

Mr Erkki Liikanen
Chair of the Trustees
IFRS Foundation
7 Westferry Circus
London E14 4HD
United Kingdom

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Consultation Paper on Sustainability Reporting

Dear Mr Liikanen,

On behalf of the German Insurance Association (GDV¹), we welcome the opportunity to respond to the Consultation Paper on Sustainability Reporting published by the Trustees of the IFRS Foundation. In the last decades, the IFRS Foundation built an enormous reputation due to its outstanding merits in developing international standards on financial reporting.

From our perspective, establishing a Sustainability Standards Board (SSB) under the governance structure of the IFRS Foundation in order to develop a global set of widely recognised sustainability standards is the right initiative at the right time. Indeed, there is a great need to bring together different approaches and bundle existing initiatives. The GDV strives to constructively participate in this promising endeavour due to several striking advantages:

- Eliminating double structures and reducing compliance costs for reporting companies.
- Fostering the comparability of data and improving market transparency for investors.
- Supporting companies and sectors to show the societal and environmental value of their activities and strengthening trustful relationships with a wide range of stakeholders.
- Building up international regulation capacities and turning international competition into an essential driver for sustainable growth.
- Achieving a common language in the field of sustainability / non-financial reporting.

¹ The GDV is the federation of private insurers in Germany. Its about 460 member companies offer comprehensive coverage and retirement provisions to private households, trade, industry, and public institutions, through almost 438 million insurance contracts.

**Gesamtverband der Deutschen
Versicherungswirtschaft e. V.**

German Insurance Association

Wilhelmstraße 43 / 43 G, D-10117 Berlin
Post-office box 08 02 64, D-10002 Berlin
Phone: +49 30 2020-5000
Fax: +49 30 2020-6000

51, rue Montoyer
B - 1000 Brüssel
Phone: +32 2 28247-30
Fax: +49 30 2020-6140
ID-Number 6437280268-55

Contact: Department Accounting / Risk
Management / Internal Audit

E-Mail: rechnungslegung@gdv.de

www.gdv.de



In our view, the IFRS Foundation is the perfect choice for driving forward the standard-setting process in sustainability reporting. As a case in point, the IFRS Foundation has built a great network of professionals with rich and heterogeneous expertise. In consequence, the GDV highly welcomes the creation of a Sustainability Standards Board to coordinate and drive forward the development of global standards in this area. Furthermore, a vital exchange between the SSB and the IASB can ensure the compatibility of financial and sustainability reporting.

However, to ensure the success of this valuable endeavour the GDV would like to highlight three conditions. First, the broad participation of different stakeholders is crucial to foster the overall recognition and usefulness of global standards. Second, establishing clear and transparent organisational structures and procedures creates trust among all involved actors to achieve fair results. Third, the support of many stakeholders will depend on the compatibility of the IFRS Foundation's initiative and the legislative initiatives on sustainability on the EU level.

To summarize, we are very thankful to participate in this consultation, and we fully commit to contributing to the development of global standards on sustainability reporting.

For our detailed comments to the particular questions raised in the Consultation Paper on Sustainability Reporting, we kindly refer to the annex to this letter.

If you like to discuss our response further, please do not hesitate to contact us.

With best regards



Götz Treber
Head of Centre of Competence
Corporate Management and Regulation



Lenka de Mauro
Head of European and
International Affairs

Annex: GDV's response to the Consultation Paper on Sustainability Reporting

Q1: Is there a need for a global set of internationally recognised sustainability reporting standards?

(a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?

(b) If not, what approach should be adopted?

The GDV sees a great need for a global set of widely recognised sustainability standards.

Currently, various important but unconnected initiatives aim to standardise sustainability reporting. From our point of view, streamlining and bundling the existing initiatives will have several striking advantages:

- Eliminating double structures and reducing compliance costs for reporting companies.
- Fostering the comparability of data and improving market transparency for investors.
- Supporting companies and sectors to show the societal and environmental value of their activities and strengthening trustful relationships with a wide range of stakeholders.
- Building up international regulation capacities and turning international competition into an essential driver for sustainable growth.
- Achieving a common language in the field of sustainability / non-financial reporting.

To achieve these advantages, the GDV highly welcomes if the IFRS Foundation expands its activities and takes over the major role in developing global standards on sustainability reporting. Due to the outstanding achievements in setting financial reporting standards in the past, the IFRS Foundation is highly suitable to drive the process of developing global standards on sustainability reporting and of ensuring connectivity between the SSB and the IASB. In particular, the IFRS Foundation has built a great network of professionals with rich and heterogeneous expertise. Furthermore, the foundation is very experienced in the delicate and demanding task of coordinating transparent and fair procedures that involve all relevant stakeholders.

However, it is necessary that a global set of sustainability standards does not lead to unproportionate reporting obligations and is consistent with regional initiatives – in particular with the European Union that has already taken the lead in developing sustainability standards¹. Therefore, it is of utmost importance to achieve compatibility of both the initiatives of the IFRS Foundation and legislative initiatives of the European Union. Only aligned, the SSB can become a real game-changer and support a more effective and efficient corporate reporting.

¹ Review of the NFRD (Non-Financial Reporting Directive); EU Taxonomy (Regulation on the establishment of a framework to facilitate sustainable investment); SFDR (Sustainable Finance Disclosure Regulation).

Q2: Is the development of a sustainability standards board (SSB) to operate under the governance structure of the IFRS Foundation an appropriate approach to achieving further consistency and global comparability in sustainability reporting?

