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Cover letter of Deutsches Aktieninstitut on ISSB's Exposure Drafts S1 and S2

Dear Mr Faber,

We would like to thank you for the opportunity to comment on the Exposure Drafts IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures. Deutsches Aktieninstitut, the German association of listed companies, highly welcomes the initiative of the IFRS Foundation and the ISSB to create a global baseline of sustainability reporting.

In addition to this letter, we have also responded to the online surveys, to which we would like to refer on this occasion. Below, we would like to point out our key messages, and we kindly ask you to take them into account in the finalization of the standards.

I. Support of the global baseline

We welcome the ISSB concept of a global baseline combined with a 'building block approach' that will ensure a globally consistent basis of sustainability reporting standards, leaving it to regional or national standard setters to develop supplementary standards as needed. The IFRS Sustainability Disclosure Standards are a key milestone towards comparable, transparent and efficient sustainability reporting on a global level, catering for the needs of international investors.

For companies, a single and harmonized set of standards will limit global and local reporting costs. It will also help them to convey in a concise way the sustainability information that internal and external stakeholders are looking for. Therefore, we strongly support the global baseline and the building block approach.

II. Alignment with EU standards is essential

As the EU is also developing sustainability reporting standards, full interoperability of both sets of standards is crucial to avoid double reporting efforts for EU companies as well as issues regarding consistency and comparability of data for users.

Therefore, the ISSB and EFRAG should urgently develop a collaboration model that enables global alignment and ensures a high level of synchronization of EFRAG's work with the ISSB's agenda. We recommend a close dialogue with the EU Commission/EFRAG to prevent a situation in which European preparers are required to report under both (potentially even non-complementary) standards because they have on the one hand to comply with EU law and on the other hand to respond to market expectations.

The necessary alignment can only happen if the standard setters on both sides also align on a technical level. Not only definitions and metrics should be the same or at least compatible, but the envisaged digital taxonomies also need to be fully interoperable. It must be ensured that the planned digital format complies with the requirements of the European Single Electronic Format (ESEF) of the Commission Delegated Regulation (EU) 2018/815 and is fully interoperable/compatible with the tagging requirements currently developed at European level.

III. IFRS S1 General Requirements Exposure Draft

The Exposure Draft clearly states that a company would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which it is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard. We support this approach and highly welcome that the ISSB prioritizes climate without generally delaying the provision of further sustainability-related financial information by companies.

1. Materiality

We fully support that materiality is considered as an entity-specific assessment and that it would be the responsibility of the company to identify material sustainability-related financial information. Entities would not be required to disclose information that is not material, which is essential to avoid an information overload.

However, the materiality concept may be interpreted and applied differently in terms of scope. To make the intended concept clearer, we would strongly suggest for the ISSB to add 'negative examples', namely examples of impacts of companies on planet and people that would not be deemed as material by the ISSB. Furthermore, clarification and guidance on the definition of enterprise value and of "significant (…) risks and opportunities" is needed, including as regards the difference between "significant" and "material".

We also emphasize the need for acting ambitiously and embracing the concept of 'dynamic materiality' and pursuing an ambitious timeline with respect to all ESG matters. While the ISSB's and EU's standards will not be fully aligned given the different materiality views, a maximum level of alignment should at least be sought with respect to the financial materiality angle of sustainability reporting.

2. Value Chain

We welcome that the ISSB intends to require companies to not only look at and report on their own operations, but also the sustainability-related risks and opportunities alongside the value chain. This approach seems to be well-aligned with what the EU Commission envisages in terms of scope for the Corporate Sustainability Reporting Directive (CSRD), which we deem as absolutely critical to achieve a reasonable level of alignment between the EU's and the ISSB's standards.

However, clarity is needed on what the value chain encompasses across different sectors, depending on their specificities, especially where parts of the value chain are particularly extensive, such as the downstream value chain of financial companies. Look-through requirements need to be limited to a subset of key KPIs/disclosures to ensure feasibility, taking into account data availability issues. This rationale applies for all sectors. It is essential to plainly define the boundaries of the value chain to clearly set the scope for preparers. A broad definition of the term "value chain" would create difficulties in reporting data outside the control of an undertaking (problems of verifiability, quality and control of the data).

Overall, an adequate balance between proportionality and transparency is needed, considering the materiality of risks and opportunities that may be neglected or not adequately reflected. In any case, we deem it as absolutely essential that appropriate safeguards apply where preparers face data availability issues to avoid legal liability and reputational risks.

