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Proposed Targeted Amendments to the IFRS Foundation *Constitution* to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards
Exposure Draft (April 2021)

Dear Mr Liikanen,

On behalf of the German Insurance Association (GDV), we greatly welcome the opportunity to respond to the Exposure Draft with the Proposed Targeted Amendments to the IFRS Foundation *Constitution* to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards.

In the last decades, the IFRS Foundation built an enormous reputation due to its outstanding merits in developing internationally accepted standards on financial reporting (IFRS). Building on this rich experience, we welcomed and supported the IFRS Foundation's Consultation Paper on Sustainability Reporting from 2020. And we continue to have the firm view that there is a growing and urgent need for a single set of global sustainability-related reporting standards to improve the consistency and comparability of sustainability information.

From our perspective, establishing the International Sustainability Standards Board (ISSB) under the governance structure of the IFRS Foundation to develop a global set of widely recognised sustainability reporting standards is the right initiative at the right time. Indeed, it has never been more critical to bring together different approaches and bundle existing initiatives. We believe that the IFRS Foundation has the potential to provide a global baseline to achieve a common understanding of sustainability reporting worldwide and to obtain standardised, consistent, and comparable sustainability information.

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Moreover, we support the ISSB's objective to cooperate with existing initiatives. Global standards should be based on relevant and well-established existing sustainability reporting guidance. Furthermore, we welcome the IFRS Foundation's intention to collaborate with jurisdictions to achieve an adequate and feasible building blocks approach. In this regard, close attention should be paid to the European Union and its understanding of the concept of double materiality. This concept is not only a core element in the EU's regulatory initiatives on sustainable finance. The concept of double materiality provides insurers, as major institutional investors, with information that is increasingly needed, too. In addition, and specifically in the case of preparers applying IFRS, it is paramount that the need for coherence and connectivity between financial and sustainability reporting is being formalized in the IFRS Foundation *Constitution*.

With the view on the board structure of the ISSB, we support having a structure inspired by what currently exists at the IASB. It is important to establish clear and transparent organisational structures and a robust due process that create trust among all involved stakeholders to achieve fair results. Such structures and the due process are also vital elements to fostering the usefulness of global standards and gaining support from international stakeholders involved in key markets. That's why we would not support the envisaged deviations between the ISSB and the IASB. In general, any deviations in this regard should be of a temporary nature only, and the appropriateness of any such deviation should be re-assessed as the standard-setting work of the ISSB evolves.

To summarise, we greatly appreciate that the IFRS Foundation continues the process of establishing the ISSB. We are very thankful for the opportunity 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 specific questions raised in the Exposure Draft, we kindly refer to the annexe to this letter.

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

With best regards

German Insurance Association

Annexe

Proposal 1 – Expand the Foundation’s remit to create a new board that will set IFRS sustainability standards

Question 1

Do you agree that the amendments proportionately reflect the Trustees’ strategic direction, considering in particular:

- (a) the proposed amendments to the objectives of the Foundation, outlined in the proposed new section 2b of the Constitution, as set out in Appendix A; and
- (b) the proposed amendments to reflect the structure and function of the new board, outlined in the proposed new sections 43–56 of the Constitution, as set out in Appendix A?

The GDV generally supports the proposed amendments. However, it is understood that the IFRS Sustainability Standards are intended to only focus on the development of Sustainability Reporting Standards.

In detail:

The GDV welcomes that the IFRS Foundation continues the process of establishing the International Sustainability Standards Boards (ISSB). In this regard, the GDV continues to constructively participate in this promising endeavour and has, thus, developed key messages on the ED with the Proposed Targeted Amendments to the IFRS Foundation *Constitution*.

1. Global market transparency on sustainability information is essential to make finance a stronger driver for sustainable transformation.

The finance system is already driving the sustainable transformation forward by increasing capital allocation to sustainable business models. However, enhanced market transparency on sustainability information can further strengthen this vital function. **Indeed, the IFRS Sustainability Standards (IFRS SS) of the new ISSB can be a real game-changer for the global field of sustainable finance.** The main goal of the IFRS SS should be to provide standardised and comparable sustainability data for investors on a global scale.

In addition, the GDV would like to suggest developing a digital taxonomy in parallel to provide free digital access to sustainability data (see GDV’s response to question 4).

2. Establishing clear and transparent organisational structures and procedures creates trust among all involved actors to achieve fair results.

The IFRS Foundation is very experienced in the challenging task of coordinating transparent and fair procedures that involve all relevant stakeholders. **In this regard, the GDV supports having a board structure at the ISSB level inspired by what currently exists at the International Accounting Standards Board (IASB).**

Decisive factors for the success of the IASB are the transparent due process for the standard-setting activities and robust governance of the organisation, including public oversight via the Monitoring Board which ensures public accountability of the IASB's work. The same proper due process and transparency should be followed when developing sustainability reporting standards.

