Position Paper

Making the CSRD a success is key for Sustainable Finance

Executive Summary

- The CSRD can provide **a sound database for sustainable finance decision-making**. Hence, the GDV supports the high ambitions of the European Commission but believes in less extensive, but better reporting.
- The **GDV proposes a two-phase approach** that enhances the quality and extent of disclosed sustainability information over time.
- The option to publish **sustainability reports at a consolidated level** should also be explicitly allowed for Public Interest Entities (PIEs).
- The **target group orientation should be a key principle** of the CSRD.
- The **information needs of investors should be prioritised** as they are subject to the Taxonomy Regulation and the Sustainable Finance Disclosure Regulation (SFDR). **Data gaps will remain in case of delays** in the CSRD's timetable.
- The **GDV proposes a definition for small and medium-sized insurers** that should also be allowed to use proportionate reporting standards.
- Finally, the International Sustainability Standards Board (ISSB) provides a great chance to achieve a **common global language** (global baseline) in sustainability reporting.

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DIE DEUTSCHEN VERSICHERER

The GDV highly welcomes the European Commission's legislative proposal for the Corporate Sustainability Reporting Directive (CSRD proposal). Consequently, **the CSRD is intended to provide a sound and proper database for sustainable finance decision-making**. This enhanced market transparency on sustainability information can foster fair competition, prevent greenwashing, and secure the integrity of financial market participants. On the one hand, investors will have comparable and reliable sustainability information to make better and more sustainable investment decisions and to address their own reporting requirements. On the other hand, collecting, preparing (in a suitable electronic format) and assuring sustainability information can create significant operational challenges for the reporting companies. Due to the dual role as data users and preparers, the German insurers have a holistic view on sustainability reporting. Against the background, we believe that the **credo of the CSRD should be not extensive, but better reporting**. For us, better reporting means having a workable framework, proportional requirements, and a clear focus on the information needs of investors.

Furthermore, the **German insurers welcome the ambitious timetable for the CSRD proposal** – with the first application for the financial year starting on or after 1 January 2023 (hereinafter called "FY 2023"). Developing pragmatic solutions for better reporting would help keeping not only the timeline but also achieving the feasibility of the CSRD. As a matter of fact, the **real challenge is to apply the CSRD while simultaneously developing it further towards an efficient and comprehensive framework**. To meet this challenge, the GDV makes various concrete proposals to drive the sustainable finance agenda forward.

Enhancing Feasibility

According to the CSRD proposal, the European Sustainability Reporting Standards (ESRS) will define how and what kind of sustainability information companies must report. In general, setting proper standards requires time due to a wide range of different stakeholder interests and necessary feedback loops to ensure that the standards really fit for purpose.

At the same time, **the implementation is very challenging for reporting companies** that need to set up new processes and integrate them into their reporting system. In our view, the Commission's envisaged timeline is too ambitious. It states that the first core ESRS shall be applied for the FY 2023 and the advanced ESRS shall be applied already a year later. In our view, such pace implies that the core ESRS would not be subject to any testing yet, rendering subsequent revisions more likely that would further increase the implementation efforts for reporting companies. Here, the proverb fits well: **"Do it right or do it twice"**.

Consequently, the GDV proposes a **two-phase approach that enhances the quality and extent of disclosed sustainability information over time** (*table 1*). In **phase I** (e.g., FYs 2023-2025), companies should start to apply new reporting requirements laid down in the core ESRS with best effort, enhancing the quality and extent of disclosed sustainability information over time. The advanced ESRS could be subject to an adequate testing and would have to be applied in **phase II** (e.g., from FY 2026), where companies would provide high-quality sustainability data in accordance with the ESRS.

Preferred approach for the CSRD timeline

Table 1 **· A two-phase approach to foster feasibility**

Phase Target Group	Phase I – for transition – Best Effort	Phase II High Data Quality
Investors & General Public	Location: management report Digitalisation (XHTML + Tagging): mandatory Assurance: limited	Location: management report Digitalisation (XHTML + Tagging): mandatory Assurance: reasonable
General Public	Location: management report or website Digitalisation (XHTML + Tagging): optional Assurance: optional	Location: management report Digitalisation (XHTML + Tagging): optional Assurance: limited

Source: Gesamtverband der Deutschen Versicherungswirtschaft e.V. (GDV)

In addition, the **CSRD should explicitly allow the option to publish sustainability reports at a consolidated level also for Public Interest Entities (PIEs)**, as currently applied in the Non-Financial Reporting Directive (NFRD). This option should be incorporated in Art. 1 (3) CSRD. It would prevent double reporting and foster the efficiency of corporate reporting at large. For example, most German insurance companies are organised in insurance groups with separate legal entities for life, health and non-life insurance business. But all key functions (e.g., asset, risk, sustainability management) are centralised. Hence, if each legal entity would need to disclose sustainability information at entity-level, it will be the same information in each management report. There will be **no added value for policyholders or investors but a significant increase in costs for insurers**.

Embedding Target Group Orientation

The scope and content of sustainability reporting requirements should be designed that **the added value balances the associated reporting efforts**. It is challenging to strike the right balance between enough available standardised, audited, digitally accessible sustainability data and the costs of providing this data. But the effort is worth the results as they would lead to an effective and efficient reporting framework with data preparers only providing necessary information. Moreover, data users will get the sustainability information they need in the proper format. In a nutshell, **target group orientation should become a key principle of the CSRD** shaping the ESRS, the format of the sustainability statements, and the level of the external assurance (*table 1*). The principle of target group orientation should be incorporated in Art. 1 (1) CSRD.

