VMEBF
Bilanzierung in
Familienunternehmen

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf

London E14 4HD
United Kingdom

Weinheim, 29/12/20

Dear Sir or Madam,

RE: CONSULTATION PAPER ON SUSTAINABILITY REPORTING

We appreciate the opportunity to comment on the IFRS Foundation´s consultation paper on sustainability reporting. With this letter, we would like to take part in the discussion on the views regarding the above-mentioned topic.

The Association for Participation in the Development of Accounting Regulations for Family-owned Entities (VMEBF) was founded in 2006 and consists of German companies with a strong family shareholder background. Beyond its members, the association represents a huge number of family-owned large and medium-sized entities in Germany, often legally organised in the form of partnerships. The objective of the VMEBF association is to make the role of German family businesses as stakeholders in the development of international (financial) reporting more visible and to act as a constructive partner for the standard-setters.

Summing up our comments on the consultation document, we are firmly convinced that there is a need for a global set of internationally approved and accepted standards on sustainability reporting. Even more, we believe that any (supra-)national solo effort to develop a standard for a mandatory sustainability reporting that is not accepted globally would pose a competitive disadvantage to preparers of those sustainability reports. Hence, we would encourage and support the development of a

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global sustainability reporting standard. As the IFRS Foundation can draw on existing processes and routines in standard-setting, maintains strong relationships with governments, standard-setters and regulators all over the world and has proven expertise in financial reporting, we believe the IFRS Foundation should play a central role in setting these standards.

From a contentual point of view, globally accepted sustainability standard should optimally build on existing and well-established standards or frameworks and supplement the work already done by existing initiatives. In this context, we would like to point to the Joint Statement of the Carbon Disclosure Project (CDP), the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) setting out a vision of how their frameworks and standards could complement financial reporting. Moreover, these organisations committed themselves to developing a connected reporting framework facilitating the interconnections between financial and sustainability information that is material for enterprise value creation under the governance architecture of the IFRS Foundation. We believe that this could be a good starting point for the development of internationally accepted and consistent high-quality standards on sustainability reporting.

Please refer to the appendix to this letter for our detailed answers to the questions asked in consultation paper. If you have any further questions, please do not hesitate to contact us.

Kind regards,

Association for Participation in the Development of
Accounting Regulations for Family-owned Entities (VMEBF)

Andreas Janssen	Santokh Advani	Dr Michael Reuter
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Appendix:
VMEBF comments on the additional questions

<u>Question 1</u>

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

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

b) ***If not, what approach should be adopted?***

We agree, that there is a need for a global set of internationally approved and accepted standards on sustainability reporting. Even more, we believe that any national or confined supranational solo effort to develop a standard for a mandatory sustainability reporting that is not accepted globally would pose a competitive disadvantage to preparers of that kind of sustainability reporting – especially if there are no comparable requirements in other reporting regimes. Hence, we would encourage and support the development of a global sustainability reporting standard.

Having said that, we believe the IFRS Foundation should play a central role in setting these standards and expand its standard-setting activities into this area. This is due to the fact that the IFRS Foundation can draw on existing processes and routines in standard-setting and maintains strong relationships with governments, regulators and standard-setters all over the world.

Finally, we believe that in the light of the connectivity between financial and non-financial information a common sustainability reporting standard should be developed by a global standard-setter with proven expertise in financial reporting.

<u>Question 2</u>

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?

We principally support the development of a sustainability standards board to operate under the governance structure of the IFRS Foundation. However, we would like to add for consideration that to obtain the approval and confidence of the already established standard- or framework-setters, the IFRS Foundation could think about forming some kind of advisory board including the relevant organisations already working on such standard- or framework-setting and discussing with them the structure, composition and operating principles of a sustainability standards board. Moreover, the work of such a sustainability standards board must not conflict with the tasks and duties of especially the financial reporting standard-setting bodies (e. g. the IASB or the IFRS IC).

Of course, an SSB would have to be an independent standard-setter with transparent processes, whose work is based on broad stakeholder participation. Additionally, the work of an SSB has to follow a strict due process to ensure the high quality of the standards to be developed.

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 principally agree with the requirements for success set out in par. 31 of the consultation document. However, the IFRS Foundation could in some places have added more detail on how it plans to meet those requirements. For example, the consultation paper shows a lack of detail on the planned funding mechanism for the sustainability initiative.

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?

