GDV German Insurance Association

Central aspects of GDV's response to EFRAG's public consultation on the first set of draft ESRS

General comment

We commend EFRAG's achievement in developing a comprehensive set of Draft European sustainability Reporting Standards (ESRS) covering all the aspects mandated by the Corporate Sustainability Reporting Directive (CSRD) for the first set of ESRS. The GDV welcomes the approach of establishing uniform reporting requirements regarding sustainability to enhance the availability and quality of sustainability information. This approach is crucial for insurance undertakings as data users to leverage their key role in the sustainable transition.

In that context, we appreciate the opportunity to comment on EFRAG's first draft ESRS. In addition to the feedback, we provided in our detailed response, we would like to highlight the following key points which are especially important.

Prioritisation, phased approach, and reassessment of sector-agnostic standards

The number of disclosure requirements foreseen for the first set of ESRS, i.e. 137 disclosure requirements only on sector-agnostic standards, is an enormous challenge for undertakings, especially for those who disclose sustainability information for the first time. This creates a risk as undertakings do not have the option to focus on the most relevant information. Therefore, a reasonable prioritisation approach is indispensable, considering proportionality in general as well as with view to the high number of companies that will be required to disclose sustainability information in a systematic way for the first time. Hence, we strongly support the idea of deprioritising entire standards while prioritising the implementation of crucial and matured ESRS disclosure requirements, especially on climate, and gradually extending the disclosure requirements. Generally, the first set of standards should focus on allowing financial market participants to comply with existing EU rules, notably the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy Regulation, and Solvency II Pillar 3 disclosure requirements for insurance undertakings.

Moreover, we suggest adopting a phased approach to the introduction of reporting requirements to assess the degree of compliance which can actually be required from the recipient companies, depending on their size, organization, national disclosure duties and current market practices. Also, in order to reduce the number of documents that the recipient companies are required to produce under the standard, we suggest clarifying the modalities by which companies may avail themselves of the incorporation by reference tool when drafting such documents.

However, prioritisation and a phased approach alone will not suffice to allow for a clear and concise sustainability reporting. Therefore, we consider it crucial to reassess the proposed set of sector-agnostic standards. While we support EFRAG's decision to reduce the number of Disclosure Requirements (DRs) compared to the working papers made public ahead of the consultation, the disclosure requirements as foreseen in the Exposure Drafts remain too extensive. Especially, as some of the disclosure requirements and underlying application guidances do not seem to be material for all sectors and, hence, are not suitable for the sector-agnostic application. For example, E2-E5 are unlikely material (at least not in their entirety) for financial companies from a sector-agnostic perspective. Hence, we propose to reassess whether the ESRS, currently foreseen as sector-agnostic standards, are truly relevant for all sectors. If they are not, the ESRS concerned should be rededicated to sector-specific standards. As per the CSRD, only truly sector-agnostic requirements should be included in the first set of ESRS which is supposed to be of sector-agnostic nature.

Close cooperation with the ISSB

Considering the draft ESRS and IFRS Sustainability Reporting Exposure Drafts, there are significant discrepancies in key concepts such as the definition of financial materiality, time horizons, or the possibility of integrated reporting. In further developing the ISSB and EFRAG standards, close dialogue between EFRAG and the ISSB is crucial to achieving a reasonable level of alignment and at least full compatibility and interoperability of the reporting standards in order to avoid double reporting burden for EU preparers.

Focus on relevant and material activities and impacts

We support the approach to explicitly include the option for undertakings to deem certain DRs as not material. In our view, this is of utmost importance given the broad spectrum to be covered by the first set of ESRS. To allow undertakings to focus on relevant and material activities and impacts, the process must neither be overly burdensome nor accompanied by significant disclosure requirements.

The rebuttable presumption as currently proposed cannot be supported. Many DRs (e.g. in E2-E5) are not material across sectors or the vast majority of companies. The rebuttable presumption would, however, create the impression that those are material across sectors.

Therefore, in our view, it is not appropriate to presume materiality for all the proposed DR. This would lead to a situation where the effort to justify non-disclosure is higher than the effort to disclose.

It is essential that the materiality assessment is entirely performed by management and not by the standard setter. The results of the undertaking's materiality assessment could be published in an easily understandable format, e.g. as a materiality matrix. There should be no further need to justify the outcome of the materiality assessment in detail as the auditor has approved it.

Clarification regarding the definition of the value chain for the financial sector

The definition of the value chain is very broad and can be very extensive for the financial sector. More clarity is needed on how the value chain is defined for financial undertakings and how the concept/requirement shall be applied. As the CSRD already raises the scope and extent of sustainability reporting for companies in the EU, the financial sector should not, as a general rule, have to report on its clients or investees in terms of a general look-through principle.

To adequately account for the specificities of financial companies' business models, additional sector-specific disclosure requirements should be defined. These would require financial companies to provide certain sustainability-related information with regard to their portfolios, such as on investment or underwriting policies, the extent to which ESG considerations feed into the investment or underwriting decision-making and engagement process with investees or policyholders, and respective due diligence processes implemented. Based on this information, a look through to all investees, policyholders and clients for all disclosures should not be necessary.

Besides this, selected proposals for key disclosure requirements would require a look-through which should be specified under the sector-specific disclosure requirement.