

JOINT KEY MESSAGES ON EFRAG'S FIRST SET OF EUROPEAN SUSTAINABILITY REPORTING STANDARDS

Insurance Europe and the European CFO Forum are committed to supporting the transition to a more sustainable economy and to tackling climate change as a matter of priority. We strongly support the EU's objective of transforming Europe into a climate-neutral economy by 2050.

We share the European Commission's (EC) ambitious objective of developing a robust sustainability reporting framework via the Corporate Sustainability Reporting Directive (CSRD) to ensure greater transparency of information on the way companies operate and manage social and environmental challenges. We highlight below elements of particular importance to the insurance industry and (in bold) further refinements that are still needed.

EFRAG's first set of proposed standards is a considerable achievement given the ambitious timetable and the scope which covers all ESG areas. The final advice is also a considerable improvement on the initial exposure draft versions published for consultation before the summer.

Our associations welcome that the disclosure requirements (DRs) have been refined and have been focused on important disclosures and data points. It is also positive that the final proposed ESRS include phase-in provisions to allow time for data availability throughout value chains.

We are pleased that the concept of 'rebuttable presumption', which would have been very burdensome was removed and replaced by a company specific materiality assessment with certain data points being mandatory, such as SFDR-related information. This is a better approach, so that an undertaking reports on disclosures/data points that are material (following double materiality).

However, European insurers would like to raise a number of points which still need consideration:

1. Need for clarity on value chain definition for Financial Institutions

The final draft ESRS offers a broad sector agnostic definition of value chain which includes direct and indirect business relationships in both upstream and downstream value chains. However, for insurers this definition is too wide and would not work in practice. Therefore, a more tailored definition is required, for example clarifying that the disclosure requirements of the sector-agnostic ESRS do not require a general look-through for all investments, clients and policyholders for all disclosure requirements from insurers. Insurers recognise that due to resource and other constraints it makes sense to develop sector-specific standards in phases over a number of years. Thereby, sector-specific standards for financial services need to be developed in the last set (for example, adopted by the EC in June 2026). **However, clarity on how financial services should apply the value chain needs to be provided in 2023 and cannot wait until later, because it is key for companies to plan and start implementation processes for many aspects of the ESRS reporting.** Compatibility with the upcoming value chain definition in the Corporate Sustainability Due Diligence Directive (CSDDD) should be taken into account.

2. Interoperability with the IFRS Sustainability Disclosure Standards (SDS) is crucial

Insurers welcome the fact that the final advice on ESRS was adapted to increase interoperability with the draft Sustainability Disclosure Standards (SDS) currently under development by the International Sustainability Standards Board (ISSB). For example, the change of structure to ESRS 2 to reflect the four pillars of the TCFD and ISSB is helpful.

To further increase interoperability and therefore ensure that, by applying the ESRS, companies also comply with the IFRS SDS, EFRAG should use its final advice to further engage with the ISSB to influence its final standards

expected in Q1 2023. **As the ISSB finalises its deliberations on their own sustainability reporting standards, the EC take into account the decisions at the ISSB in their Delegated Acts. EFRAG should seek to eliminate any remaining inconsistencies**, for which there was not time to address in the first set of ESRS adopted by the EC, when it delivers its advice on the second set of standards in November 2023.

3. Insurers defined as Low-Risk Profile Undertakings (LRPU) under Solvency II should be subject to simplified reporting requirements (SME standards)

While we appreciate the fact that EFRAG has reduced the number of datapoints and introduced a materiality assessment at company level to bring some level of proportionality, we are still concerned about the application of the extensive ESRS to smaller insurance entities. This is because the SME definition used in CSRD does not work for insurers. Insurers defined as LRPU under Solvency II should be allowed to use the simplified reporting requirements (SME standards). **It is therefore key that the LRPU definition be included in the Solvency II review with an amendment being made to the CSRD explicitly allowing LRPUs to limit their sustainability reporting according to the simplified SME standards, in line with the existing CSRD provisions for small non-complex banks.**

4. Need for implementation guidance and support by EFRAG and the EC to companies applying the standards

We note that in addition to the points above, as insurers start implementation on the basis of EFRAG's draft standards, further necessary refinements may be identified: for example, in relation to the granularity of mandatory disclosure requirements and data points therein, consolidation scope and the use of international standards for calculating GHG emissions. The necessary guidance could be provided in the form of Basis for Conclusions and EC Questions and Answers. The industry will communicate these issues if and when they arise.

Insurance Europe

Insurance Europe is the European insurance and reinsurance federation. Through its 36 member bodies — the national insurance associations — it represents all types and sizes of insurance and reinsurance undertakings. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers pay out over €1 000bn annually — or €2.8bn a day — in claims, directly employ more than 920 000 people and invest over €10.6trn in the economy.

European CFO Forum (CFOF)

The European Insurance CFO Forum ("CFO Forum") is a body representing the views of 23 of Europe's largest insurance companies. Accordingly, it represents the consensus view of a significant element of the European insurance industry. The CFO Forum was created in 2002. More information on the CFO Forum is available at www.cfoforum.eu.