We believe that the IFRS Foundation can certainly use its existing relationships with stakeholders to aid the adoption and consistent application of SSB standards globally. We also believe that the usefulness of sustainability reporting standards will depend on who the addressees of that kind of reporting are and how their needs can be met. Financial reporting primarily focusses on the needs of capital providers, so the existing relationships of the IFRS Foundation (besides governments, regulators etc.) also focus on investors, other participants in the world's capital markets and a broad range of users of financial information. This seems to be compatible with the proposed focus on sustainability information most relevant to investors and other market participants. However, as sustainability reporting usually turns to a wider range of users than financial reporting, the IFRS Foundation might have to extend its relationships to a broader range of stakeholders that are not simultaneously the main users of financial reporting.

Question 5

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

We believe that open communication with existing initiatives is essential to achieving further global consistency in sustainability reporting. However, due to the variety of existing initiatives it might not be easy to find a standardised modus operandi to discuss or work together with all relevant initiatives. Moreover, as some existing initiatives elaborate rather specific issues, an SSB will presumably have to prioritise the initiatives to cooperate with.

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?

With regard to existing jurisdictional initiatives, we believe that robust relationships and regular exchange are indispensable to find global solutions for consistent sustainability reporting. Recent developments in the European Union like the European Green Deal or the revision of the Non-financial Reporting Directive show that the European Union has substantial experience and political ambition in the field of sustainability reporting. In several interviews, Commissioner Valdis Dombrovskis noted that the European Union would not be able to develop European non-financial reporting standards alone, but would depend on expert assistance from organisations that can best contribute to this process. With that in mind, an SSB should make sure that its work supplements and is not contrary to the work already done by existing jurisdictional initiatives.

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 ensure consistency throughout future sustainability reporting standards as well as the development of high-quality standards providing useful information to the users of sustainability reports, we would propose the development of some kind of conceptual framework as a starting point – similar to the conceptual framework for financial reporting. With regard to the topics to be addressed subsequently, we agree with the IFRS Foundation that by developing climate-related financial disclosures an SSB could address a rather urgent issue and would most likely obtain quick results. However, an SSB should not loose sight of the other aspects included in the “triple bottom line” and that – basically – share an equivalent status within the basic concept of sustainability reporting.

<u>Question 8</u>

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

We believe that due to the coherences between the effects of greenhouse gas emissions and other environmental factors, an SSB should consider broader environmental factors when developing its initial disclosure requirements. This should also comply with the approach chosen by several jurisdictional initiatives, e. g. in the European Union.

<u>Question 9</u>

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

Although we understand that a gradualist approach on materiality would be less complex and easier to handle for an SSB, we believe that in the light of current developments in the field of sustainability reporting an approach other than a double-materiality approach would not meet most stakeholders needs. From our point of view, today even capital providers are eagerly interested in information on the impact of an entity´s business model on the environment and other ESG-topics. As a consequence, we believe that an approach focussing only on information about the effects of relevant events on the core financials of the reporting entity will not sufficiently satisfy the expectations on a modern sustainability reporting standard-setter.

With regard to the proposal to broaden the scope of an SSB as it proceeds with its work, we believe that a subsequent change in the scope would (a) lead to inconsistencies between standards developed prior to and past this scope expansion and (b) would require an SSB to incorporate a large number of additional stakeholders in the development of further reporting standards later on.

<u>Question 10</u>

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?

According to the German NFR Directive Implementation Act, the German law on stock companies requires an entity’s supervisory board to audit the data to be published in non-financial statements. Additionally, studies conducted by several academics and audit firms prove that the non-financial statements of the majority of

German companies listed in the HDAX are voluntarily audited with limited assurance by their auditor or another audit firm. As a consequence, if a sustainability report prepared in accordance with a sustainability reporting standard developed by an SSB should be published in Germany, we believe that the data included in that report should also be capable of being audited.

Question 11

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

Some already existing proposals on non-financial reporting, developed by "non-accountants", would affect financial reporting retroactively and would in some cases also be inconsistent with IFRS or other major financial accounting standards.

Example: The so called "GRI Standard 201: Economic Performance", proposed by the Global Reporting Initiative (GRI), defines a specific kind of income statement to compute the KPI "Economic Value", which is different from all income definitions in IFRS, US-GAAP or major national accounting standards. Such an additional and, in our view, non-meaningful KPI would only cause confusion for the users of financial and non-financial reports and unnecessary work for the prepares of such reports.

Additionally, some GRI standards contain general cross references to single IFRS standards, but without sufficient specifications, how to apply the GRI standards in accordance with such accounting standards.

To avoid such confusion, the IASB should keep the ultimate responsibility for the standard setting on all financial reporting impacts caused by non-financial reporting standards.