The French Asset Management Association (AFG) emphasizes the importance of maintaining European competitiveness in alignment with the 2024–2029 Agenda of the European Commission, as recommended in the Draghi report. This report advocates for inclusive economic growth based on four pillars, one of which is sustainable competitiveness. AFG therefore calls for these foundational principles to remain central to EU strategy, to both strengthen the economy and support its transition.

To enable investors to contribute effectively to these objectives, it is essential to uphold the ambitions of the Green Deal, particularly through the harmonization and reliability of European non-financial data. This will support the EU's climate neutrality goals and assist economic actors in their transition strategies. This data reliability is also crucial for the implementation of the Sustainable Finance Disclosure Regulation (SFDR), including the production of robust investor reports and consumer protection.

AFG acknowledges the proposals published by the European Commission on February 26, 2025, as part of the Omnibus Directive. While supporting the goal of "smart" simplification and better regulatory coherence, AFG expresses concern over the significant narrowing of the CSRD's scope. This reduction could hinder access to high-quality data for investors, including in private markets. AFG continues to advocate for the following priorities:

1. **Preserve the extraterritorial principle** for non-European companies operating in the EU to ensure a level playing field for European businesses.
2. **Retain the double materiality approach**, a key feature and strength of the European framework.
3. **Simplify reporting standards** for issuers and the financial sector by focusing on decision-useful information and ensuring consistent understanding across stakeholders.
4. **Consider the impact of simplification** across all sustainable finance regulations, ensuring revisions are sequenced appropriately (e.g., SFDR reform should follow CSRD/CS3D and Taxonomy updates).

AFG's Position on Proposed Changes to the Scope of the CSRD

The changes proposed by the European Commission to reduce the number of companies subject to reporting obligations will have major implications — not only in terms of the availability and quality of data in both listed and private markets but also for the competitiveness of European companies.

AFG strongly believes that the **focus should be on simplifying and clarifying mandatory indicators, rather than postponing or eliminating the requirement for companies to disclose non-financial information**. In this regard, AFG has worked on simplifying indicators — reducing their number, ensuring clarity, and enhancing their utility for decision-making.

In light of the goal to simplify without compromising the initial ambition, AFG recommends the following points be reconsidered:

- **Avoid a two-year gap in reporting** for companies initially subject to sustainability disclosures. Simplification should target indicators genuinely used by investors, which have sufficient coverage and standardization. AFG considers it counterproductive to prioritize a two-year delay over reducing ASAP reporting burdens.
- **Real simplification of data points** is essential. The reporting load must be significantly reduced to ensure that data points are clear, comparable, and decision-useful. While AFG regrets the proposal to alter the scope, it acknowledges the importance of simplifying sustainability reporting for European actors.

Thus, AFG proposes:

- For **companies with over 1,000 employees** (or other applicable thresholds): reduce the number of indicators to 150 (a tenfold reduction from the original CSRD dataset). These would consist primarily of quantitative and gross-value indicators, along with relevant policies. A double materiality assessment would remain required, but its implementation process must be clarified.
- For **companies with 250 to 1,000 employees**: implement a simplified mandatory reporting with 40–50 indicators, aligned with the VSME standard. This represents a thirtyfold reduction from the original CSRD dataset. These indicators would serve both as a mandatory set for smaller companies and a minimum dataset for large firms consolidating value chain data.
- They could be used voluntarily by companies with fewer than 250 employees.

Revised CSRD reporting standards must enable investors to:

- Manage sustainability risks, a core component of fiduciary duty and EU regulatory expectations;
- Apply the **"Do No Significant Harm" (DNSH)** principle, central to the double materiality concept;
- Identify transition plans aligned with EU objectives and monitor their implementation to reallocate capital effectively for a just transition;
- Ensure companies adhere to the **UN Guiding Principles** and **OECD Guidelines** for Multinational Enterprises.

