Frankfurt am Main,
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BVI response to IFRS Consultation Paper on Sustainability Reporting

BVI[1] fully supports the numerous initiatives on financing sustainable growth. Our members (fund and asset management companies) are committed to contributing to the goal of reorienting capital flows towards sustainable investments by developing investment strategies and issuing products that serve different sustainability preferences of clients. The market for sustainable investments is already experiencing a rapid growth in Germany and the industry is actively taking part in the evolution of the regulatory frameworks to ensure that they will create an environment in which sustainable investing can thrive and grow.

As institutional investors, fund and asset managers need ESG information about investee companies in order to incorporate ESG factors in their investment decisions as part of sustainable investment strategies and to comprehensively evaluate sustainability risks and opportunities of their investments. The current lack of common standards for corporate reporting on ESG matters significantly impedes such evaluations. Moreover, in order to comply with the new ESG reporting requirements shortly coming into force at EU level under the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy, EU fund managers need standardised ESG disclosures from all investee companies, including those located outside the EU. EU fund managers invest globally on behalf of European investors. Approximately 30% of European ESG funds accounting for approximately 40% of AuM are investing globally. Non-European countries, such as the United States, Japan and Canada, represent more than 70% weight of the MSCI World Index.

Against this background, globally recognised common reporting standards on sustainability issues would be very helpful for EU fund managers in terms of responding to the new regulatory requirements. In policy terms, by facilitating reporting on ESG matters they should contribute to mainstreaming of sustainable finance and thus achieving the effect of redirecting capital flows to a sustainable economy.

In this context, BVI welcomes the initiative of the IFRS Foundation to consider establishing a Sustainability Standards Board (SSB) which could succeed in consolidating the multiple standards for non-financial reporting currently existing at national and international level. In order to accomplish this ambitious project we would like to raise the following key requests in our responses to the IFRS consultation.

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[1] BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Asset managers act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's 114 members manage assets more than 3.6 trillion euros for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 27%, Germany represents the largest fund market in the EU. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.

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Question 1
Is there a need for a global set of internationally recognised sustainability reporting standards?

We definitely see the need for a global set of internationally recognised standards for sustainability reporting.

In Europe, fund and asset managers alongside other institutional investors will be in the near future subject to the SFDR and to Taxonomy Regulation, in addition to sustainability-related rules foreseen specifically under the EU legal frameworks for UCITS and AIFM. In combination, these new requirements will lead to three sets of data on sustainability-relevant issues that fund managers will need from companies:

- Data on sustainability risks and opportunities,
- Data on adverse impacts of a company's activities on sustainability factors,
- Data on revenues from, and CapEx/OpEx in relation to, economic activities qualifying as environmentally sustainable in accordance with the EU Taxonomy.

As it stands, this data cannot be obtained from issuers. The EU disclosure rules in relation to non-financial information currently in place do not require publication of specific indicators or other key figures and allow for the use of different standards and metrics. Therefore, the disclosures provided by companies so far are **not comparable**, in many cases **lack essential information** and overall cannot be used as the basis for assessing sustainability risks and opportunities, let alone for fulfilling the future requirements for investors as regards sustainability-related disclosures.

Moreover, as pointed out above, EU fund managers invest globally on behalf of European investors. Approximately 30% of European ESG funds accounting for approximately 40% of AuM are investing globally. Against this background, we highly welcome the efforts to provide for global consistency in non-financial reporting

(a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?

We believe the IFRS Foundation could play a role in harmonising the reporting standards introduced so far around the globe in order to strive for consistency and comparability. **We consider that any set of common sustainability standards should be elaborated building on the work conducted so far.** The most important criteria for the success of a future global sustainability reporting standard is its capacity to be applied effectively and at a reasonable cost by preparers, and to be useful for investors and other interested stakeholders.

Moreover, we would encourage the IFRS Foundation to establish a strong working relationship with the EU, in light of the current preparatory work initiated by EFRAG to develop an EU non-financial reporting standard consistent with the EU legislation and regulatory requirements. This will facilitate compliance with the legislation, support companies' transition efforts, and enable financial market participants in performing their role.

