

# EFRAG

European Financial Reporting

Advisory Group Brussels, 1

October 2020

**Dear Madam, Sir**

*Re: Ad personam mandate on Non-Financial Reporting Standard Setting*

The European Commission adopted an updated Work Programme on 27 May 2020 that foresees the publication of a legislative proposal to revise the Non-Financial Reporting Directive (NFRD). Subsequently, the European Commission has mandated EFRAG to undertake preparatory work for the elaboration of possible EU non-financial reporting standards. This mandate is being carried out by a multi-stakeholder European Lab Project Task Force (PTF). Jean-Paul Gauzès. In addition, Executive Vice-President Valdis Dombrovskis has invited me, on an ad-personam basis, to provide recommendations on the possible changes to the governance and financing of EFRAG, in case EFRAG were entrusted with the development of possible EU non-financial reporting standards. This invitation is accompanied by an Annex providing the context within which the question of possible European reporting standard under the NFRD is being considered.

As I aim to provide well informed recommendations to the European Commission, I would like to obtain the contribution of views by all stakeholders with an interest in my mandate. Therefore, I invite you to contribute your views by responding to the questionnaire, attached to this letter, which will allow me to develop the proposals for possible changes to the governance and funding of EFRAG. Thereafter, these proposals will be subject to further public consultation.

I would appreciate to receive the contribution of your views on or before 30 October 2020 to [nominations@efrag.org](mailto:nominations@efrag.org) with a copy to myself,

I thank you in advance for your cooperation and contributions.

I also thank those of you that have already provided input since my ad personam mandate was made public. I invite to provide me with additional input in case they wish to address additional issues addressed in the questionnaire. I would be pleased to respond to any questions you may have.

Jean-Paul Gauzès

EFRAG Board President

**E** [jean-paul.gauzes@efrag.org](mailto:jean-paul.gauzes@efrag.org) **T** +33-(0)6 15 38 82 24 | **W** [www.efrag.org](http://www.efrag.org)

Deadline for completion: 30 October 2020

Email: [Nominations@efrag.org](mailto:Nominations@efrag.org) with copy to [jean-paul.gauzes@efrag.org](mailto:jean-paul.gauzes@efrag.org)

Your response will be uploaded to the EFRAG website, unless you indicate otherwise.

In your opinion, if EFRAG were entrusted with the development of possible EU non-financial reporting standards in a revised NFRD, how would the following general and specific considerations, identified as relevant to standard setting mechanism, apply if EFRAG were to be the standard setter? (NB: this does not affect EFRAG' present mission)

**1. Governance - Structure and due process**

- 1.1. Standards need to be developed in the public interest and no individual category of stakeholder may exercise undue influence: How can it be best ensured that standards are developed based on **an inclusive and transparent due process**? What should be the characteristics of such a due process?

There is strong need of standardization at the UE level, one common standard for non-financial reporting should be developed, as a robust starting point seems to be the GRI Standard.

As long as all kind of financial institutions are obliged to publish non-financial data related to their credit or investment portfolios, there should be also a coordination between data requirements designed for them and their clients/issuers to ensure an effective flow of this reporting and avoiding any data gap. On the other hand, there is a need to follow the principle of proportionality in this case. Therefore, the non – financial reporting should be obligatory for all corporates, but adapted to the capacities for larger and smaller companies. One could imagine e.g. an obligatory report verification/ audit for the largest listed companies operating internationally in more than one of the Member States.

One of the most important issues is to provide sufficient amount of time for all institution to express their opinion on the proposal of new standards and to make the public consultation possible. Finally, one of the most crucial and pressing problems for all market participants is the availability of data which will be the base to disclose any non-financial information. Moreover we would like to emphasize that the whole challenge in disclosing non-financial information is that there are multiple different legal acts which set requirements for disclosures (e.g. art 8 of Taxonomy Regulation, Non-financial Reporting Directive and Guidelines on climate-related reporting, EBA ITS on Pillar 3 disclosures, Sustainability-Related Disclosures Regulation). This results in an overlap of divergent legal frameworks.

Therefore there is a need to create coherent rules including and covering all of those requirements in order to use the same data to all goals and all reporting.

- 1.2. **Relevant European institutions and agencies** shall be invited to be fully involved in the development of future standards, including the European Securities and Markets Authority (ESMA): How can these European Institutions and agencies be involved in the development of future

standards and in the standard setter? Should there a particular role for ESMA?

We see the importance of involving the European Supervisory Authorities to process of developing the future standards. In our opinion all 3 ESAs Authorities should play the similar role, not necessarily with the leading role of ESMA. Perhaps it is worth considering a solution of an establishment of a special joint committee of delegated experts from ESAs.

Moreover, experts from European Central Banks should be also involved. Other solution is to make ad hoc consultation with every of the mentioned institutions. The most important matter is to combine the expectation of the supervisors with the actual possibilities of financial market participants.