Concerns Regarding Scope Reduction and Timeline Delays

In essence, AFG opposes the scope reduction and timeline delay. AFG would have preferred the preservation of the current CSRD scope. The proposed increase in the threshold to 1,000 employees represents a major shift, negatively affecting the availability and comparability of data across both public and private markets. Asset managers and financial stakeholders would increasingly rely on estimates, reducing data reliability and comparability.

Additionally, as most data providers are non-European, continued reliance on them for ESG data raises **sovereignty concerns**. Excluding companies from CSRD scope doesn't truly simplify processes — in fact, it complicates data availability, especially for parts of the value chain belonging to companies with over 1,000 employees.

AFG insists on maintaining mandatory reporting (on the basis of a very simplified set around 40-50 indicators) for companies with 250–1,000 employees to prevent over-reliance on estimated data, which drives up costs and complexity.

Preservation and Clarification of the non-EU groups reporting and level playing field

With the CSRD in 2022, the EU has made the choice to organise some level playing field for EU companies by subjecting non-EU companies active in the EU to similar or quasi-similar obligations, which the EU industry has always supported and welcomed. It is of the upmost importance that EU stands its ground and makes sure that the Omnibus does not reinforce the unlevel playing field so as to effectively deliver on a fair level playing field for EU businesses.

In order to have a grasp on what is really as stake here**,** AFG believes that the operating conditions that were agreed by EU co-legislators in 2022 under the CSRD for the treatment of third-country firms should be reminded (please also see the Annex) and that in the light of the Omnibus proposals, an impact assessment is made to realise to what extent the Omnibus is introducing level playing field issues.

The European Commission FAQ published in August 2024 was very informative on that point.

1/ Under the CSRD, non-EU groups that were listed on EU markets had to follow the exact same regime as EU groups, which is fair and should be kept.

2/ The CSRD also created a lighter regime for those non-EU groups that were still having a significant presence in the EU but were not listed in EU markets. Under that regime, a non-EU group was considered as having a significant presence in the EU under the following conditions:

- The group has a net turnover generated in the Union > 150M€ (at consolidated level)
- AND it has a presence in the EU: either through a subsidiary that qualifies as "large"[1] (as defined in the Accounting Directive) or, in the absence of subsidiary, through a branch that generates more that 40M€ net turnover in the EU (50 M€ now given the revision of threshold in the Accounting Directive in 2023).

If those two conditions were reached, then the non-EU group had to report under the CSRD but could choose between 2 options, which basically creates a trade-off between consolidating and individual reporting:

- Either benefit from a **simplified** consolidated reporting (Art 40a) at the non-EU ultimate parent, under specific standards to develop, and not earlier than 2029. In such case, the non-EU groups still have to report at the individual level of each of their EU subsidiary under CSRD scope and could not benefit from the subsidiary exemption.
- Either benefit from the same subsidiary exemption as EU groups, but have to provide a "full" consolidated reporting under the full ESRS at consolidated level (art 29a) as it is the case for EU groups.

What is important to note is that under the CSRD co-legislators ensured a quasi-level-playing field with EU groups by making sure that in any case, the reporting would have to happen at consolidated level if the activity in the Union was significant enough. They also ensured that non-EU groups were incentivized to switch to a "Full ESRS" consolidated reporting, like EU groups, in order to exempt their EU subsidiaries from individual reportings.

With the omnibus, we are worried that:

- **The omnibus is significantly relaxing the conditions for this simplified consolidated reporting of non-EU groups with a significant EU presence, widening the gap with EU groups**:

  o Increase in the turnover threshold of non-EU groups in the EU from €150 to €450 million

  o With the introduction of the 1,000 employee threshold, which applies to all companies, there will be fewer EU subsidiaries individually subject to CSRD. All the more because this threshold of 1,000 employees is seen *at individual level* and non EU groups are not subject to this threshold at a consolidated level (even in EU in aggregate), unlike EU groups[2]. Before the

[1] Exceeding 2 of the 3 criteria : 250 employees; 50 M€ total turnover; 40 M€ on balance sheet.

