



NOTE on the request to comment on ESRS for insurance/reinsurance captives

Introduction

Having carefully read the papers prepared by EFRAG for the consultation phase, we, ECIROA, the European Captive Insurance and Reinsurance Owners' Association, would like to share with you our views and our request for the way forward.

Based on our position, we also propose a positive and constructive forward-looking alternative.

All captives are wholly owned subsidiaries of their parent company. By their very nature, they insure unexpected future losses and claims up to a certain amount on behalf of the owner based on a sophisticated risk management strategy. There are no business activities for third parties in the public sector/public.

Captives are not listed legal entities traded on the stock exchange.

Our views are founded on the **Principle of Proportionality (PoP) which is incorporated in the EU Lisbon Treaty under Article 3 b :**

“Under the principle of proportionality, the content and form of Union action shall not exceed what is necessary to achieve the objectives of the Treaties. The institutions of the Union shall apply the principle of proportionality as laid down in the Protocol on the application of the principle of subsidiarity and proportionality.”

In the Protocol on the Application of the Principle of Subsidiarity and Proportionality, Article 5 determines:

“Draft legislative acts shall be justified with regard to the principles of subsidiarity and proportionality. Any draft legislative act should contain a detailed statement making it possible to appraise compliance with the principles of subsidiarity and proportionality. This statement should contain some assessment of the proposal’s financial impact and, in the case of a directive, of its implications for the rules to be put in place by Member States, including, where necessary, the regional legislation. The reasons for concluding that a Union objective can be better achieved at Union level shall be substantiated by qualitative and, wherever possible, quantitative indicators. Draft legislative acts shall take account of the need for any burden, whether financial or administrative, falling upon the Union, national governments, regional or local

authorities, economic operators and citizens, to be minimised and commensurate with the objective to be achieved

Purpose and aim of the CSRD for LSME and VSME

The purpose of the ESRS LSME ED is to establish reporting requirements that are proportionate and relevant to the scale and complexity of the activities and the capacities and characteristics of LSMEs. -This is to express that the PoP is to be applied.

It is expected to support LSMEs in (a) gaining better access to finance and (b) avoiding discrimination against them by financial market participants, and (c) enabling the availability of standardized sustainability information

Our remarks

The following three quotes from ECIROA members are representative for the understanding of all other members.

- A separate Sustainability Reporting for captives would not add ANY value for any potential stakeholder and would be only another “paper tiger”.
- Absolutely no added value expected to come from this sustainability report.
- As the aim is to support SMEs then EFRAG should understand that the project, as it currently is, seems to be exactly the contrary of the purpose for our typical SMEs called Captives (no help to discriminate from other companies but additional workload and costs).

None of the three objectives of this report has any value to the captive community or other stakeholder

Quite the contrary, we firmly believe that the project will only lead to another bureaucratic burden putting the targeted companies in no better position at all.

Numerous disclosure requirements are demanded that are neither generally relevant to a company's sustainability performance, nor to the economy, nor to the really important issues of the environment, nature, climate, geophysics and biodiversity.

In order to achieve the goal of sustainability, the information and parameters that are of primary importance for a transformation process in the economy are those that are directly related to CO2 savings, the exploitation of natural resources and biodiversity. This allows for a greatly reduced scope of information to be published.

We know from our experience with all other reporting requirements of our companies (captives and parent companies) that the majority of them are not perceived or read by the public and, moreover, do not allow any concrete comparison without specialist knowledge of individual sectors and the company-specific characteristics of individual companies. This already applies to the `state of the art` financial reports of all companies.

In the area of Financial Institutions, there are also a large number of contradictions and misunderstandings that arise due to different interpretations of terms in the

respective regulations and/or differing understandings in the respective national languages.

Attached you will find the results of the current survey conducted by the Center for Financial Studies, House of Finance | Goethe University Frankfurt (Germany), on the assessment of the permanent excessive flow of reporting obligations.

