

The revised European Sustainability Reporting Standards (ESRS) and sustainability reporting standard for voluntary use Calls for Evidence The venture capital and private equity perspective

Executive Summary

The revised European Sustainability Reporting Standards (ESRS) and the sustainability reporting standard for voluntary use (Voluntary Standard) risk failing to reflect how sustainability reporting works in private capital, creating disproportionate requirements, legal uncertainty, and limited usability, for portfolio companies, fund managers and investors alike.

The frameworks treat reporting as a static, standalone exercise, rather than the outcome of lifecycle-based investment decisions and apply overly broad company thresholds that do not reflect operational realities. They often prioritise qualitative disclosures, rely on a closed list of topics that may not keep pace with emerging risks, and lack clarity on the treatment of PE/VC investors and fund managers in the value chain. In parallel, the ESRS revision is advancing without sufficient coordination with SFDR 2.0, increasing the risk of future misalignment.

If left unaddressed, these shortcomings will increase compliance burdens, fragment the EU sustainability framework, and create legal and interpretative uncertainty across Member States. This risks diverting resources away from real sustainability improvements and value creation, reducing comparability, and ultimately weakening the ability of private capital to channel investment towards innovative, high-growth companies driving Europe's sustainable transition and competitiveness.

The ESRS should ensure that investment relationships managed both under fiduciary or similar duties do not automatically trigger value chain reporting obligations, and ensure closer coordination between the ESRS and SFDR 2.0.

In parallel, **the Voluntary Standard should be recalibrated to reflect private capital realities: embedding lifecycle-based reporting approaches by strengthening proportionality through clearer thresholds (aligning the value chain cap with the SME thresholds, below and above 250 employees, or distinguishing between companies with fewer than 15 employees, 15-250 employees, and above 250 employees), prioritising standardised, decision-useful indicators while allowing inference where appropriate, and introducing a targeted list of additional voluntary datapoints to capture emerging, and potentially capped, sustainability topics**, in line with current market practices, like the [Invest Europe ESG Reporting template](#).

In more detail

The European Commission's further revision of the European Sustainability Reporting Standards (ESRS) and the sustainability reporting standard for voluntary use (Voluntary Standard) reflects the broader challenge of ensuring that sustainability reporting frameworks remain proportionate, usable, and capable of supporting Europe's competitiveness, while maintaining credibility and transparency across the economy.

Common reference frameworks can, indeed, play an important role in reducing fragmentation and supporting more sustainable behaviours and capital flows.

For Invest Europe, the association representing Europe's PE/VC and infrastructure investment firms, as well as their investors, the Delegated Acts and the reporting standards have direct and operational implications. They affect not only how sustainability information is collected and

aggregated, but also, more fundamentally, how sustainability is integrated across the investment lifecycle, from due diligence to exit, and how value is created across portfolio companies and future investments. The way these are calibrated and finalised will, therefore, have a material impact on both feasibility for companies and decision-making for investors.

To effectively achieve the objectives of the Delegated Acts and the reporting standards, it is essential that both the ESRS and the voluntary standard reflect, in substance and in form, the specific characteristics of private capital. This includes differences in control, intent, structure, reporting capabilities, and the broader regulatory environment in which investors and portfolio companies operate.

This paper aims to provide practical and forward-looking input on how the revised ESRS and voluntary standard can best achieve these objectives. In this context, the paper highlights three strategic priorities:

- clarifying the treatment of PE/VC fund managers within the value chain, to better reflect PE/VC structures and ensure a level-playing field,
 - strengthening coherence across the EU sustainability framework, through closer alignment between the ESRS and SFDR 2.0, and
 - ensuring the standards reflect how sustainability reporting is built in practice in private capital, including lifecycle-based integration, proportionality, decision-useful information, and evolving sustainability priorities, to promote value creation,
- ***The revised ESRS: ensuring coherence and proportionality across the EU sustainability framework***

1. Ensuring a level-playing field for private capital: the treatment of PE/VC investors and fund managers in the value chain

The European Commission's efforts to simplify the ESRS are very welcome. In particular, the acknowledgement in the Delegated Act that businesses carrying out asset management activities should not be required to report information that is not relevant in relation to the investments they manage, as well as the clarification (application requirements (ARs) 17 and 37) that entities managing investments under fiduciary mandates, without retaining risks or rewards of ownership, are not expected to assess or report on those investments are a positive and reassuring step.

These additions are important because they recognise a key point: not all financial relationships should automatically trigger value chain responsibilities. Investor-investee relationships, indeed, differ fundamentally from supplier-customer models. Stewardship cannot be equated with operational control, especially in PE/VC structures, which are often characterised by minority stakes, diversified portfolios and defined exit models.

A small adjustment to the wording of the related ARs would make the above-mentioned step forward even more inclusive and consistently applicable in practice. As currently drafted, the provisions are limited to situations where a formal fiduciary duty exists.