- 1.3. To permit **relevant national public authorities** to provide input about whether any future standards are responsive to the public interest, how can these authorities be included in the governance of the non-financial reporting pillar? Which authorities would be the most relevant and how should they be involved?

Probably one of the most efficient solutions would be a cooperation with and between the NCAs (national competent authorities for financial market). Another solution could be the creation of an operational channel with the Permanent Representation of the each Member States to the European Union which will send information/question/consultation to the appropriate public institutions in each Member States.

- 1.4. Should private sector and civil society representatives be involved in the standard setting work? If so, what would be suitable options for doing so in a balanced way? Which stakeholders should be involved? Should the standard setting pillar be a **public-private partnership** like in the financial reporting pillar?

Definitely a financial institution in some areas of its activity needs the data from their clients and business partners for the purposes of disclosure non-financial information - therefore we see a necessity to involve private sector to this work.

It would apply in particular to such stakeholders as issuers , but also companies which would be aspiring to become “taxonomy” -compliant (as well as their trade associations or representative organisations).

Moreover, this standard would have an impact on the SMEs and their ability to use sources of external financing for research & development, therefore a representants of this group should be involved as well.

Finally, one should consider involvement of the representatives of (retail and institutional) investors to take into consideration their real expectations and interests as well.

- 1.5. If there were to be **SME** standards derived from the future EU non-financial

reporting standards, how should the SME angle be addressed in the governance and in the standard setting process?

When it comes to SME first and the most important issue is creation of proportional requirements. Small companies don't have significant human resources to be focused solely on sustainable finance and disclosing non-financial information. Also the process of reporting should be simplified and made as automatic as it is possible for them and for all institutions, collecting and processing this data.

Therefore, we think that any standard created should be unified and standardized as much as possible avoiding sophisticated and complicated ways of reporting. It would also help in assessment of data and reports provided, making easier comparisons and utilization of them towards other sustainability goals.

The key aspect remains the principle of proportionality. One should take into consideration that the SMEs sector is a heterogeneous group and a "one fits all" approach is not possible. Small enterprises are not able to cope with the same level of non-financial reporting requirements as the largest of the medium enterprises. The new rule should be designed/structured in a way that will not damage the running of the day-to-day business of a small enterprise.

1.6. Which **governance structure** would you foresee for the EFRAG EU non-financial reporting standard setting pillar? How would this fit in the overall EFRAG governance structure? What relation would there be with the financial reporting pillar, if any?

## **2. Governance - Cooperation with standard setters and other initiatives**

2.1. Any future possible EU non-financial reporting standards must be built on **existing reporting standards and frameworks** to the greatest possible extent:

How can the relevant existing standard-setting organisations be closely associated in future standardisation work? How would you see cooperation and involvement?

More broadly, how should cooperation with existing public and/or private initiatives producing international standards and framework be established, to ensure that any future non-financial reporting standards applying in the EU build to the greatest extent possible on existing standards and frameworks? How can the EU non-financial reporting standard setting have a global impact?

The non-financial reporting in the EU refers to the biggest companies, and many of them operate on international or global level. They have already selected internationally recognized reporting standard and this improves transparency of their operations in communication with foreign stakeholders. Therefore, the companies should not be put in a position to choose between the international

standard and new European one. It would be a huge setback in the quality of non-financial reporting and additionally cause a cost increase.

In our opinion, the European non-financial reporting standard should build-up on existing standards and extend them only by the EU specific reporting obligation. First, it should be evaluated which reporting standards are prevailing among these European companies that report non-financial issues. Then, it should be analysed what is the additional information requested from the European companies, not imposed by those already existing standards. For example, the existing GRI Standards, could be taken as a starting point and extended by EU specific reporting obligation (e.g. imposed by the sustainability-related disclosures regulation). In the financial sector it should align with TCFD recommendations (as was already applied in the guidelines on climate-related information). In an optimal solution, all of those standards setters should be invited and involved in the consultation process of the new EU non-financial reporting standard.

EU leads the global climate change economic transformation and this process is followed by the creation of the reporting standard. Success of the first will contribute to the popularity of the second. Creation of the high quality reporting solution will create a benchmark for the followers in the same way as other countries are referring to the EU taxonomy in their attempts to formalize evaluation of sustainable activities.

2.2. How to establish an appropriate **coordination between the financial and nonfinancial reporting** so as to ensure that financial and non-financial reporting provide an integrated view of the performance, position, development and impacts of reporting companies?

We doubt if a **special coordination between the financial and nonfinancial reporting** is really a crucial issue for the future position for nonfinancial reporting. One have to keep in mind that the essence of nonfinancial data causes a specific situation that the creation process of this information will be different from other reporting.

Possible changes to finance of EFRAG

2.3. What ideas do you have for financing of the non-financial reporting pillar?  
Should the financing reflect the public-private partnership?

**3. Do you have any other comments you want to share?**