



8 January 2021

Attn Jean-Paul Gauzès
EFRAG Board President
Chairman of the European Lab Steering Group
Former Member of the European Parliament
E jean-paul.gauzes@efrag.org

Dear Mr Gauzès,

PwC International Ltd (PwC), on behalf of the PwC network, welcomes the opportunity to respond to the consultation on the ad personam mandate on potential need for changes to the governance and funding of EFRAG. There is an urgent need for sustainability or ESG (environmental, social, governance) information to be reported in a way that is globally consistent, comparable and reliable. Such comparability would be improved when backed by strong governance, quality processes and controls over the production of generally accepted standards combined with third-party assurance of that non-financial information.

Interconnected global capital markets

Despite some fractures in geo-politics, we live in an ever-increasing highly globalised and interconnected world. We strongly support efforts to move toward a globally aligned system that ensures that non-financial reporting has the same robustness as financial reporting: a system that is aligned with the vital elements of a thriving, sustainable economy and society. Therefore, we support the development of a single set of global sustainability reporting standards to address the needs for corporate reporting beyond financial reporting. We need a harmonised globally aligned system with clear and common standards, comparable metrics and robust assurance and thus reduce fragmentation. Such a single high-quality set of standards could help achieve synergies for preparers, auditors, investors and stakeholders.

Recent activities and implications for future developments

Recently there have been several activities of non-financial standard setters working towards increased alignment. The announcement by IIRC and SASB of their intent to merge and form the Value Reporting Foundation is a step forward. Moreover, the willingness of multiple framework and standard setting bodies (CDP, CDSB, GRI, IIRC and SASB) to work together towards a comprehensive reporting system is also an important step in this direction. In addition, the EU has been an important driver in rapidly advancing the non-financial reporting agenda. On top of that, the IFRS Foundation has published a Consultation Paper on advancing the consistency of sustainability reporting by potentially establishing a Sustainability Standards Board (SSB) besides the IASB under the roof of the IFRS Foundation. However, our experience is that obtaining a consensus on core global principles might take some time. Unlike financial reporting standards which have developed and become “generally accepted” over many

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decades, non-financial reporting has evolved in a much more limited number of years and therefore many different stakeholders, investors, countries and individuals still have legitimately different views on what forms of reporting should be required and what and how it should be measured. This has contributed at least in part to the diversity in presentation and measurement of non-financial metrics. Despite the collaboration and consolidation efforts currently underway, there are still quite a number of quality standards and frameworks that have already been created, however these can overlap and cause confusion.

Having said that and since time is of the essence, we think it is a logical step that in the short-term various regional initiatives will occur. In this context, we explicitly welcome the many important initiatives at the level of the European Union which are in our view at the forefront of sustainability activities in the global context. Regarding developments in non-financial reporting, we welcome the upcoming revision of the Non-Financial Reporting Directive (NFRD) and EFRAG's European Reporting Lab Project Task Force on preparatory work for possible EU non-financial reporting standards as mandated by the European Commission.

We think the short-term goal of any global, regional or local standard setter should be to define certain base metrics key to their needs and objectives and then link these to those that have already been used and tested in practice in order to not add another layer of regulation. Linking these base measures to existing standards and guidance on how to report would also be helpful and reinforce consistency and comparability. This will help promote convergence and consistency over time and align with any global initiative. It will also mean that work can be done in parallel by global and regional initiatives. Adhering to this approach, we believe that globally harmonised and EU-specific standardisation are complementary to each other in the short and mid-term and not in contradiction. In the long-term we are of the view that standards should be set globally. Therefore, a standard-setter at EU level should strive to work together with other standard-setters towards global standards.

Collaboration with existing initiatives

Referring to our considerations above, we strongly agree with the notion laid out in the Consultation Document that a possible future EU non-financial reporting standards setter must build on existing reporting standards and frameworks to the greatest possible extent and leverage the best of existing standards. This aspect has already been stressed in the Annex of the ad personam mandate on non-financial reporting standard setting ("general consideration"), highlighting that relevant standard-setting organisations shall be closely associated in any future standardisation work.

Collaboration will be a key requirement to making progress and achieving harmonisation and comprehensive high-quality sustainability reporting standards that address investor and stakeholder needs beyond financial reporting. It should be avoided in any case to create even more divergence in non-financial reporting. "Starting from scratch" would unlikely be acceptable to any of the key stakeholders. The key advantage of drawing on existing approaches is that this would build on work already undertaken and the trust such established organisations have already built among stakeholders.

