Sustainable Finance

Open Letter on Sustainability Reporting

to the European Parliament, the Council of the European Union, the European Commission, the EFRAG Sustainability Reporting Board, the German Federal Government, the Global Reporting Initiative, and the IFRS International Sustainability Standards Board.

The Sustainable Finance Advisory Committee of the German Federal Government (SFB) is firmly convinced that sustainable finance provides solutions to address challenges such as the climate and energy crises, disrupted value chains, human rights violations, and the expected economic regression.

A pre-condition for a sustainable allocation of capital is transparency. It is essential that companies disclose relevant, comparable, consistent, and reliable information about their sustainability management, performance, and business model transition pathways. *To have a real impact, we consider that corporate sustainability reporting needs to be regulated and standardized at a global scale* – as well as harmonized and aligned with jurisdictional efforts to increase the transparency of business impacts based on the principle of double materiality.

To gain credibility and acceptance by preparers, the financial market, and other stakeholders, and to increase accountability, regulatory frameworks and reporting standards must be aligned and built on an ambitious common baseline at the global level – and jurisdictions can build on to address their specificities. Clear and distinct standards are the basis for effective external assurance of information.

As SFB, we acknowledge the European Commission's (EC) commitment in the Corporate Sustainability Reporting Directive (CSRD) "to the greatest extent possible take account of (…) the work of global standard-setting initiatives for sustainability reporting" such as the IFRS International Sustainability Standards Board (ISSB), to limit the administrative burden for reporting entities as much as possible and adhere to cost-benefit considerations.

We fully support the ISSB's ambition to develop a global baseline for sustainability reporting considering the investor focus on enterprise value. Building on existing frameworks such as the Task Force on Climate-Related Financial Disclosures (TCFD), the commitment to a building blocks approach and aligning with key jurisdictions will clearly help to determine a consistent and comparable reporting baseline.

We highly welcome the agreement between the ISSB and the Global Reporting Initiative (GRI) to coordinate their programmes and standard-setting activities with the ISSB focusing on investor-relevant information and the GRI on stakeholder needs, including corporate impacts on society and the environment – capturing the double-materiality concept at the global level.

As SFB, we provide our full support to the efforts of standard setters and regulators in harmonizing, aligning, and standardizing the requirements for integrated corporate sustainability reporting – similar to the blueprint for financial accounting and reporting. We recognize that the objectives of the various standard setters are different but are partly aligned with significant areas of convergence. With this, we encourage:

1. *Full consistency with international and EU sustainability reporting standards*

- the *ISSB, GRI, the EC, and the EFRAG Sustainability Reporting Board* (EFRAG SRB) to mutually recognize their standards and increase their collaborative efforts to provide consistent high-quality reporting standards as wide as possible, including as regards the complementary concepts of financial and impact materiality – or double, full, and dynamic materiality.
- the *EFRAG SRB* to ensure consistency as wide as possible of the European Sustainability Reporting Standards (ESRS) on General Principles (ESRS 1 and 2) and on climate change (ESRS E1) with the IFRS S1 General Sustainability-related Disclosure Requirements including aligning on the same definition of financial materiality and IFRS S2 Climate-related Disclosures.
- the *ISSB* to consider the ESRS on governance, environmental aspects beyond climate and social matters as preparatory work for a sustainability reporting global baseline focussing on investor relevant information.
- the *GRI* to collaborate closely with the EFRAG SRB to ensure consistency for sustainability reporting standards meeting stakeholder needs including the impact of business activities on people, society, and the environment.
- the *German Federal Government* to increase its efforts in the Council of the European Union, G7, and G20 to support the harmonization and alignment of reporting standards along double-materiality, consistency, comparability, business relevance, and pragmatism.

After the first set of ESRS are handed over by EFRAG, we ask the EC to start a due process with the objective of ensuring full interoperability between European sustainable finance regulations including the Sustainable Finance Disclosure Regulation (SFDR), CSRD, Taxonomy regulation, and Corporate Sustainability Due Diligence Directive (CSDDD); in addition the ESRS standards need to be harmonized as much as possible at the intersection with the ISSB and GRI standards. *The adoption of standards should follow the principles of prioritization, i.e., climate first, including a phasing-in to allow corporations to implement the respective structures and processes*.

2. *Proportionality, particularly for SMEs and start-ups*

Standard setters should reflect that small and medium-sized enterprises (SME) embedded in global value chains as well as start-ups will be requested to provide respective ESG data to their business partners – even if not directly in the scope of regulations. The disclosure requirements should be reduced as much as possible based on the concepts of proportionality and materiality and addressed in a timely manner to ensure that such trickle-down effects are taken into consideration early on.

Berlin, October 31th, 2022

Contact:

SFB-Geschaeftsstelle@bmf.bund.de

Tel.: +49 3018 682 3069

V.i.S.d.P.: Silke Stremlau, Chairwoman of the Sustainable Finance Advisory Committee of the German Federal Government

The Sustainable Finance Advisory Committee

The German Sustainable Finance Advisory Committee advises the German government on sustainability aspects in the financial system. Consisting of 34 experts from the financial sector, the real economy, civil society and academia, and supported by 19 observers, it acts independently. It supports the German government in the implementation and further development of the German Sustainable Finance Strategy and advises relevant stakeholders on their positioning on, and the implementation and further development of, requirements in the area of sustainable finance.