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VÖB die öffentlichen Banken

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ISSB Exposure Draft IFRS S1

Joint feedback by the Association of German Banks (BdB) and the Association of German Public Banks (VOEB)

Dear Ms Lloyd,
Dead Mr Faber,

We – the Association of German Banks (BdB) and the Association of German Public Banks (VOEB) – welcome the ISSB's initiative to establish an international baseline standard for sustainability reporting and we expect this standard to become the international market standard for sustainability reporting by globally active corporates. Such an international standard is in our view necessary to increase the quality of disclosed sustainability information and to ensure its comparability across different regions and jurisdictions. Moreover, we support the increased integration of sustainability-related or non-financial information into a corporate's financial reports. In particular, we welcome the ISSB's proposals to base disclosures on the same reporting entity for both financial and sustainability reporting and that both reports shall concern the same reporting period. We welcome the formation of the ISSB working group of jurisdictional representatives including European Commission and EFRAG and encourage as much contribution to the alignment of ISSB and EFRAG sustainability reporting standards as possible.

After consulting our members, we gladly provide feedback on the initial two exposure drafts as well as some overarching comments:

- **Compatibility**: Does the ISSB intend to take the European Union's Corporate Sustainability Reporting Directive (CSRD) into account during its standard development process? In our view, compatibility between the international market standard and the EU's regulatory reporting standard is of the

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utmost importance. Corporates should not be overburdened with differing reporting formats or redundancies but instead provide investors and capital providers with essential and meaningful information.

- **Implementation**: To provide corporates with certainty, it is crucial to determine the future degree of obligation of these regulations in interaction with EU law. We would like to see close coordination together with the EU Commission on whether the ISSB standards should be integrated into European law in the future, analogous to the current procedure for IFRS (EU endorsement). This should be done as soon as possible. Companies need sufficient time to implement the reporting standards into their frameworks and structures. The first reporting period should thus, at the earliest, begin two years after the finalisation of the ISSB's standards.
- **Materiality**: The ISSB's definition of materiality differs from the approach of the EU's CSRD. While the ISSB standards follow an investor-focused, outside-in approach, the CSRD explicitly requires double materiality, i.e. a multi-stakeholder-oriented approach combining both the outside-in and inside-out perspectives. We generally welcome that the ISSB standards define materiality in accordance with IASB (IAS 1). In our view, this is key for the disclosure of sustainability-related information within the financial report / the management report as well as the stronger integration of sustainability-related and financial information.
- **Investor-focused vs. multi-stakeholder-oriented approach**: The ISSB's standards follow an investor-focused approach. The IFRS Foundation and the Global Reporting Initiative (GRI) have indicated in a cooperation agreement on 24.03.2022 that their bodies developing sustainability standards – the ISSB and the Global Sustainability Standards Board (GSSB) – will coordinate their work programmes and standard setting activities. The GRI's approach to sustainability reporting has followed a multi-stakeholder-oriented approach for many years. Here, we would like to ask, how ISSB can incorporate this approach.

We are looking forward to our continuous cooperation. We remain at your disposal in case you have any questions.

Yours sincerely,

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Association of German Banks	Association of German Public Banks

Comments on the specific questions raised for IFRS S1

Question 1: Overall Approach

(a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?

IFRS-user are familiar with the materiality concept and its use regarding sustainability-related information is thus understandable. Applying the materiality concept would, in our view, logically lead to a limitation of reporting requirements to material sustainability-related risks and opportunities.

Existing reporting frameworks (e.g. GRI, NFRD, TCFD) serve stakeholders beyond the capital market and set different priorities accordingly. It would be conceivable for the ISSB to create a "lowers common denominator" with a focus on the capital market, combined with the low connectivity to additional national/regional requirements and voluntary reporting. Basically, we would like to note that in the EDs, ISSB sometimes speaks of "users" and sometimes of "primary users". It would be desirable to clarify explicitly what the difference is and to find a uniform term (see questions 2, 3 and 4).

We welcome the proposed prioritisation of climate-related disclosures. Disclosures on other aspects should remain voluntary, as long as their subjects are maturing.

(b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?

The proposal appears generally suitable to inform the primary users of general purpose financial reporting on material sustainability-related information of a company.

(c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, incl. the draft IFRS S2 Climate-related Disclosures? Why or why not? If not, what aspects of the proposals are unclear?

N.A.

(d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

N.A.

Question 2: Objective (paragraphs 1-7)

(a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?

Sustainability-related disclosure is generally seen as a positive, as it strengthens the debate around sustainability and the company's own sustainability performance. It also promotes sustainable development in general. A globally recognised standard for sustainability reporting can increase transparency and comparability beyond regional or national initiatives and is thus very valuable.