3. Location of information

From a conceptual perspective, we fully support that entities are encouraged to integrated reporting, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way. We would highly welcome if the ISSB collaborates with EFRAG to provide EU preparers with guidance on whether and how the two approaches (which differ significantly as regards integration options) are interoperable/compatible.

However, we would also like to emphasize that separate reporting for the consolidated entity and other parts of the business should not be mandatory, since this will create an artificial split in any entity's inventory while the entity will usually analyze risks, define strategy, targets and measures from a holistic view and not separately for these artificially divided business parts.

IV. IFRS S2 Climate-related disclosures Exposure Draft

While we fully support that a principles-based approach is proposed for S1, for S2, there are various areas for which we deem (further) specific guidance as indispensable, for example as regards transition plans, carbon offsets, and current and anticipated financial effects on the financial statements. Also, it is important to consider the need to balance the volume and level of detail to be disclosed in the context of other material business risks and opportunities an entity is exposed to. Furthermore, entities shall not be forced to disclose sensitive information as this might lead to competitive disadvantages. However, this can be relevant e.g. for transition plans and carbon offsets and other information on the supply chain. This needs to be reflected.

In terms of scope, in our view, IFRS S2 would primarily enable users of general purpose financial reporting to assess first-tier effects of climate-related risks and opportunities on enterprise value. However, it is not clear to what extent the dynamic materiality concept would be embraced in this approach. Clarification is needed in this respect.

1. Identification of climate-related risks and opportunities

The requirements proposed to identify significantly climate-related risks and opportunities seem to be too generic to ensure consistent application. While we clearly reject a one-size-fits-all approach in terms of full standardization, a reasonable degree of standardization of disclosures on climate-related risks is essential.

With regards to the use of terminology, we have noticed that the ED uses the well-known TCFD terminology to describe/classify climate-related risks, however this does not consistently seem to be the case when referring to climate-related opportunities.

2. Transition plans and carbon offsets

It is absolutely essential that the final standard will include disclosure requirements on companies' transition plans to reach a low-carbon economy. Information on companies' transition pathways is essential and is one of the users' fundamental information demands when it comes to climate-related reporting.

However, disclosure requirements on resources related to such plans must not result in overly granular information. Rather, a description of the general approach as well as a reference to frameworks and/or standards used in the development of the transition plan would be sufficient.

Also, from a preparer's perspective, we would welcome additional guidance in the form of examples and a more specific definition of a "transition plan" than what is currently proposed in Appendix A. From a materiality point of view, we think that a rephrasing of the disclosure requirement how a company plans to achieve any (=all) climate-related targets it has set itself would be appropriate.

3. Climate resilience

We agree that users need to understand the climate resilience of an entity's strategy. This information is key to achieve the objective of the General Requirements and the Climate Exposure Draft and is one of users' most fundamental information demands when it comes to climate-related reporting.

We appreciate that the ISSB acknowledges that a variety of approaches will be required or are at least helpful to arrive at meaningful analysis and disclosure. Still, it is worthwhile emphasizing that, eventually, the approach yielding the most relevant information is preferred, thereby avoiding cherry-picking.

We believe that, in the future, disclosure on climate scenario analysis should be recommended. However, since the topic is still developing, and methodologies evolve over time and data coverage needs improvement, safeguards should apply to grant companies sufficient time to prepare for and apply climate scenario analysis.

4. Industry-based requirements

We fully agree with the approach taken to revising the SASB Standards to improve international applicability. Indeed, we support the ISSB's intention of leveraging the industry-based standards by SASB as the most well-established industry-based investor-focused reporting initiative. We also welcome that the international applicability of the SASB standards is mentioned as a priority going forward and that this shall form part of the ISSB's initial work plan, as the SASB standards have a US focus and as in-depth assessments per industry are needed. We strongly urge the ISSB to conduct fieldwork and dedicated outreach to industries in this regard.

V. Application date

The effective date of application for both Exposure Drafts should not be before 1 January 2025 (for the financial year of 2024). This would be aligned with the application date of the Corporate Sustainability Reporting Directive and grant entities time to prepare and develop the necessary data collection and reporting processes. Yet, early adoption should be possible. Also, an ambitious timeline is needed in order to achieve a building blocks approach. To this end, it is essential that the global baseline will be effective early on.

We hope that our feedback is useful for the upcoming debate. We stay at your disposal if you have any questions or if you require further information.

Yours sincerely,

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Head of Communications