However, while many asset managers do operate under fiduciary duties, the existence of such duties is not universal and may not apply to certain managers in third countries. These managers may choose to prepare a group-wide report using the EU ESRS in order to fulfil the reporting requirements applicable to its in-scope EU subsidiaries. The nature of the duty is determined by the applicable regulatory framework, the nature of the relationship, and the terms of the contractual mandate in each case.

We suggest revising AR 17 and 37, to ensure that managers can benefit from these provisions even where the fiduciary duty is technically not applicable, given that they are also intended to benefit from it if they meet the other conditions, as follows:

- **AR 17:** “Where the undertaking manages investments subject to a fiduciary, **or similar** duty on behalf of its clients without retaining risks or rewards of ownership, that undertaking is not expected to assess the impacts, risks and opportunities related to those investments.”
- **AR 37:** “Where the undertaking manages investments subject to a fiduciary, **or similar** duty on behalf of its clients without retaining risks or rewards of ownership, that undertaking is not expected to provide data on those investments.”

2. Aligning the overall European sustainability framework: ensuring better coordination between the revised ESRS and SFDR 2.0

The revised ESRS explicitly acknowledge the importance of improving consistency with other European legislation, including financial services legislation. Nonetheless, the amendments are advancing significantly ahead of the ongoing review of the Sustainable Finance Disclosure Regulation (SFDR 2.0), creating a risk that misalignment will be locked in at an early stage.

Locking in divergent concepts, scopes or assumptions at this stage would be difficult to unwind later and risks increasing unpredictability, and complexity for preparers, auditors and supervisors.

Closer coordination between the ESRS amendments and the SFDR 2.0 process at this stage would help ensure that the two frameworks work together rather than against each other. Greater coherence would reduce legal uncertainty and compliance costs.

- ***The revised Voluntary Standard: recalibrating the EU sustainability framework towards value creation***

1. Avoiding a standalone exercise: embedding reporting practices into the broader investment lifecycle, while ensuring feasibility for businesses

Sustainability reporting is not a standalone exercise. Yet the revised voluntary standard implicitly approaches reporting as such, often assuming a level of data availability, internal capacity and organisational maturity that many companies, particularly smaller or fast-growing ones, do not yet have, even given the new value chain cap considerations for companies with fewer than 10 employees. The current range of companies covered (from below 10 to up to 1000 employees) is too broad to allow for a sufficiently proportionate application of reporting requirements.

Sustainability reporting is the outcome of decisions taken much earlier in the life of an investment. For PE/VC fund managers, sustainability reporting is best understood as the outcome of a continuous lifecycle. Sustainability considerations are embedded progressively, starting at fundraising, shaping due diligence and investment decisions, guiding ownership and value-creation efforts, and ultimately supporting exits.

What can be reported at company level therefore depends on when and how sustainability considerations are embedded along this lifecycle, alongside materiality and maturity of sustainability integration. Reporting is only the final output of many earlier decisions and treating it in isolation risks overlooking these upstream and downstream dynamics.

In addition, PE/VC investors operate across highly diverse portfolios, including smaller, early-stage or fast-growing companies with limited resources, alongside more mature companies, across sectors and

geographies. Many portfolio companies, especially smaller firms, build sustainability systems progressively over time, often with limited staff, budgets and varying degrees of investor influence.

As such, investors rely on staged reporting approaches, materiality filters and, where appropriate, the use of proxies, allowing sustainability practices to strengthen as companies grow.

If reporting frameworks overlook the way private capital markets work, requested data may not exist when reporting is required, resources risk, at times, being diverted from real improvements into late-stage compliance, increasing reporting burdens without improving sustainability outcomes.

Greater recognition of these mechanisms within the revised voluntary standard would significantly enhance its usability, credibility and uptake. **Two approaches could be considered:**

- **the current threshold used as the main reference point for proportionality** (companies with fewer than 10 employees, companies between 10 and 1000 employees) **could be adjusted to better reflect operational reality by using a higher threshold (companies with fewer than 250 employees, companies between 250 and 1000 employees)** more aligned with commonly recognised SME categories and reporting capacity,
- alternatively, a more structured approach further differentiated by company size and maturity, with reporting requirements that increase in depth and complexity as companies scale could be implemented, such as a **three reporting tiers approach, subject to differently capped datapoints:**
 - companies with **fewer than 15 employees,**
 - companies **between 15 and 250 employees,** and
 - companies **above 250 employees.**

Either approach would reinforce the principle of proportionality underpinning the value-chain cap, while reflecting how sustainability systems are built in practice, starting with entry-level sustainability reporting for small companies, and expanding progressively as companies grow, professionalise and develop greater internal capacity. This mirrors both investor expectations and what portfolio companies can realistically operationalise over time, as we currently see in the market.