A key question remains on how to best include the existing non-financial reporting initiatives in EFRAG's organisational structure. It needs to be ensured that these initiatives are adequately reflected in the governance structure in order to be able to contribute meaningfully. Without robust working relationships



with these initiatives and willingness to make use of their experience and skills it will be difficult if not impossible to develop a set of standards that gain widespread acceptance on a timely basis. Furthermore, lack of alignment with other established initiatives will most likely lead to a competitive disadvantage for companies being subject to EU non-financial reporting requirements.

EFRAG's governance structure

In general, EFRAG's internal governance and organisational structure on non-financial reporting issues and its purpose and mission should be aligned to the above-mentioned considerations. There should be general agreement on the notion that businesses, investors, auditors, governments including regional government agencies, stock exchanges, regulators, standard setters, industry bodies and consumer associations and broader societal stakeholders all have a role to play and should be reflected accordingly in the appropriate governance bodies or in consultative functions. It is also worthwhile to mention that many of the already existing non-financial standard setters and organisations have governance bodies independent from the standard-setting function, well-respected Board members, and have sought buy-in from business, investors and other stakeholders creating a wealth of knowledge in that area. In any case it should be ensured that high-level expertise and independence of board members is given.

It might also be beneficial to consider a more lean governance structure as proposed in the Consultation Document since in the short-term much focus should be put on collaboration with existing non-financial reporting initiatives, while EFRAG's task in the long term might potentially be mostly the endorsement of then globally aligned non-financial reporting standards – similar to the role EFRAG is currently fulfilling with regard to the endorsement of IFRS issued by the IASB.

We propose to establish an EU interpretations board responsible for interpretation of the various EU regulations on sustainability issues. Current experience has shown that such an interpretations board would be very helpful in solving application issues for instance with regard to the EU taxonomy and ensure a consistent application of the requirements across organisations and territories. We refer to the IFRS Interpretations Committee, responsible for issuing agenda decisions with respect to the application of IFRS, as a possible example regarding structure, connectivity with the standard setting body and scope of work. In our view, it would be necessary to install such an interpretations committee under the roof of EFRAG.

Global non-financial reporting standards: a transitory journey

As stated above, we welcome the initiative to consider avenues for developing non-financial reporting standards at the level of the European Union. We strongly support EFRAG's role as a leading authority in the transition to more coordination and cohesion at the international level, leveraging the leading role of the European Union with regard to sustainable finance to drive global alignment fast and effectively. In our view, these efforts, including EFRAG's role in this, should be considered as part of a transitory journey towards globally applied high-quality non-financial reporting standards in the medium- to long-term. If further consolidation efforts take place, EFRAG could then move from developing non-financial reporting standards to being responsible for the endorsement of globally aligned standards. Of course, those globally



aligned standards could then also form a “base line” of harmonised reporting and could be amended by additional EU regulation where there are “white-spots” that need to be filled. That should however not lead to additional overly burdensome requirements.

We look forward to working with EFRAG and the EU legislators and continuing to share our perspectives as the initiatives progress. If you have any questions regarding our response, please contact Sebastian Heintges at sebastian.heintges@pwc.com. Please see the appendix to this letter for our more detailed responses to your questions.

Yours sincerely,

A handwritten signature in black ink, appearing to read "M Stewart", with a long horizontal flourish extending to the right.

Michael Stewart
Global Leader, Corporate Affairs and Communications

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Appendix

QUESTION 1 - DUE PROCESS

Do you agree that the above reflects the key due process steps for open and transparent non-financial standard setting? If not, which other steps would you advise me to consider or to remove?

- Overall, EFRAG's proposal for a due process includes the key steps for a comprehensive standard setting process.
- However, as outlined above any future European non-financial reporting standard should build on existing reporting standards and frameworks to the greatest possible extent. Due to the international set-up of capital markets and the embedding of the EU in an interconnected world, international cooperation is key. International cooperation is also key as we see an urgent need for a new set-up of mainstream reporting that provides for more strategic, holistic information about long term value creation.
- As existing reporting standards and frameworks have already gone through - individually differently designed - due processes, EFRAG should be open to a more lean due process from case to case (e.g. breadth and depth of field trials, extent of stakeholder consultation, etc.).
- This would also take account of the fact that the transformation of the EU reporting landscape is proceeding quickly and that preparers of non-financial reporting need sufficient time to implement new reporting requirements.