In our understanding, reporting should be limited to sustainability-related information that can impact an undertaking's value. This should include effects of the entity's economic activity on humans, nature or the broader economy, insofar as they may affect the entity's future value. In practice, we consider this approach to be rather challenging. How can it be reliably determined, which effects of a company on sustainability actually affect its future value? With a view towards reputation or broader market and political trends, this could apply to almost any economic activity, as companies are part of a social, economic and ecological ecosystem. In order to ensure associated reporting requirements to remain practicable, they should be limited to those effects that can be objectively assessed and materially affect the entity's value.

(b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

The definition is clear and comprehensible.

Question 3: Scope (paragraphs 8-10)

(a) Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdictions GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

Yes. We see no major issues.

Question 4: Core Content (paragraphs 11-35)

(a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

The general requirements for useful information in paragraph 36 are very positive. They correspond with the existing requirements for useful information from IFRS financial *reporting. In relation to quantitative data on long-term expectations, their usefulness may however be limited, as the data can often not be verified objectively. IFRS S1 should expressly state that corporates should only include quantitative data on long-term expectations for sustainability-related information, if they can base them on profound estimates and assumptions.*

See also response to Exposure Draft 2, Question 6.

(b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

N.A.

Question 5: Reporting Entity (paragraphs 37-41)

(a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? Why or why not?

We agree. Otherwise, consistent and coherent financial and sustainability-related reporting within the "general purpose financial reporting" is not possible.

(b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resource along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

In our view, this requirement is very far-reaching. Disclosures across the entire value chain can be very complex and may lead to data availability issues. It is thus unclear, whether corporates would have access to all the information necessary to fulfil this reporting requirement. The special characteristics of value chains of financial service providers should also be taken into account. Further guidance for these aspects would be helpful.

Moreover, the proposal of paragraph 40(c) is not compatible with the IFRS accounting standards, as associated companies or joint ventures are expressly subject to less detailed IFRS reporting requirements than directly controlled companies.

(c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

Yes.

Question 6: Connected Information (paragraphs 42-44)

(a) Is the requirement clear on the need for connectivity between various sustainability-related risks and requirements? Why or why not?

This requirement appears to be rather vague in its current state. It should be clarified further and detailed through appropriate examples.

(b) Do you agree with the proposed requirement to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

Additional examples would be useful, especially for financial sector.

Question 7: Fair Presentation (paragraphs 45-55)

(a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, incl. the aggregation of information, clear? Why or why not?

Yes.

(b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

We agree with the proposed sources of guidance to identify sustainability-related risks and opportunities and related disclosures. However, we consider the wording in paragraph 51 too far-reaching. The consideration of these sources should be optional and not mandatory.

Question 8: Materiality (paragraphs 56-62)

(a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?

We support the definition of materiality in paragraph 56 of the ED IFRS S1 as it is principle-based and most importantly aligned with the definition in the Conceptual Framework for General Purpose Financial Reporting and IAS 1. As such, we would advise the ISSB to refrain from imposing any form of "materiality threshold" in the application of the materiality concept in IFRS Sustainability Standards in order to avoid any unnecessary inconsistency to the IFRS Accounting Standards.

On para. 56: ISSB standards focus on the impact of sustainability aspects on the company and its value (limitation to simple materiality), which is the key difference to the EFRAG exposure drafts, which focus on double materiality. Consistency of both standards should be ensured. It should be recognised that other reporting standards also focus on double materiality. A further clarification of the ISSB's level of ambition would be helpful.

(b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?

N.A.

(c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?

N.A.

(d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

Yes. We consider such a rule necessary.

Question 9: Frequency of Reporting (paragraphs 66-71)

(a) Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statement to which they relate? Why or why not?

On para. 66 "Published as part of its general purpose financial reporting, meaning the information must be disclosed at the same time as the financial statements": Generally yes, as this would best illustrate the connections between financial and sustainability reporting. Especially considering that both aspects are intended to form connected and coherent "general purpose financial reporting", underlying reporting periods and publication at the same time appear logical. However, there may also be challenges for the feasibility of publishing sustainability-related incl. climate-related financial information at the same time as financial data (see e.g. the calculation of emissions data). Furthermore, alignment with the EU's CSRD and its publication of a sustainability reporting should be considered in further developing this aspect.

As financial undertakings rely on disclosures of their counterparties and business partners in order to meet their own disclosure obligations, their reporting obligations *should be subject to at least a one year delay. This would allow them to properly adapt their systems and to use data from the disclosures of their partners and counterparties.*

Question 10: Location of Information (paragraphs 72-78)

(a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?

Yes, the proposals are pragmatic and offer corporates sufficient flexibility regarding the location of their sustainability-related information. National requirements with respect to the location can be followed.

(b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?

No.

(c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why or why not?