When considering how data points could be allocated across these tiers, as well as how to identify the right value chain cap, existing market-tested practices, such as investor reporting frameworks used in private capital like the [Invest Europe 2025 ESG Reporting Template](#), can provide useful reference points, ensuring consistency with real-world implementation.

2. Future proofing reporting: focusing on decision-useful, inferable information and emerging topics

The revised voluntary standard places significant weight on qualitative, narrative disclosures (i.e., strategies, descriptions, explanations), which are often difficult to compare and aggregate, particularly in private capital contexts where companies differ significantly in size, sector, geography and stage of development.

While narratives provide relevant context, investors place strong value on standardised and decision-useful indicators that can be applied consistently across diverse portfolios. This is because they need to collect, clean, sense check, aggregate and benchmark, across tens, potentially hundreds of portfolio companies. They need indicators that enable risk management and performance monitoring over time, while remaining feasible for portfolio companies with varying levels of resources and organisational capacity, as well as ensuring data quality.

More broadly, extensive narrative disclosures are captured through ongoing engagement, which is a defining feature of the relationship between PE/VC fund managers and their portfolio companies. Investors use sustainability data not only for external disclosure, but as a practical tool for engagement, performance improvement and value creation. This information is assessed against targets, used to identify gaps, and translated into concrete actions at company level. This dynamic feedback loop, including learning from exits and reinvesting insights into future portfolios, underpins how private capital contributes to long-term sustainable business transformation.

In this context, it is also important that reporting frameworks avoid duplicative or unnecessary datapoints where information can be reasonably inferred from other reported data. When well-designed core indicators are in place, ratios, breakdowns or conclusions can often be derived by investors without imposing extra reporting obligations on companies.

Sustainability reporting frameworks should prioritise ease of use and decision-making value, across policies, practices, targets and metrics, supporting transparency while facilitating efficient capital allocation and investor confidence.

This is best achieved by shifting the balance, especially of datapoints currently treated as “necessary” and included in the value-chain cap, towards a stronger core of standardised, decision-useful indicators, complemented by narrative elements where they add real value. At the same time, the framework should explicitly allow certain elements to be inferred.

In this context, [the Invest Europe 2025 ESG Reporting Template](#) can provide useful insights into which information investors consider decision-useful, and which metrics risk creating unnecessary burden for portfolio companies.

The revised voluntary standard is, for understandable reasons, built around a fixed and clearly defined list of disclosure topics. However, this closed structure limits its ability to accommodate emerging sustainability issues that become material over time for both investors and companies. Where a topic is not included in the framework, reporting may be effectively constrained – or “capped” – even where that topic becomes highly relevant in practice.

Sustainability priorities evolve rapidly in response to technological developments, market dynamics, regulatory focus and systemic risks. The relevance of specific ESG topics is therefore not static, particularly in fast-moving and innovation-driven segments of the economy.

Within the PE/VC industry, sustainability reporting frameworks are regularly updated to reflect these shifts. In recent years, for example, investors have increasingly integrated topics such as artificial intelligence governance, cybersecurity and data protection, more granular climate transition indicators, and deeper insights into workforce dynamics and governance quality, often on a sector-agnostic basis, because these risks and opportunities cut across industries.

A static reporting framework risks lagging behind market reality, also from a sector-agnostic point of view, reducing the usefulness of reported information for decision-making and engagement. In addition, if reporting on topics that fall outside the voluntary standard scope is effectively limited by structural caps, investors and companies may be discouraged from addressing emerging risks proactively.

For investors, preserving predictability and legal certainty is fundamental. In fact, the revised voluntary standard should remain a stable core framework, without frequent revisions.

At the same time, its relevance and effectiveness would be strengthened by ensuring that it adequately captures those sustainability topics that are already material across the market, but currently fall outside its scope.

Rather than continuously reopening the standard, in order to maintain an effective and future-proof voluntary European sustainability reporting standard, we suggest re-examining the standard's scope against existing, market-tested investor reporting practices, to identify the topics that are already widely relevant for companies regardless of sector, and that therefore warrant inclusion as "voluntary" datapoints.

In this context, **the [Invest Europe 2025 ESG Reporting Template](#) reflects topics that investors already assess in practice across diverse portfolios and can help distinguish those sustainability issues that are already material today.** Incorporating a small, targeted number of such topics would enhance the relevance and attractiveness of the voluntary standard, while preserving its predictability.

- **Conclusion**

The European Commission's efforts to simplify requirements, introduce greater flexibility, and recognise the diversity of economic actors are both timely and welcome.

Building on these foundations, more fully integrating PE/VC investor and fund management operating models, portfolio-level perspectives, and proportional, lifecycle-based approaches would not only make the standards more robust and workable, but also ensure that sustainability reporting focuses on value creation, while providing greater clarity and predictability across the EU framework and supporting investment flows towards companies driving sustainable growth and competitiveness.

For more information, please reach out to publicaffairs@investeurope.eu