[2] Illustration: a non-EU asset management group with ten large subsidiaries in the EU, each with less than 1,000 employees, but *in total* exceeding 1,000 employees *in the EU*, will only have to submit a simplified consolidated reporting (article 40a), and only from 2029 onwards… whereas, prior to the Omnibus, each of its subsidiaries would also have had to submit a CSRD reporting or

omnibus they would have had to switch to a full ESRS consolidated reporting to reach this situation. After the omnibus, they are no longer incentivized to do so.

- **Non-EU groups that are having a significant presence in the EU could even no longer be subject to reporting requirements.** Some stakeholders would argue that if a non-EU group has no subsidiary in the EU that would, on a solo basis, be required to report under the CSRD 2.0 (i.e. with more than 1,000 employees individually), then surely their parent company should not be captured by a consolidated reporting, even simplified (art 40a). We warn the European Union that such proposal would de facto lead to almost all non-EU groups being exempt from **all** reporting obligations, consolidated and individual, as very few EU subsidiaries of those groups reach the 1000 employee threshold individually.

The above level playing field issues would be an additional setback for European competitiveness and contradict the Commission's stated goals of simplification and coherence.

We would hence urge the co-legislators to make sure that adequate criteria assessing the significance of the activity of a third-country group in the EU and relevant reporting requirements are set up.

Also, given the ESRS are being simplified, developing simplified standards, specific to non-EU groups with a significant presence in the EU is questionable.

Therefore, based on all the above, there is **no longer any rationale for a specific consolidated "Art 40a" reporting** for non-EU groups. Instead, AFG believes that **those non-EU groups should be subject to a full ESRS consolidated reporting as EU groups,** if the below criteria for significant presence in aggregate **in the EU** are reached:

- Minimum turnover in the EU: AFG would suggest to **keep the 150M€ turnover**, at consolidated level, generated **in the EU**
- AND presence in the EU, **with the CSRD employee threshold (1000 proposed in the omnibus) being assessed at an EU aggregated level**

It would ensure **a level playing field with EU groups** (which 1000 threshold applies worldwide)**, while simplifying and giving more clarity on the EU regulatory framework.**

Clarification on the Value Chain Cap

AFG calls on the Commission to clarify the implications of the **value chain cap**, particularly for investors. Engagement with issuers is a key tool for asset managers, both in investment decisions and in shareholder meetings. This dialogue — unrelated to non-financial reporting preparation — must remain viable.

The Omnibus text should clearly state that the value chain cap applies only to CSRD reporting preparation. In practice, this means that a company preparing its CSRD report cannot request more data from a sub-threshold company than what is included in the voluntary reporting standard.

Implications for SFDR

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it would switch to a full ESRS consolidation. On the other hand, an EU group with a similar (or even less) presence in the EU than this non-EU group, but more than 1,000 employees *worldwide* would remain subject to a full ESRS consolidated reporting, prior and after the omnibus.

Regarding the **Sustainable Finance Disclosure Regulation (SFDR)**, AFG notes that data based on the VSME standard — even after reprocessing by the Commission — may not meet current Level 2 requirements, especially for **Principal Adverse Impact (PAI)** indicators and assessing alignment with sustainable investments.

Therefore, applying a value chain cap based on VSME data would only be appropriate if SFDR Level 2 is **simultaneously revised** to formally recognize this lower reporting level — similar to the CSRD's approach. Such regulatory coordination would avoid burdensome bilateral data requests to companies and reduce dependency on third-party, often non-EU, data providers.

Urgency and Stakeholder Involvement

AFG warns of the risks posed by a lack of clarity and simplification of the reporting substance (number of datapoints) in the short term and welcomes the objective of revised standards by September. It emphasizes the importance of involving market practitioners, both as investors and issuers representatives, in the process.

While improved interoperability with other international reporting frameworks is welcome, the review must also preserve the **double materiality principle**.

