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Jean-Paul Gauzes

EFRAG Board President
EFRAG - Brussels

Brussels, 5 January 2021

Re: Ad personam mandate on Non-Financial Reporting Standard Setter

Dear Jean-Paul,

Please find below some thoughts to answer the call and questions sent earlier in 2020.

In looking forward to hearing back on the results of this personal consultation in light of the ad personam mandate received from Commissioner Dombrovskis.

With my best wishes for 2021.

Aurélie Faure - Schuyer

A handwritten signature in blue ink that reads "A Faure". The signature is written in a cursive style and is underlined.

1 - Independent, Inclusive and transparent due process / pillar-based governance

Key principles for governance

1. The EU's non-financial standard setter shall have a clear role that is to **develop standards acting as references** (non-financial data, non-financial thresholds or non-financial reference points) for investors and stakeholders alike and with a view to **support their decisions made to transform the real economy** under the EU Green Deal and in alignment with long term sustainability goals.

2. The EU's non-financial standard setter shall **support the EU and the national regulators in providing information and signals** to businesses, market exchanges and corporate authorities in the field of sustainability: environment, human rights, governance. The EU non-financial standard setter does have **independence** and needs to make sure that material non-financial information standards **do arise** according to the definition provided in the EU Guidelines on non-financial reporting (2019/C 209/01). Their **regulatory scrutiny and monitoring role** shall be detailed further.

3. Before any organisational structure (pillar-based structure or not) can be envisaged, the mission and aims of the EU non-financial standard setter needs to be defined so as its budget.

2 - Cooperation with standard setters and other initiatives

The cooperation shall be established according to core work on materiality and surrounded by other forms of cooperation that feed into the core.

Core cooperation

An effective communication between the financial and non-financial reporting systems shall be made in building a **core dialogue with financial accounting bodies on the topic of materiality**.

The EU's non-financial standard setter shall design reporting standards and guidance so that large and small companies can disclose and report on information they deem of material importance and are able to define operational tools for stress testing purposes and materiality assessment.

The EU standard setter shall independently provide guidance and principles on how non-financial information is material or not to future decisions made by EU and non-EU based companies inside EU frontiers.

Other levels of cooperation with other standard setters

1. **EU standard definition for EU and non-EU corporations.** The EU non-financial standard setter shall be working in close cooperation with other standard setters in the different jurisdictions and regions (United States, Canada, Asia) on standard definition. A joint agreement with the International Standard Organization shall be considered and possibly establishing the participation of the EU standard setter in ISO committees.
2. **Promoting convergence in international non-financial reporting.** The EU non-financial standard setting body works at identifying and measuring the gaps between the different regions and backgrounds (CDSB, SASB...). An internal division may be created to execute this work and with the aim to promote convergence in the existing non-financial reporting standards. A bi-annual assessment is being reported after validation by the EFRAG Board for the sake of transparency under the title: "EFRAG bi-annual gap assessment report". Alternatively, the standard setter may externalise the gap assessment. It takes stock on a bi-annual basis of the identification of the gaps in reporting frameworks provided by external organizations.

While it is not the role of an EU standard setter to enter civil society debates, the governance needs to take into account the fact that **civil society and NGOs play a major role on how EU citizens form their decisions**. Therefore, **the role of the civil society shall be formally recognised in the governance** and the civil society shall be represented with minimum voting rights. Civil society shall have a clear role in the cycle and process that leads to the establishment of non-financial standards.

3 – No Views

4 - Other considerations

Gaining maturity in non-financial reporting requires long term efforts and investments in reporting tools and manpower. Therefore, the standard setting process shall be aligned with reporting mandates and considerations with a view on the forms or size of companies that have a critical size.