INSTITUT DER WIRTSCHAFTSPRÜFER

Institut der Wirtschaftsprüfer
in Deutschland e. V.

Wirtschaftsprüferhaus
Tersteegenstraße 14
40474 Düsseldorf
Postfach 32 05 80
40420 Düsseldorf

TELEFONZENTRALE:
+49 (0) 211 / 45 61 - 0

FAX GESCHÄFTSLEITUNG:
+49 (0) 211 / 4 54 10 97

INTERNET:
www.idw.de

E-MAIL:
info@idw.de

BANKVERBINDUNG:
Deutsche Bank AG Düsseldorf
IBAN: DE53 3007 0010 0748 0213 00
BIC: DEUTDEDDXXX
USt-ID Nummer: DE119353203

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submitted via E-Mail:

Only sustainability reporting that is reliable and well accepted will create trust in the strived-for transformation

Dear ,

Throughout the world more and more individuals with political, economic and societal responsibilities are now realizing that we can only halt the destruction of our planet's natural foundations by significantly changing our economic behaviour.

With its "Green Deal", the EU has chosen three significant initiatives intended to drive the sustainable transformation of the economy: Expansion and specification of requirements for corporate reporting ("Sustainability Reporting"), intensified use of the capital market ("Sustainable Finance") and requirements for corporate governance ("Sustainable Corporate Governance"). The IDW expressly supports these initiatives. The German auditing profession has been, and continues to be, actively involved in the development and implementation of a target-oriented framework that can be widely accepted by stakeholders and thus effective over time. Recently, for example, the IDW submitted comments to EFRAG regarding its sustainability reporting proposals (and, in parallel, also commented on those of the ISSB). On the basis of these comments and in view of current developments, the IDW would like to highlight certain critical issues, which are both important for **successful sustainability reporting** and in guarding against the danger of "greenwashing":

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Daniela Kelm, RA LL.M.;
Melanie Sack, WP StB

Amtsgericht Düsseldorf
Vereinsregister VR 3850

The **Taxonomy Regulation** is a significant component of corporate reporting in the financial sector and in the real economy. In the Taxonomy Regulation, the EU Commission sought to define economic activities that are deemed sustainable. Companies operating in the real economy must disclose which current activities ("green turnover") or future activities ("green expenditure") are to be classified as sustainable (or not). Mirroring this, financial sector companies are required to disclose, among other things, their investments in such activities (**Disclosure Regulation**). A practicable, consistent and comparable classification methodology is essential for the "hinge" between the real economy and financial sector to function. Current experience within both the financial sector and the real economy has given rise to considerable doubts in this regard, since even those companies obligated thus far (i.e., essentially large listed companies) report that they have encountered numerous questions relating to interpretation and application. The discussion concerning suppliers to electronic automobile manufacturers provides one example in this context. The generation of comprehensive tables and numerous explanations to disclose the company's own interpretation of unclear requirements is not very purposeful and can hardly promote the necessary "integrated thinking". Significant questions of doubt pertaining to the factors which ultimately determine the "green" character of an entire investment or financial portfolio must be avoided, or at least resolved quickly.

The new **Corporate Sustainability Reporting Directive (CSRD)** provides for significantly extended reporting requirements and, by including small and medium-sized enterprises, also significantly extends the scope of application. The Taxonomy Regulation will also apply to companies when they are affected for the first time. A core aspect of the CSRD is that it authorises the EU Commission to substantiate the somewhat general regulations set forth in the CSRD by means of **European Sustainability Reporting Standards (ESRS).** The 13 drafts proposed by EFRAG feature a high degree of granularity, forcing companies to collect a large volume of detailed data for disclosure. There are justified concerns as to whether "the baby is being thrown out with the bathwater" from a cost and benefit perspective. In addition, consideration must be given to the need for companies to integrate the new reporting requirements into their reporting systems, which naturally requires a considerable amount of time. This is especially true for companies affected that were previously not required to report on sustainability-related matters to any substantial degree. Given the implementation timetable prescribed by the CSRD, there are doubts as to whether the

necessary preparatory work can be achieved in time. [1]
There is thus an urgent need for the proposed **ESRS** to be revised, as is also evident from numerous comments on the consultation. EFRAG must be given the necessary time to do this. First of all, the volume of individual disclosures should be reviewed. The standards appear to have been drafted according to the principle of "make a wish". Not every piece of information that may be of interest to individual addressees is justified from a cost/benefit viewpoint. Moreover, excessive disclosures promote a mere "compliance thinking" approach ("box ticking mentality"), thus countering the "integrated thinking" that is strived for.

If further relief is not provided for the first-time application of the CSRD, the IDW suggests consideration be given to reducing the disclosures for first-time preparers to a few central KPIs or, to prioritizing the content of the sustainability report as a first step. Such a **balanced step-by-step approach** does not intend to call the goals of transparent reporting into question. On the contrary: because of the pressing problems, there is little time for a trial-and-error process. The first shot must hit its target. Excessive requirements combined with overly high expectations will only serve to jeopardize the overall success, since any loss in stakeholder confidence will be difficult to correct subsequently. Feasible disclosures that deliver what they promise and are built upon over time present a better way forward. Furthermore, the **assurance** on information obtained by independent third parties (now mandatory for the first time through the CSRD) can only ever be as good as the regulations governing that information and the way in which companies have anchored them within their reporting processes.

Sustainability reporting proposals are currently being developed and published both by the EU and internationally by the ISSB. For global companies, however, there is a need for a **uniform global (minimum) framework** for sustainability reporting in order to avoid both, unnecessary efforts on the part of the reporting companies and multiple reports that reduce transparency for addressees. The ESRS should not be in conflict with the ISSB's ISRS.

The business community has decades of experience in **financial reporting.** There is an established system that takes due account of companies’ special features (proximity to the capital market, legal form, size, sector, etc.) and

[1] Ref. also the IDW's letter to the EU Commission.

enjoys broad acceptance. Knowledge gained in the development of financial reporting should also be used in developing sustainability reporting. At global, European and national levels.

Yours truly,

Klaus-Peter Naumann	Bernd Stibi, WP StB
Chief Executive Officer	Technical Director Reporting

Mailing list:

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