QUESTION 2 - MEMBER STATES AND NATIONAL PUBLIC AUTHORITIES

Considering the proposed new governance structure (see section 5 EFRAG proposed new core structure) at what level do you consider that the relevant national authorities should be involved and should they be members or observers:

- EFRAG General Assembly?
- The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?
- The Non-Financial Reporting Board?
- TEG for Non-Financial Reporting?

Should a Consultative Forum (similar to the Consultative Forum of Standard Setters in the Financial Reporting pillar) or any other form of advisory committee; be created for the Member States and national public authorities?

- As outlined above, we strongly support EFRAG's role as a leading authority in the transition to more coordination and cohesion at an international level. It is important to bring the European voice into this process as the EU is in many aspects at the forefront of sustainability activities.
- In our view, EFRAG should represent the European view on non-financial reporting and on the importance of interconnectivity between financial and non-financial reporting during this transitional process. Therefore, the representation of member states and national authorities should be set at the same level as for financial reporting.



- As within the current structure of EFRAG for financial reporting, there should be a consultative forum with member states and national public authorities for non-financial reporting. In our view, Consultative Forums are an effective way to gather appropriate input and views from the EU.

QUESTION 3 - EUROPEAN INSTITUTIONS AND AGENCIES

Considering the proposed new governance structure (see section 5 EFRAG proposed new core structure) at which level do you consider European institutions and agencies should have representatives and should they be members or observers:

- The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?
- The Non-Financial Reporting Board?
- TEG for Non-Financial Reporting?
- The Working Groups?

Should a Consultative Forum or any other form of advisory committee; be created for European Institutions and Agencies to provide input to the TEG for Non-Financial Reporting and the Non-Financial Reporting Board?

- We believe that comprehensive reporting should cover all aspects of sustainable value creation, and European institutions and agencies bring important expertise to various aspects of such a reporting. This expertise ranges from ESG matters to regulatory requirements and impact on capital markets. Therefore, European institutions and agencies shall be involved in the future process for non-financial reporting standards. As with financial reporting, we think European institutions and agencies should generally be observers in the Non-Financial Reporting Board meetings.
- We understand from the Annex of the ad personam mandate on non-financial reporting standard setting (“general consideration”), the EEA and the Platform on Sustainable Finance shall participate as full members in any future standardisation work. They are both important players to ensure that future non-financial reporting requirements are aligned with Europe’s path to a carbon-neutral economy and with relevant legislation in this regard. However, as outlined above, European non-financial reporting standards should build on existing reporting standards and frameworks to the greatest possible extent and reflect a holistic view on value creation. Therefore, care should be taken to make sure that close collaboration with existing non-financial reporting initiatives and a holistic approach on ESG is reflected in EFRAG’s future governance.

QUESTION 4 - PRIVATE SECTOR AND CIVIL SOCIETY

Considering the proposed governance structure (see section 5), at which level do you consider private sector and civil society ought to have representatives:

- The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?
- The Non-Financial Reporting Board?
- TEG for Non-Financial Reporting?
- The Working Groups?



- We agree on the notion that businesses, investors, auditors, governments including regional government agencies, stock exchanges, regulators, standard setters, industry bodies and consumer associations and broader societal stakeholders all have a role to play and should be reflected accordingly in the appropriate governance bodies or in consultative functions.
- However, we do not think that stakeholders from the private sector and civil society should be explicitly included in the governance structure (e.g. by allocating reserved seats in specific boards). We think it is crucial to ensure that persons with sufficient technical expertise for standard setting are selected in a robust nomination process and the standard setting process is sufficiently publicly transparent (e.g. sound due process, publication of material, recordings of meetings). Private sector and civil society will then be part of standard-setting via e.g. consultation processes/comment letters. Dedicated experts on certain matters from the private sector and civil society should therefore be included as technical advisors on a case by case basis.

QUESTION 5 - SMEs

Considering the proposed governance structure (see section 5), at which level do you consider SMEs (SMPs) should be represented:

- The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?
- The Non-Financial Reporting Board?
- TEG for Non-Financial Reporting?
- A SME- focused Working Group?

