

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's 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?

It will be important that:

- a. the revised NFRD should set out clearly the subject areas for which standards should be developed, such as human rights due diligence, engagement with affected stakeholders and experts, climate targets, relationship of non-financial risks to the business model, leadership and governance of non-financial risks etc.
- b. the standard-setter should develop indicators and metrics based on some clear criteria regarding the quality and value of indicators and metrics, building on the lessons learned to date. Such criteria should ideally be defined in the revised NFRD.
- c. the standard-setter should avoid assumptions that existing indicators and metrics – including those that may be widely used – are *necessarily* good indicators, and should use the defined criteria to review them and reject any that fail to meet the criteria.
- d. the *process* of developing recommendations for standards should be managed by a professional staff skilled in process design and facilitation and without vested interests. This group should be distinct from multi-stakeholder expert input on the *substance* of standards, and multi-stakeholder sign-off on standards (see response to 1.4 below).
- e. multi-stakeholder bodies that take a role in the process should be constituted with due attention to:
 - i. the need for individuals to have deep subject matter expertise that ranges *equally* across environmental/climate change and human rights/labor/social issues (note: environmental expertise is essential in such groups but can tend to dominate with far less representation of expertise in human rights (including labor rights)).
 - ii. the fact that individuals may come from different stakeholder groups yet share a vested interest in the status quo for reasons of their institutional affiliation, and that representivity must avoid predisposing any one body towards (or against) locking in existing approaches to reporting, indicators and metrics.

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?

Those involved in developing standards under the standard-setter should have full access to information about standards that have been or are being developed in other EU bodies that are

relevant to the issues under discussion, whether that be in relation to corporate governance and practices, reporting or accounting. EU bodies responsible for the development of those standards should be part of a coordination body with EFRAG with the objective of ensuring policy coherence and clarity for companies and for the users of non-financial information.

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?

Given the broad scope of non-financial reporting and the multitude of public interests concerned, the relevant authorities may include public authorities in the area of labour and social affairs, human rights, justice, environment and climate, in addition to financial regulators. There may be hundreds of such authorities across the EU. It may be possible to include one or two such authorities within the supervisory body of the standard-setter, for example from among environmental protection agencies and those national human rights institutions that have a mandate regarding business and human rights.

The standard-setter should have a procedure to inform and consult national governments on strategic developments and decisions. It should also be able to consult with relevant types of national authorities on specific issues. National governments should be responsible for ensuring coordination among their own national authorities.

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?

It is critical to consider the constitution of bodies at each level, and the inclusion of private sector and civil society organizations with regard to each. A robust construct would involve:

1. A multi-stakeholder supervisory body

- including experts from private sector and civil society backgrounds, as well as individuals from other stakeholder groups (including trade unions and relevant public bodies), subject to the overall caveats noted in point (e) under question 1.1 above.
- representing an *even* distribution of knowledge and expertise across the different issue areas to be addressed in the standards
- responsible for oversight of the standard-development *process* and its *quality* and *integrity*, and with reference to some clear criteria regarding the quality of indicators and metrics, which should ideally be set in the revised NFRD.
- *without* a role in the development or approval of the substance of the standards, other than insofar as it relates to the standard-development process and its quality and integrity.

2. The standard-setting body

- which would appoint multi-stakeholder technical groups for each subject matter area in which standards are to be developed or (in time) updated
- which would have a permanent, salaried team skilled in process design and facilitation in multi-stakeholder settings, and with knowledge of the issue areas under discussion, which would be responsible for the successful conduct of technical group processes to develop proposed standards. This team would *not* need to be multi-stakeholder and should not have vested interests, but be focused on, and skilled in, good multi-stakeholder process management.
- which would have a multi-stakeholder body that would receive recommended standards from technical groups, review and interrogate them as necessary and in consultation with the technical group, and receive inputs from a public consultation process for due consideration, and which would ultimately sign off on standards.

NOTE: the process as currently set up under GRI's standard-setting role between the expert team that manages technical committee processes and the GSSB that liaises with the technical committees via the expert team, receives inputs from public consultations, and ultimately approves the standards, is a very strong model in this regard and should be taken into due consideration as the basis for how the standard-setter should work.

3. Multi-stakeholder Technical Groups

- that include private sector and civil society representatives along with representatives of other stakeholder groups (including trade unions and relevant public bodies) and who have expertise in the specific issue under consideration.
- that are set up for limited periods in relation to specific subjects on which they produce recommended reporting requirements.
- that are coordinated, and for which the collaborative discussion and process is managed, by the technical staff of the standard-setter.
- whose recommendations emerging from these processes would go to the multi-stakeholder body within the standard-setter for review, public consultation, further discussion with the technical group, and ultimately sign-off – under the oversight of the supervisory body and its mandate to review the process quality and integrity.

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?

It could be valuable to have at least one SME representative on the multi-stakeholder bodies concerned, in the event that individuals from SMEs have the time and capacity to devote to this.

Regardless, the standard setter should seek to engage SMEs through targeted consultations as part of the standard-developing process.

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?

If EFRAG were to provide the new standard-setting body, this would require a new and separate governance structure, as well as a dedicated executive team – see response to question 1.4 above. The EU NFR standard-setting pillar should remain independent from the financial reporting pillar. This is critical to ensure balanced oversight of the EU NFR standard setter and focus on both sides of double materiality and ensure that reporting on risks and impacts on people and planet are not constrained to instances where they overlap with financial risk or impact to business. The work of both pillars needs to be coordinated in order to explore and facilitate the links between financial and non-financial reporting; EFRAG as an institution could provide such coordination.

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?**

No one existing standard, nor the blind combination of all standards together, would be suitable to ensure relevant and meaningful reporting from companies across their social and environmental risks and impacts.

Existing reporting standards and frameworks should not be engaged in the governance of the standard-setter directly. Nor should the role of the EU standard-setter be to align existing reporting standards and frameworks or to draw uniquely from within the various standards, indicators and metrics that currently exist. Its task should be to understand what is the best of what exists in terms of the quality of the information it provides, draw from that and supplement and add to it in areas where indicators and metrics are currently absent or inadequate. This judgment should be based on clear criteria for good indicators and metrics, which should be defined ideally in the revised NFRD. Such criteria should reflect a robust understanding of what provides insight into the likelihood of desired environmental and social outcomes, how certain types of indicator can set up perverse incentives with undesired consequences, and what provides for true comparability rather than the appearance of comparability.

It will nevertheless be essential that existing standard-setters are consulted by the standard-setting body in order to understand how best to draw from and build upon the standards they have developed, insofar as those standards focus on the impacts of corporate activities on people and planet, not simply on their overlap with impacts on the business.

As noted above, there is a great deal to be learned and drawn from in the standard-setting process developed by GRI.

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?

EFRAG should facilitate such coordination. However, no matter how this is done, it is important to ensure that risks to and impacts on people and planet are included in the scope of non-financial reporting where they are significant/salient in their own right, regardless of whether they can be tied to financial risk to the company.

3. Possible changes to finance of EFRAG

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

No position, provided that financing does not interfere with the independence of the respective bodies and the standard-setting process.

4. Do you have any other comments you want to share?

No further inputs.