHG emissions in accordance with the GHG Protocol under ESRS E1 would still apply.

2. Anticipated financial effects

Disclosure of anticipated financial effects is one of the most critical elements of sustainability reporting. Investors need information on the anticipated financial effects of material sustainability risks and opportunities in order to account for such effects in their investment process. This information is essential to enable investors' understanding of how sustainability-related risks and opportunities affect the company's prospects, complementing information in the company's financial statements. Without reliable information on anticipated financial effects, at best in quantitative terms, systematic assessment of the upside potential of companies or risks to their cashflows will not be possible and effective capital allocation to support sustainable transition will be impaired.

Anticipated financial effects are not a concept unique to the ESRS. It is included in the IFRS S1 and S2 as a global baseline standard for sustainability reporting and as such, is being implemented by companies around the globe. Up to date, more than 40 jurisdictions have adopted, or are in the process of adopting, sustainability reporting standards at least broadly aligned with the IFRS S1 and S2. This means that disclosure of anticipated financial effects will become relevant also in other markets and is likely to affect all large companies with international operations.

This being said, we acknowledge the persisting methodological challenges for quantifying the anticipated financial effects in practice. Therefore, we agree with EFRAG's suggestion to allow for omission of quantitative information for the financial years prior to 2030. The remaining time up to that date should be used by EFRAG in collaboration with the ISSB to set up common perimeters and develop methodological approaches for comparable estimations. In this regard, work on quantifying anticipated financial effects from climate risks and opportunities should be prioritised, given that standardisation of projections based on net-zero trajectories and scenario analyses in this area is most advanced.

On the other hand, we see no reason for introducing transitional provisions for any disclosures of anticipated financial effects prior to financial year 2027. As a rule, we would expect that companies should be able to provide at least generic qualitative information on the financial effects of sustainability topics that according to their internal analyses have been identified as material sources of financial risks or opportunities.

3. Undue costs and efforts

The introduction of a horizontal „undue cost or effort“ relief seems pragmatic. From investors' perspective, however, the risk that companies will widely invoke this claim, especially in value-chain metrics, in order to reduce the reporting burden, should be reasonably contained. Invoking the relief should be subject to **clear safeguards**, including a disclosure of why the relief applies, a disclosure of the scope left out, and material gaps. Without such safeguards, decision-usefulness of the reported data and portfolio-level aggregation might suffer.

Similarly, the relief on the use of estimates must be accompanied by the requirement for **robust methodologies and improvement plans**. There should also be consistent reporting on the uncertainty ranges/sensitivities and data coverage. This will help preserve decision-usefulness and comparability for investment decisions. Ultimately, full coherence with the IFRS S1 should be aimed for when assessing the acceptability of any relief considered.

While agreeing in principle with the proposed relief for lack of data quality implying partial disclosures, we are concerned about the lack of any time limit. Companies should be incentivised to improve their data coverage and reporting quality over time. Unlimited liberty of reporting based on narrow scopes would undermine such "learning curve" in sustainability reporting. In any case, invoking the relief should be accompanied by clear guardrails, such as explicit rationale and the decision criteria applied as well as time-bound improvement plans.

4. New data fields

We acknowledge the reasoning behind EFRAG's suggestion to exceptionally move a few selected disclosures from "may" to "shall", provided they remain subject to the double materiality assessment. From investors' perspective, **improved disclosures of transition plans for biodiversity and ecosystems** are definitely decision-useful. In this regard, we do not see any additional burden for companies, since the new disclosures pertain only to transition plans having already been internally adopted and approved.

We also see added value in **reporting on confirmed incidents of corruption and bribery** under the G1 standard, in case the topic has been identified as material by the reporting entity.

5. Interoperability with the ISSB standards

Investors need comparable and consistent sustainability-related data from all their investee companies, inside and outside the EU. Thus, we support full interoperability between ESRS and IFRS S1 and S2 without diluting double materiality and acknowledge EFRAG's efforts made in this regard. We particularly welcome EFRAG's suggestion to include a permanent reference to the IFRS industry-based guidance, including SASB standards, for reporting of entity-specific sectorial information.

Nonetheless, the simplification efforts and the proposed reduction of data points have created new discrepancies, resulting in a situation where the EU reporting standards might lag behind the IFRS requirements. This is particularly evident in the E1 standard, where many detailed disclosures supporting investors' analyses have been deleted. The ESRS will thus not live up to the global baseline, meaning that investors will likely receive less information from EU companies than from their non-EU competitors. Ultimately, this loss of transparency might have negative effects on channeling investments to EU transitioning companies.

In order to ensure future-proof interoperability and reduce burden for firms reporting in line with both standards, we strongly suggest introducing a new optionality in the ESRS to report either according to ESRS or IFRS standards for sustainability topics where international standards exist (currently only climate E1-S2, but potentially extending to other topics like biodiversity / nature in future). This choice should pertain only to the standards for reporting material risks and opportunities, with disclosure of potential impacts being always required in line with the applicable ESRS. This new optionality would allow for providing appropriate relief under the revised ESRS while offering the possibility to live up to the expectations of (international) investors. It would also provide a mechanism that accounts for future evolvement of the international standards and ensures structural interoperability with the ESRS in a pragmatic manner.