In this regard, the GDV does not support the envisaged deviations between the ISSB and IASB, as suggested in the proposal that the publication of an Exposure Draft or an IFRS SS shall require approval only by a simple majority of the ISSB. While this might support the Trustees' initial strategy to progress faster, pace shall not come at the expense of quality.

In addition, more generally, we believe that such deviations should be of limited duration only, and the appropriateness of any such deviation should be re-assessed as the standard-setting work evolves.

3. A phase-in approach is key to create efficient and comprehensive sustainability reporting.

Firstly, as there is a growing and urgent demand for a single set of global sustainability-related disclosure standards, the ISSB should start its work very quickly to build confidence in a global solution.

Secondly, as the development of sustainability standards is such a complex task, it is essential to advance step-by-step in a pragmatic way towards the final goal. Setting standards in new areas requires time due to a wide range of different stakeholders and necessary feedback loops to ensure that the standards really fit for purpose. **Therefore, the GDV supports the decision to initially focus on climate-related disclosure standards but also deems it essential to rapidly work towards meeting the information needs on other relevant ESG matters.** Focusing on climate for too long forces companies to apply one or more other standards to cover the other relevant ESG matters, which contributes to maintaining the current high level of complexity and fragmentation of the sustainability reporting landscape as well as hinders global acceptance and relevance. Furthermore, other standard-setters such as EFRAG would begin/continue their work on

these ESG matters without being able to collaborate with the ISSB or to build their work on the ISSB's intended global baseline.

4. Information needs of investors should be addressed in the first phase; the information needs of a broader range of stakeholders should follow.

Following a phase-in approach, the GDV supports the decision to focus on the information needs of investors. It is especially investors who urgently need specific sustainability information to improve decision-making on global investments. Investor's decision-making can be enhanced by providing international standards on sustainability reporting. Therefore, the German insurers believe that the IFRS Foundation is highly suitable to drive the process of achieving the urgently needed global comparability and consistency of sustainability information.

Furthermore, the GDV welcomes that the IFRS Foundation acknowledges the increasing importance of other stakeholders (under the condition that a company considers a group of stakeholders as relevant). These stakeholders are increasingly interested in sustainability information and should be addressed via sustainability reporting, too. **However, as we welcome this vital acknowledgement, we are in doubt whether the proposed objective** (“[...] to connect with multi-stakeholder sustainability reporting”) **is sufficient enough.**

Also, from a preparer's point of view, there will be advantages when providing sustainability information to a broader group of relevant stakeholders. In general, companies are burdened by frequent requests with different questionnaires to provide data to various stakeholder groups. If a company can address all its relevant stakeholder groups via the IFRS SS, the reporting burden could be lowered.

5. The need to speak a common global language in sustainability reporting

5.1 Companies applying IFRS

Specifically, in the case of preparers applying IFRS, we believe that the **need for coherence and connectivity between financial and sustainability reporting should also be formalised and addressed in the *Constitution*, both in the objectives section** (as this should be an objective) **and governance section** (as this would influence the standard-setting bodies' operations).

In addition, having the preparers' needs in mind, particular attention should be given to companies' strain in reporting. Especially the cost of producing data and the sensitivity of certain information that could affect

the competitiveness of companies has to be carefully considered throughout the process in a proper manner.

5.2 The principle of the double materiality

We are convinced that the IFRS Foundation has the potential and is in a position to stop the process of global fragmentation in the field of sustainability reporting. The IFRS Foundation is indeed capable of providing a global baseline to achieve the same understanding of sustainability reporting worldwide and to obtain standardised, consistent, and comparable sustainability information. Hence, it is paramount that IFRS Foundation widens its understanding of the concept of materiality. **As investors, German insurers are not only interested in the “outside-in” impacts of investees but also increasingly interested in their “inside-out” impacts. Therefore, the GDV fully supports the EU’s concept of double materiality:** how sustainability issues may affect the company’s financial performance (outside-in) and the impact of the company’s activities on society and the environment (inside-out).

In detail:

As already stated above, the ISSB can only be successful in its work if it can reduce the complexity of such a project. Even when focusing solely on investors and other financial market participants, the setting of the IFRS SS could already be highly complex.

However, the concept of materiality in the field of sustainability reporting is already defined by the European Union by its double materiality concept. This concept is already widely applied by certain large European companies. Moreover, when the legislative proposal of the European Commission on the Corporate Sustainability Reporting Directive (CSRD) is final and comes into force, the scope of the CSRD will be extended to all large companies, listed SMEs, and third-country issuers. These companies will have to apply the European double materiality concept.

6. The compatibility with other relevant sustainability reporting standards is essential to fostering market transparency globally.

It is necessary that a global set of sustainability standards does not lead to unproportionate reporting obligations and is consistent with existing initiatives as well as collaborates with jurisdictions to achieve an adequate and feasible building blocks approach – in particular with the European Union that has already taken the lead in developing sustainability standards¹.