This also implies that, should the IFRS Foundation move towards becoming the global standard setter also in the field of non-financial reporting directed at capital markets, we would envisage strong working arrangements between EFRAG and the SSB. The overarching aim should be to ensure that companies and financial participants with international presence do not have to report under two sets of standards, and avoid that EU companies reporting under the EU standard would be required to switch from one to another in a short period, requiring double investments and adjustments of processes and IT systems.

In this regard, we believe that the common set of global non-financial reporting standards should remain principle-based in order to work as a foundation for further reporting requirements in those jurisdictions, such as the EU, in which the development of legislation in the area of sustainable finance is quite advanced. At the same time, it should provide for a sufficient level of detail to ensure its auditability and, ultimately, enforceability.

Moreover, the future global reporting standards should be fit for purpose for facilitating investment decisions. The framework should be based on the double materiality concept and ensure that data are measurable, transparent and comparable, adopting a 'climate-first' approach to build on more robust metrics and methodologies for environmental reporting, but gradually broadening the scope of information to other environmental and social factors. The priority should be agreeing on common definitions of the underlying environmental metrics.

Question 2

Is the development of a sustainability standards board (SSB) to operate under the governance structure of the IFRS Foundation an appropriate approach to achieving further consistency and global comparability in sustainability reporting?

For the Foundation to become a standard-setter for a globally consistent sustainability reporting framework, it is important to fill the gaps in its governance structure. The new structure should **warrant a balanced representation of the investment community and its expertise to appropriately reflect the materiality and relevance of information reported, and to achieve global recognition across sectors**. Currently, we find that the inadequate representation of investors within the IFRS Foundation is a key obstacle to the Foundation's role in setting sustainability reporting standards.

Investment managers are one of the primary user groups of the information reported by companies, as well as the primary preparers of the disclosures presented to end-investors. Investors' representation across the Foundation's structure is a pre-condition to achieving further consistency and global comparability in sustainability reporting and the SSB's work would greatly benefit from their input and expertise. This should be carefully reflected in the allocation of seats within the SSB.

Question 3

Do you have any comment or suggested additions on the requirements for success as listed in paragraph 31 (including on the requirements for achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?

We have no specific comments.

Question 4

Could the IFRS Foundation use its relationships with stakeholders to aid the adoption and consistent application of SSB standards globally? If so, under what conditions?

Yes, to the extent that the IFRS Foundation ensures proper involvement of all stakeholders, including asset managers as the primary users of the non-financial information.

Question 5

How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?

As pointed out above, it is important to focus from the outset on the needs of the primary users of non-financial information, i.e. asset managers and other institutional investors. **The Foundation should ensure the reporting standards are fit for purpose for facilitating investment decisions**. The framework should be based on the double materiality concept and ensure that data are measurable, transparent and comparable, adopting a 'climate-first' approach to build on more robust metrics and methodologies for environmental reporting, but gradually broadening the scope of information to other environmental and social factors. The priority should be agreeing on common definitions of the underlying environmental metrics.

Globally consistent reporting standards should thus be based on the existing frameworks that are extensively used and have a proven track record for investee companies and investors. It is critical to start from well-established reporting standards that have proven their effectiveness to support investment decisions, such as SASB and TCFD. Especially with regard to reporting on sustainability risks and opportunities, the SASB standard has enormously gained on popularity over the last couple of months and seems to emerge as the prevailing international standard for reporting on material sustainability risks. It is particularly useful for investors, since it focuses on financially relevant ESG information and ESG factors that are reasonably likely to affect the financial conditions or operating performance of companies. SASB standards also have the advantage of being industry-specific and thus enabling comparisons based on ESG performance within one sector. Its most important strength, however, is international recognition. Given that European fund managers invest globally on behalf of European investors, reporting in accordance to an international standard is essential for consistent assessment of sustainability risk and opportunities at the portfolio level.

For the remaining elements of sustainability reporting needed by EU fund managers (disclosure of adverse impact of a company's activities and Taxonomy compliant activities) no international standard exists so far. Since the details of those elements needed by investors are largely dependent on EU regulations (in particular SFDR and Taxonomy Regulation as well as RTS to be developed thereunder), we have recommended to the EU authorities to work on European reporting standards in this regard. However, we wish to stress that these standards need to be compatible at the global level. We would therefore highly welcome a strong working relationship between EFRAG and the SSB in order to work towards full compatibility of the global standards with the work currently underway in the EU.