Would it be sufficient to seek input of SMEs/SMPs in the public consultation and outreaches rather than involve them in the governance bodies?

- We think it might be beneficial to include SMEs as stakeholders in an appropriate way in the standard setting process. Potentially it might be worthwhile to consider publishing separate non-financial reporting standards (e.g. a more lean version of the full standards, similar to IFRS for SME) for small and mid-sized enterprises.
- However, in our view, targeting SMEs should be focussed on at a later stage. Primary focus should now be on getting a functioning structure up and running in the short term, able to produce high-quality non-financial reporting standards by collaborating with existing initiatives.
- Maybe, a dedicated working group could be set-up at a later stage for SMEs. This group could build up on the work done for large listed entities.

QUESTION 6 - COOPERATION WITH OTHER STANDARD SETTERS AND INITIATIVES

What do you see as main features of cooperation with the (global) reporting initiatives? What kind of involvement could you consider?

- We strongly agree with the notion laid out in the Consultation Document that a possible future EU non-financial reporting standards setter must build on existing reporting standards and frameworks to the greatest possible extent and leverage the best of existing standards.
- Collaboration will be a key requirement to making progress and achieving harmonisation and comprehensive high-quality sustainability reporting standards that address investor and



stakeholder needs beyond financial reporting. Wherever possible existing standards issued by global bodies should be leveraged in making rapid progress. Where possible they should use definitions and metrics that source from existing sustainability standards. These are well defined and commonly understood and this will help avoid divergence and confusion. It should be avoided in any case to create even more divergence in non-financial reporting. “Starting from scratch” would unlikely be acceptable to any of the key stakeholders. The key advantage of drawing on existing approaches is that this would build on high-quality work already undertaken and the trust such established organisations have already built among stakeholders.

- A key question remains on how to best include the existing non-financial reporting initiatives in EFRAG’s organisational structure. It needs to be ensured that these initiatives are adequately reflected in the governance structure in order to be able to meaningfully contribute (e.g. advisory council, or even voting roles). Without robust working relationships with these initiatives and willingness to make use of their experience and skills it will be difficult if not impossible to develop a set of standards that gain widespread acceptance on a timely basis. Furthermore, lack of alignment with other established initiatives will most likely lead to a competitive disadvantage for companies being subject to EU non-financial reporting requirements.

QUESTION 7 - EFRAG BOARD

What in your view should be the maximum size the new EFRAG Board?

Which stakeholders should be represented and in which proportion?

Should there be observers? If so, who should be the observers?

Do you foresee any obstacles that may arise were the EFRAG Board charged with oversight to include representatives of the Non-Financial Reporting Board and the Financial Reporting Board?

Should the EFRAG Board appoint the members of both TEGs and the European Lab, or should this be done by their respective Boards (Non-Financial Reporting Board and the Financial Reporting Board)?

- First and foremost, there should be no organisational obstacles regarding size and collaboration/monitoring activities of governance bodies. Focus should be on the readiness to operate efficiently and with high quality.
- It might however be considered to work on a more lean governance structure as proposed in the Consultation Document. To our understanding, the tasks of the current EFRAG Board would be transferred to the newly established Financial Reporting Board. Keeping the EFRAG Board while introducing the Financial and the Non-Financial Standard Boards underneath effectively introduces an additional layer of governance (at least for the financial reporting pillar). This additional layer might be necessary for the more sophisticated process of standard setting but it might be argued if it is necessary for endorsing financial reporting standards (i.e. IFRS standards) as it has not been necessary in the past. We are in favor of a lean governance structure, particularly in light of future developments and EFRAG being perhaps at a future date being only primarily responsible for endorsing standards also for non-financial reporting.
- We propose to establish an EU interpretations board responsible for interpretation of the various EU regulations on sustainability issues. Current experience has shown that such an interpretations board would be very helpful in solving application issues for instance with regard to the EU taxonomy or other regulations and ensure a consistent application of the requirements across organisations and territories. We refer to the IFRS Interpretations Committee, responsible for issuing agenda decisions with respect to the application of the IFRS, as a possible example regarding structure, connectivity with the standard setting body and scope of work. In our view, it



would be necessary to install such an interpretations committee under the roof of EFRAG, however the specific involvement of such a committee remains to be discussed once there is an overall agreement on the basic governance of EFRAG.

