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Draft ESRS LSME: Sustainability Reporting for Small and Non-Complex Undertakings (SNCUs)

Dear Ms Del Prete,

The German Insurance Association (GDV) has roughly 470 members, most of which are smaller insurers. Some of these members may apply the ESRS LSME if classified as Small and Non-Complex Undertakings (SNCUs) under the Solvency II-Amendment Directive¹. These undertakings often have significantly fewer than 250 employees.

From the very beginning, the GDV has been a staunch supporter of EFRAG's mission to establish ESRS, aiming to enhance the availability and quality of sustainability information. This shared goal is of utmost importance for insurance undertakings, enabling them to leverage their pivotal role in the sustainable transition. Throughout EFRAG's journey, the GDV has consistently provided constructive feedback during consultations, outreaches, and workshops, demonstrating our commitment to this shared vision.

While we appreciate all the efforts made, we have strong concerns with EFRAG's consultation on the draft ESRS LSME. We are in close

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¹ Insurers can be classified as SNCUs according to new Art. 29a Solvency II Directive if, among other things, they do not exceed 100 million EUR annual gross written premium income for non-life and one billion EUR technical provisions for life. SNCUs would be allowed to automatically apply a specific list of proportionality measures, including simplifications in reporting and disclosure. According to Article 2 of the Solvency II-Amending Directive, SNCUs may limit their sustainability reporting in accordance with the ESRS LSME. This proportionality measurement for insurers is analogue to the measurements for Captive (Re-/)Insurance Undertakings and Non-Complex and Small Institutions according to Art. 19a (6) of the EU Accounting Directive (2013/34/EU).

contact with our smallest members who may potentially apply the ESRS LSME if classified accordingly. During our preparation for the response to the draft ESRS LSME, our conversations with potential SNCUs have revealed the specific challenges SNCUs face in comprehending and providing feedback on the draft ESRS LSME. With 189 extensive pages and 466 staggering data points that are subject to the materiality assessment, the draft seems unduly burdensome and overwhelming for these small insurers. Compared to the Delegated Act of the first set of the ESRS, this represents only a 30 percent reduction in number of pages (the Delegated Act has 284 pages) and only about 43 percent in data points (the Delegated Act has 823 data points that are subject to the materiality analysis). These figures underscore the pressing need for more proportionality in the ESRS LSME to accommodate the unique circumstances of SNCUs. As they have no access to the capital market due to their legal form, SNCUs differ considerably from listed undertakings in terms of their personnel and financial capacities and regarding the stakeholders of their sustainability information. The standard tailored to listed SMEs is a disproportionate burden for SNCUs because the information requirements are not matched by corresponding information needs. SNCUs should not be required to report on data points under the ESRS LSME which focuses on the needs of data users, such as financial market participants. This situation requires a clear differentiation.

It is of utmost importance that the ESRS incorporates more flexibility, not just for the reporting undertaking but also for the auditor of its sustainability statement. This is a key proportionality mechanism that needs to be urgently addressed. The current extent of the framework poses a significant hurdle for SNCUs, and more flexibility could potentially alleviate this issue. Considering this, we would like to underscore the significance of the principle of proportionality, which we have found to be a valuable tool under the Solvency II Directive (2009/138/EC)². This principle allows for a company-specific approach that is in line with the nature, scale and complexity of the business, and we firmly believe it should be a cornerstone of the ESRS LSME as well. In practice, this could entail that an undertaking, if aligned with the nature, scale, and

² General principles of supervision: Art. 29 (3) of the Solvency II Directive states: "Member States shall ensure that the requirements laid down in this Directive are applied in a manner which is proportionate to the nature, scale and complexity of the risks inherent in the business of an insurance or reinsurance undertaking."

complexity of its operations and if deemed appropriate by the auditor, may provide less (quantitative) information, than what the ESRS LSME mandates, and focus on the most essential information.

Additionally, we find it puzzling why there is such a notable disparity between the ESRS VSME and the ESRS LSME. We believe that adopting a real building-block approach, where both standards are more similar or even identical, would offer greater benefits overall and would contribute to reducing complexity in the already highly complex field of sustainability reporting. Therefore, we advocate for the VSME to remain the basis for the voluntary reporting by SMEs that are not subject to the CSRD. Furthermore, we propose that the VSME with all three modules (the Basic Module, the “Narrative-Policies, Actions and Targets” (PAT) Module and the Business Partners Module) should serve as the basis for SME reporting concerning non-listed SMEs like SNCUs in the scope of the CSRD. If an SME subject to the CSRD is indeed listed, it would be required to provide additional data points needed by the financial market to meet its own reporting requirements.

We would appreciate discussing this topic further with you.

German Insurance Association (GDV)