Alignment with Upcoming Proposals on SFDR and CSRD

AFG underscores the importance of **coherence between the review of SFDR (Regulation 2019/2088)** and the upcoming **CSRD proposals (Directive 2022/2464)**. Data availability is a cross-cutting challenge for all sustainable finance regulations. A streamlined, relevant, and effective CSRD review would give investors greater visibility into the quality data they can rely on for their financial and SFDR-related reporting.

Before undertaking a thorough review of SFDR, it is essential to gain sufficient visibility into forthcoming changes to CSRD and the Taxonomy to anticipate impacts on categorization and reporting requirements.

AFG's Position on the EU Taxonomy

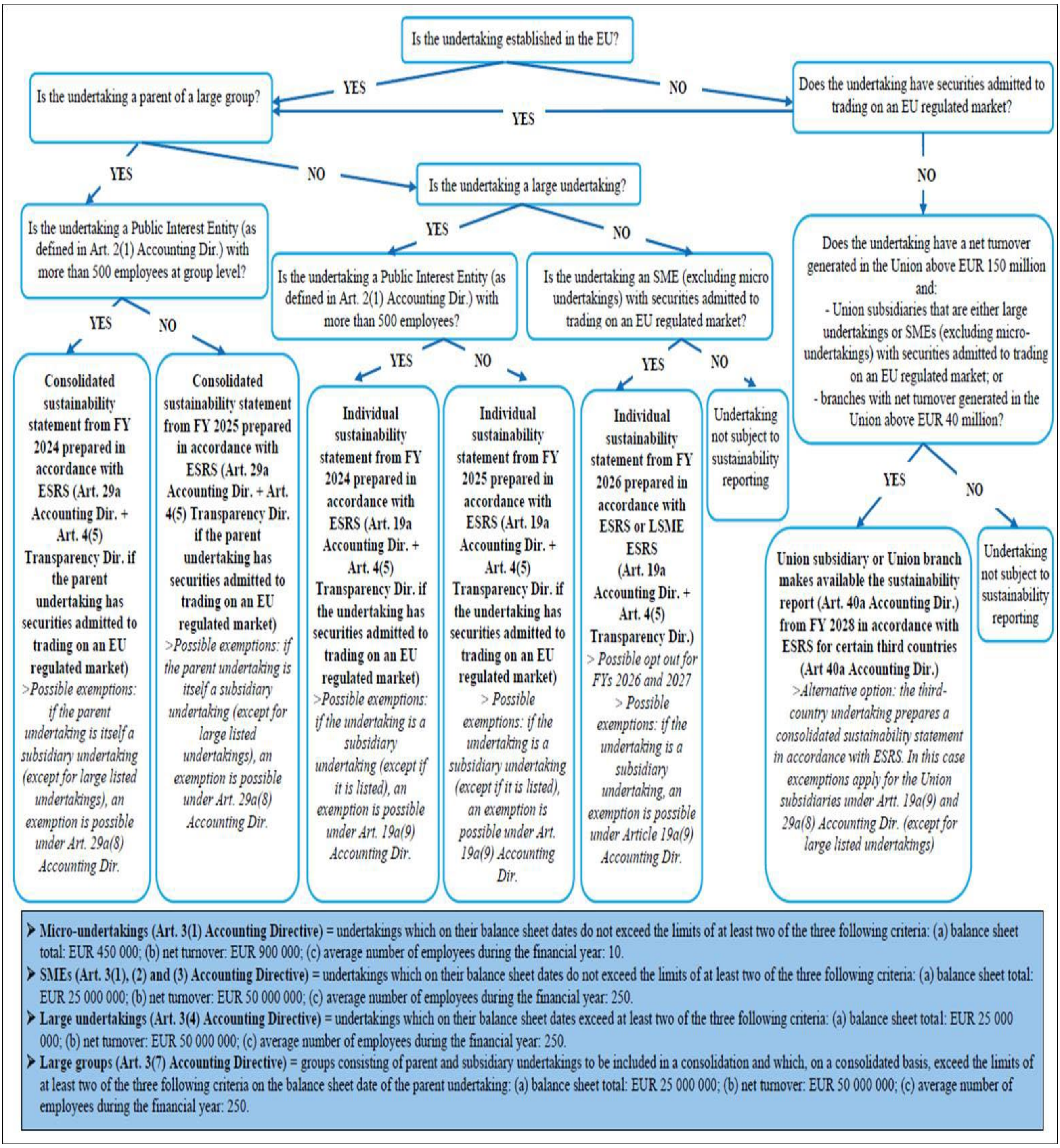
AFG supports the continued existence of the **EU Taxonomy** and welcomes its simplification and revision.