Indeed, institutional investors need more quantitative, thus, technical sustainability information. Accordingly, companies that target investors should have different reporting requirements compared to companies only targeting the general public. **Experiences from the Solvency II framework show that mixed reporting**, which addresses public and professional users alike, **is not expedient**. Especially policyholders are reluctant to handle extensive reports which contain much technical information. Accordingly the target group orientation could be implemented in accordance with current accounting practice and in line with the proposed approach for small and medium-sized entities (SMEs), e.g., based on criteria such as size, capital market orientation, or capital refinancing volume.

Prioritising Information Needs of Investors

The German insurers welcome and strongly support the Commission's commitment to the Paris Agreement and the Green New Deal that aims to make the financial system a stronger driver for sustainability. For this endeavour, however, it is **crucial to prioritise the information needs of investors**. Hence, the GDV welcomes the ambitious timetable of the CSRD with the first set of the core ESRS that shall at least focus on the information needs of financial market participants (FMPs) (Art. 1 (4) CSRD).

Certainly, FMPs need standardised sustainability information to address their own reporting obligations defined in the Sustainable Finance Disclosure Regulation (SFDR). In detail, the FMPs will need a mandatory set of 14 indicators on Principal Adverse Impacts on Sustainability (PAIs) from their investees that will be soon determined in the upcoming final Regulatory Technical Standards (RTS; Level II) of the SFDR. These PAIs define standardised information such as the carbon footprint (PAI I 2). In addition, there will be optional PAIs regarding other ESG matters. While the final RTS are not yet adopted by the Commission, the **core ESRS (Level II of the CSRD) must at least include the final mandatory PAIs**. Furthermore, for the "do no significantly harm" review required for sustainable investments under the SFDR, **FMPs need data on the results of compliance with minimum social standards (Art. 14 (3) b RTS SFDR)**. There is no testing needed as the reporting requirements are already defined in other regulations.[1]

In sum, **a delay in the timetable of the CSRD proposal** would mean that insurers, as data users, have to further rely on the NFRD. Its **smaller scope** does not meet the ambitious goals of the SFDR and Taxonomy Regulation and keeps the **availability and quality of urgently needed sustainability data very low**.

Strengthening Proportionality

In general, the GDV welcomes the extended scope of the CSRD porposal to all large companies for the FY 2023 and listed small and medium-sized entities (SMEs) for the FY 2026. Regarding size, the proposed definition of SMEs is appropriate for the non-financial sector. Nevertheless, it is not appropriate, as too low, for the German insurance sector because **even small insurers**

1 This chapter is based on the draft consolidated RTS of the SFDR of the European Supervisory Authorities (ESAs) from October 22, 2021.

with about 50 employees and market share lower than 0,1% would count as "large companies". Consequently, they would be obliged to fulfil the same reporting requirements as big international corporations. In sum, this proposal is not proportionate because German insurance SMEs with less than 250 employees have generally only a marginal market share. Usually, it is not possible to invest in these companies due to their legal form of being a mutual insurer (owned by its policyholders).

Against this backdrop, the GDV proposes that **insurance companies with less than 250 employees should be allowed to use proportionate standards for SMEs** just like their counterparts from the non-financial sector. This proposal would establish a fair level-playing field and give SME insurers the possibility to contribute to better market transparency on sustainability information according to their capacities and market importance. The option for SME insurers to use the SME reporting standards should be incorporated in Art. 1 (3 & 4) CSRD.

Promoting International Standard-Setting

The CSRD aims at improving the quality and availability of sustainability information. Notably, the European Financial Reporting Advisory Group (EFRAG) plays a key role as the drafter of the mandatory ESRS. However, data gaps will prevail on the global level, which is a huge challenge for international investors. Hence, **the goal is to create a global system for sustainability reporting**. Accordingly, from the beginning, the GDV has fully supported the IFRS Foundation's initiative to establish the International Sustainability Standards Board (ISSB). The ISSB will be in charge to create the IFRS Sustainability Disclosure Standards (IFRS SDS).

Due to the high importance of ESG data availability for international investors, the GDV highly recommends **anchoring the convergence of sustainability reporting standards as a more prominent objective in the CSRD**.[2] Furthermore, it deems necessary to assign clear competencies to appropriate actors to speed up the convergence of international reporting standards directly in the CSRD. Firstly, EFRAG needs a stronger commitment to contribute to developing the global sustainability reporting standards. Secondly, EFRAG and the ISSB need to set up fora and procedures to make the co-construction of reporting standards work in practice. Finally, developments at the ISSB must be directly considered in EFRAG's work on the ESRS. This principle should be incorporated in Art. 1 (4) CSRD.

From the EU perspective, the **GDV strongly advocates for the concept of double materiality** that is already a core element in the EU's regulatory initiatives on sustainable finance. In fact, only such broader materiality perspective provides insurers, as major institutional investors, with the necessary ESG information.

Conclusion

The German insurance industry strongly supports the European Commission's high ambitions on sustainability reporting. The proposed two-phase approach aims to keep a high reform pace while ensuring the feasibility for reporting companies. While there is a need to start as soon as possible, there is also a need for an efficient and comprehensive sustainability reporting framework. In addition, as many sustainability challenges are global concerns, the development of global sustainability reporting standards must become an even higher priority in the CSRD. Finally on EFRAG's and the ISSB's path, it is paramount to ensure a high level of transparency and focus on proper due process already from the outset of the standard-setting processes.

2 The CSRD proposal (recital 37, p. 33) states that "European standards should contribute to the process of convergence of sustainability reporting standards on the global level."

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