We understand the sustainability-related information to be part of the "general purpose financial reporting". Correspondingly we welcome the opportunity to use references to avoid duplications. However, this leads to the more general question how "general purpose financial reporting" should be defined. According to Appendix A, parts of the "general purpose financial reporting" are not necessarily limited to financial or sustainability-related information. Further clarification as to which other instruments – aside from financial statements, management commentary and sustainability-related disclosures – form part of the "general purpose financial reporting".

(d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

Yes.

Question 11: Comparative information, Sources of Estimation and Outcome Uncertainty, and Errors (paragraphs 63-65, 79-83 and 84-90)

(a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

We do not believe that paragraph 64 of the ED IFRS S1 has been appropriately adapted where the ED proposes to correct changes in estimates by restating the comparative figure for the previous year. Although we understand the ISSB's intention in paragraph 82 of the Basis for Conclusions that "this proposal is designed to provide the best information possible about trends to users of general purpose financial reporting", we nevertheless believe that this fundamental departure from IFRS Accounting Standards, where changes in estimates are recognised prospectively, could be problematic. In particular, we are concerned with how this could impact the key requirement regarding "connected information" in paragraph 42 of ED IFRS S1 when the linked figure in the financial statements is not restated as required under the IFRS accounting framework. Moreover, the existence of two different treatments for changes in estimates would, in our view, cause confusion for users of general purpose financial reporting. For these reasons, we recommend that the ISSB should instead follow the accounting treatment that changes in estimates are recognised prospectively, that is, in the period of the change.

(b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metrics in its comparatives?

N.A.

(c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

No, we are not aware of any circumstances for which this requirement could not be applied.

Question 12: Statement of Compliance (paragraphs 91-92)

(a) Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

Yes. In order to ensure comparability, the compliance statement should, in our opinion, refer to this fact.

Question 13: Effective Date (Appendix B)

(a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, incl. specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.

Considering prior experience regarding IFRS implementation, users should be offered at least one to two years to implement the reporting standards and their underlying methodologies into their frameworks. When setting the effective date, the ISSB should give adequate time for entities to understand and implement the requirements in the IFRS Sustainability Standards. As the ISSB has based the two exposure drafts on the TCFD recommendations and the SASB standards, the ISSB should take the following into consideration when setting the effective date:

- *those disclosure requirements in the TCFD recommendations and the SASB standards that entities have not yet implemented, in particular the new disclosure requirements in the TCFD's 2021 revision.*
- *those disclosure requirements which the ISSB has added on top of the disclosure requirements of the TCFD recommendations and the SASB standards.*

(b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

Yes.

Question 14: Global Baseline

(a) Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

ISSB's interpretation of the term "enterprise value" as including "information about a company's impacts and dependencies on people, the planet and the economy when relevant to the assessment of the company's enterprise value" and hence being "broader than information reported in the financial statements". In particular, information that is not yet reflected in the financial information is also taken into account, as both the time horizon of the effects is uncertain and, furthermore, whether and how these "sustainability"-effects will materialize at all in the financial information in the future.

ISSB intends to provide a global baseline standard. Therefore, a clearer definition of "enterprise value" and its underlying concepts would be helpful here (concerns that this definition referring to "financial materiality" and "double materiality" might lead to *myriad interpretations in different jurisdictions in the instance that such terms are used differently in existing policy frameworks and requirements).*

Question 15: Digital Reporting

(a) Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

Recording qualitative as well as company-specific information in an appropriate manner and electronic format during the implementation of the European Single Electronic Format for financial reports required significant resources. These efforts would be even larger with regard to sustainability reporting. As both sustainability-related and financial reporting is included in the general purpose financial reporting in a connected and coherent manner, this must consequently also apply to the IFRS and IFRS sustainability disclosure taxonomies.

Question 16: Costs, Benefits and Likely Effects

(a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?

N.A.

(b) Do you have any comments on the costs of ongoing application of these proposals that the ISSB should consider?

This is the first time, reporting standards for sustainability-related information within financial reporting are developed at this level of granularity. They will most likely require continuous adaptation and revision. During this process, the costs and administrative efforts incurred by reporting entities should also be considered. This also applies to the IFRS sustainability disclosure taxonomy.

Question 17: Other Comments

(a) Do you have any other comments on the proposals set out in the Exposure Draft?

- *Currently, parallel developments take place in EFRAG and the ISSB. The two standards should not move too far apart. Currently, there are concerns that there is no coordinated approach between the two bodies to reach the required level of consistency.*
- *Competing standards at the European level would not meet the core objective.*

- *We welcome the formation of the ISSB working group of jurisdictional representatives including European Commission and EFRAG and encourage as much contribution to the alignment of ISSB and EFRAG sustainability reporting standards as possible. Please clarify how the work of the ISSB is incorporated into the development of the ESRS?*