In addition to the technical aspects under consultation, AFG stresses the critical role the taxonomy plays for asset managers, particularly through the **CapEx indicator** in assessing transition plans. It is essential to maintain mandatory taxonomy reporting for all financial and non-financial entities within the CSRD's scope.

Nevertheless, the regulation urgently requires simplification — both in terms of reporting obligations and indicators. These efforts must be aligned with the broader review of sustainable finance rules (CSRD, SFDR, MiFID/DDA) to avoid worsening current data gaps and over-reliance on predominantly non-European data providers.

ANNEX

Diagram from the European Commission FAQ published August 2024 (page 12) that evidences that the reporting scope is a complex issue, and ensuring level playing field between EU and non-EU reporting entities is a delicate analysis that needs impact assessment:



Excerpts

Section IV – FAQs on sustainability information reported under Article 40a of the Accounting Directive

§ 48) <u>Can the Union subsidiaries subject to Article 40a of the Accounting Directive benefit from the exemption regime under Article 19a(9) and 29(8) of the Accounting Directive?</u>

The sustainability statement prepared in accordance with Articles 19a/29a of the Accounting Directive and the sustainability report prepared in accordance with Article 40a of the Accounting Directive have a different content and operate under separate regimes. ***Therefore****, a Union subsidiary publishing a sustainability report at the group level of its third-country parent company according to the provisions of Article 40a* ***does not exempt the Union subsidiary itself nor its own subsidiaries from complying with the reporting obligations of Articles 19a and/or 29a****. However, a third-country parent undertaking falling under the scope of Article 40a may choose to publish a consolidated sustainability statement under Article 29a (prepared in accordance with the sustainability reporting standards adopted under Article 29b or in a manner equivalent to those sustainability reporting standards), instead of having its EU subsidiary or EU branch publish a sustainability report at the group level under Article 40a. In this case, the EU subsidiary is exempted from publishing the sustainability report under Article 40a, provided that the conditions set out in Articles 19a(9) and 29a(8) are met.*

§ 44) <u>Which ESRS should be used for the preparation of the sustainability report under Article 40a of the Accounting Directive?</u>

The sustainability report referred to in Article 40a of the Accounting Directive must be prepared in accordance with the sustainability reporting standards to be adopted under Article 40b of the Accounting Directive.

By way of derogation, Article 40a(2) second subparagraph of the Accounting Directive allows the sustainability report to be prepared in accordance with the sustainability reporting standards adopted under Article 29b of the Accounting Directive (i.e. ESRS) or in a manner equivalent to the sustainability reporting standards adopted under Article 29b of the Accounting Directive, as determined by a Commission decision on equivalence. This provision should be read in the sense that a third-country parent undertaking falling under the scope of Article 40a of the Accounting Directive ***may choose*** *to publish a consolidated sustainability statement under Article 29a of the Accounting Directive (prepared in accordance with the standards adopted under Article 29b), instead of having its EU subsidiary or EU branch publish a sustainability report at the group level under Article 40a of the Accounting Directive.* ***In that case, the exemptions for the EU subsidiary set out in Articles 19a(9) and 29a(8) of the Accounting Directive would apply****.*