Question 6
How could the IFRS Foundation best build upon and work with the existing jurisdictional initiatives to find a global solution for consistent sustainability reporting?

The International Platform on Sustainable Finance can serve as a multilateral forum for connecting the upcoming discussions on a global set of common standards with the different jurisdictional initiatives currently underway. With regard to the European market, **we believe that the IFRS Foundation should seek close cooperation with the EU authorities** in order to build a framework that is fully compatible with the work carried out by the European Commission and the EFRAG's project task force developing an EU standard for non-financial reporting.

Question 7
If the IFRS Foundation were to establish an SSB, should it initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting?

To develop a framework that builds on broadly accepted standards, we **support the 'climate-first' approach** outlined in the consultation paper. Metrics and methodologies for environmental reporting are more mature than other sustainability factors. Given the urgency of responding to the need for an international standard and the considerable differences in how social and governance matters are defined and treated across jurisdictions, a 'climate-first' approach would also reduce the complexity of defining globally accepted standards. In relation to the climate-related aspects of sustainability reporting, we also believe the Foundation's work should draw from the extensive expertise developed by SASB and TCFD.

At the same time, we note the increasing awareness and consideration that investors give to broader sustainability factors. We would encourage an international standards-setter to **provide a global platform for the exchange and development of reporting practices** on social and governance matters, as well as on less mature environmental reporting practices, i.e. on biodiversity. Recent developments made clear that the standardisation process takes several years to produce results. Gradually broadening the remits to include the interrelationship between environmental, social and governance factors would therefore ensure the standard remains relevant as investors' expectations and the availability of information evolve.

Question 8
Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?

We believe that the SSB should start with a focused definition of climate-related risks, and later consider broader environmental (i.e. water and biodiversity issues) and social factors material to investors and lenders. Alongside the consideration of broader environmental factors, we also note that these risks will differ across industries and regions and change over time. Therefore, a static definition of climate-related risks would be impracticable and ineffective.

We also believe that the SSB should first focus on agreeing on common definitions of the underlying environmental metrics. The TCFD provides us with the right framework for climate-related risks, but does not define the underlying metrics. We encourage international collaboration, through IFRS as well as the International Platform on Sustainable Finance, to elaborate a common understanding of key environmental metrics and the underlying methods for calculating them.

Question 9
Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?

While we agree that a comprehensive double-materiality approach may increase the complexity of the SSB's task, and could potentially impact or delay the adoption of the standards, we believe that **an effective standard should adopt a broader definition of materiality** than described in paragraph 50 of the consultation paper – one that captures all decision-useful information on how the performance and risk profile of the investment might be affected, including its potential impact on the environment and society that might have a material effect on the product's returns to investors.

In our view, such double perspective capturing both, the impacts that ESG factors have on the reporting companies as well as the impact the companies have on the environment and the society at large, is key for a complete depiction of an entity's position and performance in ESG terms. Moreover, it must be clear that the European legislation requires the double-materiality perspective and that the disclosure frameworks as well as the legislative requirements currently being developed in Europe will largely build on this notion. European investors will therefore need disclosures of ESG information based on the double materiality approach from all investee companies around the globe.

Question 10
Should the sustainability information to be disclosed be auditable or subject to external assurance? If not, what different types of assurance would be acceptable for the information disclosed to be reliable and decision-useful?

The sustainability information should be auditable and the standard should be developed with assurance as a target. External verification is a key condition to ensure reliability of disclosures and transparency of methodologies. For asset managers, assurance is essential to provide end-investors with accurate information and to be able to consider sustainability risks in the investment process with the same reliability as financial considerations.

At the same time, we recognise that a strict requirement for this information to be subject to external assurance may be premature and the added costs might discourage the standard's

adoption. Therefore, at least in the initial stage of the project, we recommend to focus on defining reliable and consistent metrics, and to develop standards that allow users to verify material information and key environmental and social metrics for which a calculation method has been established.

Question 11
Stakeholders are welcome to raise any other comment or relevant matters for our consideration.

We have no further comments.