For industry, trade or the service sector, these reporting obligations will represent an even greater burden as they are not equipped with appropriately trained staff.

It is interesting to read the arguments of an industrial company that is leaving Germany to invest in Switzerland because, despite higher wages, the bureaucratic burden is far lower and outweighs the higher labour costs. The future requirements and costs arising from CSRD and supply chain regulation have not yet been taken into account.

The European Commission's plans do not take into account that the competitive disadvantage for European companies of this over-regulation based on mistrust, with unnecessary additional control, will lead to a decline in employment and a lack of individual income, which is the basis for a flourishing economy and its development.

We recommend that the European Commission stop the plan to oblige the extended group of companies to invest in additional worthless reporting; the end of the consultation period should also be the end of the deliberations.

Alternative Proposal

We fully understand that in certain situations, business partners and/or the public may be interested in specific details about a company's current and future sustainability efforts.

For these cases, we recommend creating a focused questionnaire that is targeted and does not contain in-depth questions that are not related to the goal of supporting the business in its transformation process towards a truly sustainable structure.

It will not be possible to change the economy or the world in the short term if companies need new ideas, products, structures and processes to meet the expectations of the future.

Guenter Droese / ECIROA

Luxembourg, March 2024



CFS survey on "Sustainable Finance"

German financial sector deems sustainable finance very important, but laments high regulatory requirements

FRANKFURT, 29 February 2024

Background:

The topic of sustainable finance has been hotly debated for a number of years. Few doubt the huge sums of capital required to transition to a more sustainable economy in the areas of energy, mobility, industry and buildings. Related issues to tackle include preventing pollution, supporting the circular economy and preserving biodiversity. To achieve these goals, private capital must be mobilised with the help of green financial products or financing instruments (green bonds, green loans). At the same time, some market participants take issue with the complexity of regulation (e.g. Taxonomy Regulation, SFDR, CSRD) and the dangers of "green washing".

Survey results:

A clear majority of respondents (71.2%) regard sustainable finance as very important or important for financing the green transition of the German economy. On the other hand, a large majority (78.1%) of panellists criticise the detailed disclosure obligations on sustainability that various regulatory requirements impose on companies and financial institutions, which entail considerable expenses for data procurement and processing. A number of initiatives have been launched to establish uniform reporting standards for corporate sustainability (e.g. ISSB, EFRAG), resulting in overlap in some areas. A vast majority (84.1%) of respondents consider it very important or important to agree on globally harmonised reporting standards in order to improve comparability for investors and limit the costs for companies.

"The survey makes it clear that the complex regulatory framework should be reconsidered. Of course, it is crucial to avoid 'green washing'. However, the expenses involved should remain proportionate, especially for small and medium-sized market players," explains Professor Volker Brühl, Managing Director of the Center for Financial Studies.

As of August 2022, financial advisors are required to ask their customers about their sustainability preferences. However, there is variation in how different sustainability preferences are distinguished (according to the Taxonomy Regulation, according to the Disclosure Regulation, according to the avoidance of negative impacts on sustainability goals). In the practice of financial consulting, systematically recording these preferences poses a challenge. For this reason, 74.5% of respondents do not consider the current regulatory framework to be useful, as many customers are overwhelmed by the differentiated rules.

Nevertheless, 78.8% of respondents believe that the existence of green investment products is justified. At the same time, 47.6% of participants believe that many green investment products fail to fulfil their purpose.

"For me, the clear majority of more than 84 per cent in favour of unified reporting standards is a clear and confirming mandate for the International Sustainability Standards Board (ISSB), based in Frankfurt. The aim is to develop and establish a global baseline for sustainability reporting. The transformation will only succeed with the greatest possible global interoperability. Frankfurt thus has the opportunity to establish itself as the centre of this standard-setting, which is so important for the capital markets," says Hubertus Väth, Managing Director of Frankfurt Main Finance.

The results are based on a quarterly management survey in the German financial sector.