QUESTION 8 - NON-FINANCIAL REPORTING BOARD

What in your view should be the maximum size of the new Non-Financial Reporting Board?

Which stakeholders should be represented and in which proportion?

Should there be observers? If so, who should be the observers?

Should the Non-Financial Reporting Board members be appointed by the EFRAG General Assembly on recommendation of the EFRAG Board or directly by the EFRAG Board?

How can the interconnectivity between the Financial Reporting Board and the Non-Financial Reporting Board be ensured?

- In any case it should be ensured that the members of the non-financial reporting Board are composed of renowned experts in reporting issues, standard setting activities, and also corporate issues such as how to generate data necessary for reporting and how standards need to be designed to allow for external assurance.
- As already discussed, alignment with other existing initiatives is key. Therefore, it should be ensured that collaboration of the non-financial reporting Board with these initiatives will be feasible in a meaningful and effective way. To foster interconnectivity between financial and non-financial reporting, it might be beneficial to have one or two board members as observers at the other board and vice versa.
- Moreover, we note that EFRAG as of now is responsible for providing endorsement advice for IFRS as issued by the IASB to the European Commission. If further consolidation efforts of non-financial reporting initiatives take place in the medium- to long-term, EFRAG could then move from developing non-financial reporting standards – by building upon what is already there – to being responsible for the endorsement of globally aligned non-financial reporting standards; similar to the current role with regards to IFRS.

QUESTION 9 - TEG FOR NON-FINANCIAL REPORTING

What in your view should be the maximum size of the new Non-Financial Reporting TEG?

Which stakeholders should be represented and in which proportion? Should there be observers? If so, who should be the observers?

Do you agree that EFRAG TEG members are recommended by the EFRAG Non-Financial Reporting Board but appointed by the EFRAG Board rather than be appointed by the EFRAG Non-Financial Reporting Board?

How can the interconnectivity between the Financial Reporting TEG and the Non-Financial Reporting TEG be ensured?

- We think there should be a non-financial reporting TEG core team equipped with adequate resources and expertise to fulfil their responsibilities.
- As for the non-financial reporting board it might also be beneficial for interconnectivity between financial and non-financial reporting to have one or two TEG members to be observers at the other TEG (FR) and vice versa (TEG NFR).



- We think it might also be worthwhile to form content-specific working groups that could act on pressing matters (e.g. specific climate matters). Establishing these working groups at TEG level could also facilitate strong collaboration with existing initiatives such as GRI.

QUESTION 10 - ACTIVITIES OF THE EUROPEAN LAB

Do you agree that there is a need for a European Lab activity in the revised EFRAG governance structure?
Do you agree that the European Lab could address both non-financial reporting and financial reporting activities?

Do you have other comments or suggestions regarding the activities of the European Lab?

- We welcome the work the European Lab has performed and agree that there is a need for a European Lab in the revised EFRAG governance structure. The European Lab's objective is to stimulate innovation in the field of corporate reporting in Europe by identifying and sharing good reporting practices. We believe that innovation is an important driver to ensure that corporate reporting remains relevant in a fast changing, interconnected world. One of the most challenging aspects that the European Lab could focus on, is how to ensure connectivity between financial and non-financial reporting.

QUESTION 11 - FUNDING

Considering the proposed governance structure in this consultation document:

Should the majority of the funding, or even all the funding, be provided by the European Commission and the Member States?

Is it important that the private sector contributes to the funding and why? Should the public-private sector partnership model also be reflected in the funding?

Would a levy at national or European level be feasible?

What alternative financing mechanism would you suggest being considered?

- We want to emphasise that funding should be structured in a way that ensures the independence (in fact and in appearance) of the standard setter and the persons in charge.
- We further emphasize that, considering our comments made above, standard setting conducted by EFRAG would be a transitory solution on the way to a globally aligned standard setter, with EFRAG being perhaps primarily responsible for the endorsement task. This should also be reflected in the funding mechanism.
- The global standard setters will need funding as well, which is likely to be structured like the funding of the current IASB. We believe that a private funding of a government body at European Union level that ultimately should serve to endorse standards developed by an independent, privately organised but globally accepted standard setter would put undue burden on European companies. We also believe that the EFRAG endorsement mechanism should be lean and fit for purpose and therefore consider it appropriate that the funding is provided primarily by the European Commission and member states.