¹ CSRD (Corporate Sustainability Reporting Directive; formerly: NFRD (Non-Financial Reporting Directive)); EU Taxonomy (Regulation on the establishment of a framework to facilitate sustainable investment); SFDR (Sustainable Finance Disclosure Regulation); ESAP (European Single Access Point).

Therefore, it is of utmost importance to achieve compatibility of both the initiatives of the IFRS Foundation and legislative initiatives on sustainability of the European Union. German Insurers believe, if both sides are aligned, it will facilitate a more effective and efficient corporate reporting and serve the growing information needs of sustainable investors operating globally.

Therefore, firstly, the GDV supports the ISSB's objective to cooperate with existing initiatives. Global standards should be based on relevant and well-established existing sustainability reporting guidance (e.g., principles and definitions) that has already reached a high level of maturity as much as possible, such as the TCFD framework for climate-related reporting. **Secondly, the GDV welcomes the IFRS Foundation's intention to collaborate with jurisdictions to achieve an adequate and feasible building blocks approach.** The set-up of the ISSB should allow for jurisdictions and their standard-setters to get involved and contribute to the standardisation initiative at the global level through constructive two-way cooperation. This process is needed to ensure that a successful building blocks approach can be achieved without significant frictions.

In addition, the IFRS Foundation should commit to a concrete timeline and the envisaged scope of ESG matters to be covered by the ISSB in the short term. Only then jurisdictions and other standard setters are able to identify what needs to be covered in addition, depending on their specific objectives and needs.

Proposal 2 – Create the International Sustainability Standards Board under the Foundation’s governance structure to set IFRS sustainability standards

Question 2

On the potential naming of the new board and its associated standards, do you agree that ‘the International Sustainability Standards Board (ISSB)’ setting ‘IFRS sustainability standards’ accurately describes the function of the new board and its associated standards?

The GDV believes it should be clear that the IFRS Sustainability Standards only focus on the development of Sustainability Reporting Standards. Therefore, we would like to recommend that **it should be made sufficiently clear in the Constitution**, where relevant, even if not in the naming of the standards, **that the IFRS Sustainability Standards would actually represent Sustainability Reporting Standards** (e.g., in section 2b of the Constitution).

Proposal 3 – Consequential amendment to the Foundation’s governance

Question 3

Do you agree with this proposed consequential amendment, outlined in proposed new sections 60 and 61 of the Constitution, as set out in Appendix A?

The GDV agrees with the proposed amendments outlined in new sections 60 and 61 of the Constitution.

Other matters

Question 4

Are there any other matters you would like to raise in relation to the proposed targeted amendments to the Constitution?

A dedicated Interpretations Committee should be established.

The GDV recommends considering the prospective establishment of a dedicated Interpretations Committee (IC) within this revision of the *Constitution* as we believe that the respective need will emerge eventually.

A sufficient level of expertise is needed in the field of sustainability reporting.

The GDV would like to emphasise the importance of a sufficient level of expertise in the field of sustainability reporting at the ISSB level. It is already the start-up and initial phase of the ISSB that requires a sufficient level of expertise in sustainability reporting. This crucial first phase of the ISSB should not be underestimated. In this regard, the IFRS Foundation should consider limiting the number of part-time members in the ISSB in practice as far as possible.

Additionally, a sufficient level of expertise in the field of sustainability reporting is also needed in the governance bodies of the IFRS Foundation (Monitoring Board, Trustees, and IFRS Advisory Council). The regular rotation of the members might not be enough to sufficiently adjust the required experience and expertise of the bodies’ members.

As an alternative or in addition to new appointments, other options should be considered on how to build up the expertise of the acting members of the governance bodies in sustainability reporting. As a matter of fact, the

acting members of the IFRS bodies are well connected with valuable contacts worldwide. Maintaining these contacts is a vital aspect to accelerate the global acceptance of the IFRS SS. Other important aspects are the sign of continuity of the work of the IFRS Foundation and the crucial close connectivity between financial and sustainability reporting.

Think digital from the outset of standard-setting.

The GDV supports the European Commission's proposal on the CSRD that drives forward the digitalisation of company reporting, with sustainability information being available via the European Single Access Point (ESAP).

It is only consequent to drive forward sustainability reporting and digitalisation on a global scale, too. From an investor's perspective, this will bring many advantages: data that is easily accessible and free of cost, in a standardised form, and automated data feed and data analysis to ensure cost-efficient analysis via, for example, an ESG databank. From a preparer's point of view, there will be mid- to long-term advantages (when an ESG databank is in place). In general, companies, as data providers, are burdened by frequent requests with different questionnaires to provide data to various stakeholder groups. With an ESG databank in place, these data users can easily access published ESG data.

Therefore, the GDV recommends that, already in parallel to the IFRS SS, a digital taxonomy should be developed. German insurers believe there are more benefits than obstacles if the IFRS SS and, accordingly, a digital taxonomy is applied directly from the beginning of the first year of reporting.

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