The GDV welcomes the establishment of a Sustainability Standards Board (SSB).

The coordination of such a complex and enduring standard-setting process requires a competent and well-connected organiser. Furthermore, a vital exchange between the SSB and the IASB can ensure synergies and the compatibility of financial and sustainability reporting. Moreover, the SSB can benefit from the broad experience and outstanding competence of the IASB in setting international reporting standards.

Q3: Do you have any comment or suggested additions on the requirements for success as listed in paragraph 31 (including on the requirements for achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?

Q4: Could the IFRS Foundation use its relationships with stakeholders to aid the adoption and consistent application of SSB standards globally? If so, under what conditions?

Paragraph 31 already lists essential requirements for success, such as involving a broad set of stakeholders and setting up transparent procedures. These two requirements are particularly important to create trust among the involved stakeholders and to promote fair results.

Hence, the GDV would like to stress how important it is to achieve global acceptance by politics and businesses of such standards. If there is no global backup for the SSB, its standards for sustainability reporting might only just become further reporting standards among others. This would fail to realise the potential advantages outlined in question 1.

Also, the GDV welcomes the intention to deepen the cooperation of the IFRS Foundation with other standard-setting organisations, including the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), the Climate Disclosure Standards Board (CDSB), the International Integrated Reporting Council (IIRC), and the Climate Disclosure Project (CDP). This cooperation is particularly important to prevent competition with private standards that would also undermine harmonisation.

Q5: How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?

Q6: How could the IFRS Foundation best build upon and work with the existing jurisdictional initiatives to find a global solution for consistent sustainability reporting?

The IFRS Foundation could map relevant existing initiatives (with a particular focus on EU initiatives and the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and outline their common and diverging characteristics. In the next step, identifying national standards that are already successfully applied in day-to-day practice can provide valuable input for global standards.

However, as the European Union has already taken the lead, the IFRS Foundation should build strongly on what has already been developed and will be developed within the next years in view of the European sustainability reporting standards to ensure consistent sustainability reporting.

Furthermore, to achieve global acceptance by politics and businesses of such standards, the IFRS foundation could establish a forum for national and supranational public policymakers to continually discuss the harmonisation of sustainability reporting via global standards. This forum could prepare collective decisions of the public policymakers that need to endorse global standards into national or supranational law or recognise global standards as a legal substitute.

Q7: If the IFRS Foundation were to establish an SSB, should it initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting?

Q8: Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?

The GDV supports a “climate-first” approach given the growing importance for shareholders and stakeholders as well as the complexity of sustainability reporting.

In detail: The GDV supports the Recommendations of the TCFD and their ongoing development because

- the TCFD are based on a global political consensus as they were initiated and supported by the G20 via the Financial Stability Board (FSB),
- the TCFD are becoming more important in regulatory initiatives of the IAIS, the European Union and others,
- they are relevant, at least for the biggest multinational corporations.

The TCFD are a good example of global efforts to reach an agreement on how to report on climate-related information. With the foundation provided by the TCFD, the SSB might develop faster reporting standards focusing only on climate-related information and the associated risks and opportunities – instead of already focusing on the comprehensive ESG-related disclosure. Even if there is only a focus on climate-related information and the related risks and opportunities, the complexity of such a project might already be very high.

By reducing the complexity, the SSB could focus on another critical point: achieving global acceptance by politics and businesses of such standards. If there is no global backup for the SSB, its sustainability reporting standards might only just become further standards among others. Especially as a European association, the GDV advocates compatibility of the initiatives of the IFRS Foundation and legislative initiatives of the European Union. Only aligned, the SSB can become a real game-changer and support more effective corporate reporting. Accordingly, comprehensive ESG-related disclosure could be a mid-term objective for the SSB.

Furthermore, following the “climate-first” approach, and as stated in the consultation paper, the meaning of climate-related information is open for interpretation. A global definition of this term is a crucial first step for the SSB’s work.

Q9: Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?

It is paramount that the SSB’s understanding of the concept of materiality on sustainability information is aligned with the European Union’s understanding of the concept of double-materiality.

In detail: As the GDV has already stated in its answer to questions 7 and 8, the SSB can only be successful in its work if it can reduce the complexity of such a project. Even by focusing solely on investors and other financial market participants, the proposed approach in paragraph 50 could already lead to complex sustainability standards.

However, the concept of materiality in the field of sustainability reporting is already defined by the European Union by its double-materiality concept and widely applied by certain large European companies. They report on the relevance for the company’s financial performance and the consequences for society and the environment. As the double-materiality concept is a relatively new concept and a core aspect of the European Union’s NFRD, the IFRS should – while always ensuring full compatibility to the European Union’s developments – take the lead and address the most difficult questions in the mid- and long-term.

**Q10: Should the sustainability information to be disclosed be auditable or subject to external assurance?
If not, what different types of assurance would be acceptable for the information disclosed to be reliable and decision-useful?**

The GDV supports a “step-by-step” approach.

In detail: Firstly, it is necessary to develop sustainability reporting standards to define qualitative sustainability disclosure requirements and target objects needed for the assurance practice. Secondly, then it is possible to establish international assurance standards of sustainability information. Finally, if international assurance standards of sustainability information are developed, globally accepted, relevant in the reporting world, have fostered the maturity of sustainability reporting, and have proven to avoid conceptual and practical challenges for applying companies, then there might be a possibility to find enough support for a mandatory application of such standards.