

6 September 2021

Mr. Jean-Paul GAUZÈS
EFRAG Board President

Square de Meeûs, 35
B-1000 - Brussels
Belgium

Re: Consultation Paper on due process procedures for EU sustainability reporting standard-setting

Dear President Gauzès,

The *Stakeholder Reporting Committee* (SRC) is a committee of the *European Accounting Association* (EAA) whose mission is to actively participate in the debate about how organisations can, and should, inform their wide range of stakeholders about their activities, including their impact on society. It focuses on the non-financial or sustainability reporting. Further, given that non-financial information is increasingly attracting the interest of regulators, our Committee also aims to create awareness of the policy issues amongst our membership and to collaborate with policy makers and standard setters with a view to allowing the academic community's research expertise to have an impact on emerging policies and standards.

We provided our comments to the *Consultation Paper on the ad personam mandate on potential need for changes to the governance and funding of EFRAG*. Our letter dated 4 January 2021 referred to:

- the need to clarify that the *Non-financial Reporting Board* (now renamed as *EFRAG Sustainability Reporting Board* - EFRAG SRB) should be the only body responsible for the development of the *EU Sustainability Reporting Standards* (ESRS) and
- the lack of details about the requirements to be a *Non-financial Reporting Board* (currently EFRAG SRB) member, and the independence of this Board.

We realize that the final report issued by EFRAG the 5 March 2021 clarified the issues about the Board, but it did not solve the perceived lack of independence of Board members. We understand this is not addressed in the current consultation referred to the due process, but we wish to draw attention to this issue since, in our view, it is particularly serious given that the EFRAG SRB will approve the draft ESRS.

That said, it seems rather unusual to us that the body that prepares the ESRS is the *EFRAG Sustainability Reporting Technical Expert Group* (EFRAG SR TEG), although EFRAG SRB takes full responsibility. Moreover, EFRAG SRB is almost forced to accept the EFRAG SR TEG's proposal. The Board might ask the EFRAG SR TEG to reconsider its proposal only if it "does not meet the needs of EU legislation, in particular, any specific requirements of the proposal for a

CSRD, or any other European public good considerations” (see paragraphs 5.17 and 5.18). Thus, although it is not entirely clear, it seems that the EFRAG SR TEG is an internal mechanism of EFRAG with tremendous power over the draft standards and the EFRAG SRB.

We wish to emphasize that we agree in general terms with the *Consultation Paper on due process procedures for EU sustainability reporting standard-setting*. However, we provide two additional comments below.

Comment #1 Accelerated due process

Paragraph 1.5 refers to an accelerated due process. This approach could be understandable under some circumstances but also a bit dangerous, particularly considering the standards that have to be approved before the end of October 2022.

Paragraph 1.6 differentiates between:

- a) minimum steps to be taken to ensure that the activities have benefited from a thorough and effective public consultation process and
- b) additional non-mandatory steps to be considered by EFRAG SRB for each project.

It would be good to confirm that the “accelerated process“ does not exclude any of the minimum (a) steps.

It should be noted that although, as indicated in paragraph 4.3, there was a prior *Project Task Force on Preparatory work for the elaboration of possible EU nonfinancial reporting standards* (PTF-NFRS) that prepared some recommendations and issued a report in March 2021, these recommendations did not follow due process. We hope the new *EFRAG Project Task Force on European sustainability reporting standards* will follow a proper due process.

Comment #2 Public consultations

It is understandable that, to the extent that standards are prepared by the EFRAG SR TEG, the due process in terms of public sessions and documents also applies to that intermediate/internal body. As indicated in paragraph 2.7, private discussions may take place, but they are expected to relate to administrative (e.g., nominations) and other non-technical matters. Also, as paragraph 5.3 states, the EFRAG SRB might decide not to undertake some of the due process steps, but only those that are non-mandatory (see paragraph 5.2), and debating any proposals in one or more public meetings is a mandatory step (paragraph 5.1).

It is not clear who is responsible for organizing the public consultations on the exposure drafts and other consultation documents (see paragraphs 5.1 and 5.2). Is it the EFRAG SR TEG or the EFRAG SRB? Paragraph 5.22 mentions that some materials that support the exposure drafts can be issued by the EFRAG Secretariat in consultation with the EFRAG SR TEG. But what about the exposure drafts?

Sincerely,

Begoña Giner

SRC Chair

On behalf of the Stakeholder Reporting Committee

European Accounting Association

(<http://www.eaa-online.org/r/SRC>)