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Invitation to comment on the Consultation Paper *Due Process Procedures for EU Sustainability Reporting Standard-Setting*

Dear Mr. Gauzès,

We appreciate the opportunity to comment on the Consultation Paper *Due Process Procedures for EU Sustainability Reporting Standard-Setting*. This comment letter summarizes the Allianz Group's key positions on the proposals outlined in the Consultation Paper.

We would like to reiterate that as a global sustainability reporting solution is difficult to achieve within a short period of time, in view of the subject's urgency, there is a need for action by the EU and we therefore appreciate its strong engagement. As such, we welcome that EFRAG has launched the technical work for its Technical Advice to the EU COM in project mode by establishing the EFRAG Project Task Force on European sustainability reporting standards (PTF ESRS), thus prolonging the work of the previous EFRAG PTF on Non-Financial Reporting Standards (PTF NFRS). Yet, **we deem it as absolutely essential that appropriate transparency measures and inclusive due process solutions are ensured already during the interim phase** and that EFRAG provides further information in this regard within its final Due Process Procedures (DPP).

Also, **we strongly believe that where the Corporate Sustainability Reporting Directive (CSRD) proposal specifies expectations or objectives relevant for the ESRS, this should translate correspondingly into EFRAG's objectives and, accordingly, be clearly reflected in the DPP**. As such, we believe that the DPP should more strongly reflect the need to a) consider the financial sector's extensive EU sustainability reporting requirements, b) collaborate with relevant international sustainability reporting organizations (e.g. IFRS Foundation, TCFD), and c) take account of existing standards and frameworks for sustainability reporting and accounting where appropriate, including any sustainability reporting standards developed under the auspices of the IFRS Foundation. These CSRD provisions should, among others, represent key focus areas of the relevant oversight bodies.

As to the due process more generally, high-quality ESRS can only be achieved if the key principles of independence and transparency are fulfilled and an inclusive due process is in place, granting the interested public and stakeholders sufficient possibilities to get involved. In principle, the due process as currently applied in the financial reporting context under IFRS has proven successful in financial reporting and can, thus, serve as a point of reference in many respects. While some adaptations and / or simplifications may be necessary given the need to make timely progress, **we deem it as absolutely essential that any simplified due process solutions such as shortened consultation periods as well as any decisions to not undertake one or more of the proposed non-mandatory due process steps are in fact appropriate and that there is wide agreement in this regard, also during the interim phase.** This should, among others, represent a key focus area of the relevant oversight bodies.

Indeed, **while given the high time pressure, we acknowledge that EFRAG has to find practicable solutions, we do not believe that the DPP represent the appropriate element for adjustments / simplifications.** Rather, in case of doubt, judgment or unexpected timing issues or delays, we believe that a) appropriate safeguards shall apply that allow for reporting on a best-effort basis without exposing companies to uncontrollable legal and / or reputational risks during an initial phase and b) **the first set of ESRS shall be centered around key topics and especially tailored towards the financial sector's information demands given its extensive EU sustainability reporting requirements.**

Related to this, while we fully agree that the EFRAG PTF NFRS's recommendations should be taken into account in further due course, the Consultation Paper strongly suggest that all of these recommendations in fact need to be followed. In this regard, we would like to emphasize that a) this work has been conducted on a project basis only and not (yet) been subject to a full due process, b) on some recommendations, a meaningful number of EFRAG PTF NFRS members had a dissenting opinion, and c) new members of the EFRAG PTF ESRS should also be able to express their opinions and bring in their expertise. Accordingly, **where deemed appropriate, we believe that the EFRAG PTF ESRS and, subsequently, the EFRAG bodies in charge of developing the Technical Advice to the EU COM should be able and even encouraged to scrutinize the EFRAG PTF NFRS's recommendations.** In this context, they should, in particular, take into account further developments that took place since the EFRAG PTF NFRS's report was issued such as the fact that the IFRS Foundation will likely develop a global sustainability reporting baseline.

As to the work plan, **given that sustainability reporting is a comparably less mature field and that EFRAG is just now taking on its new role, we do not believe that consultations on the work plan every three years would be sufficient in an initial phase**, until a reasonable level of maturity has been reached. In addition, we believe that it should be clearly specified in the DPP that international developments shall be taken into account when defining the work plan as well.

Finally, **the quality and acceptance of the ESRS also significantly depends on funding and the extent to which EFRAG will be able to ensure appropriate technical expertise in a timely manner and from the beginning.** In this regard, we believe that involving relevant international standard-setting organizations, including the IFRS Foundation, directly as members or via dedicated working groups, task forces or advisory panels, as appropriate, would be particularly promising.

The appendix to this letter sets out our view and detailed comments on the specific proposals brought forward in the Consultation Paper, with a focus on the issues which are of particular relevance for us.

We hope that our feedback is helpful for you. Please feel free to contact Dr. Julia Menacher (Julia.Menacher@allianz.com) or us to discuss any matters raised in this letter.

Yours sincerely,



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Head of Group Accounting & Reporting



Andreas Thiele

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Appendix: Consultation Paper *Due Process Procedures for EU Sustainability Reporting Standard-Setting* – Views by Allianz Group

We would first like to take the opportunity to make the following introductory remarks:

- We provided very detailed feedback to the two previous consultations about EFRAG's governance and funding structure, in case EFRAG was entrusted with the development of European sustainability reporting standards (ESRS), which dealt with the due process for these standards as well, among other topics. The positions herein, however, focus on the specific proposals brought forward in the Consultation Paper *Due Process Procedures for EU Sustainability Reporting Standard-Setting*. Nonetheless, ultimately, all of our feedbacks should be considered on a combined basis as, together, they comprehensively reflect our overall view.
- In our view, high-quality ESRS can only be achieved by an independent standard-setting body of experts, which in turn applies an inclusive and transparent due process, namely granting the interested public and stakeholders reasonable and sufficient possibilities to get involved. This is of key importance to ensure that resulting standards are relevant for and responsive to the needs of all stakeholders. In principle, the due process as currently applied in the financial reporting context under IFRS has proven successful in financial reporting and can, thus, serve as a point of reference in this context, especially with view to its public consultation procedures.
- We noted that EFRAG postulates the following: "EFRAG's legitimacy is built on its transparency, governance, due process, public accountability and thought leadership.". While we generally agree, we would like to emphasize that this also significantly depends on funding and the extent to which EFRAG will be able to ensure appropriate technical expertise in a timely manner and from the beginning. In this regard, we believe that e.g. involving (selected relevant) existing international standard-setting organizations (at least the "Statement of Intent" initiative and the IFRS Foundation) directly as members / observers or via dedicated working groups, task forces or advisory panels, as appropriate, would be particularly promising.

In addition, the following overarching remarks relate to the proposals more generally:

- The proposals put forward by EFRAG in the Consultation Paper are often of rather high-level / generic nature. Accordingly, we sometimes missed more detailed and specific information about the envisaged Due Process Procedures (DPP) as well as a corresponding rationale as to why this due process set-up is proposed and deemed as most suitable. This rendered it more difficult to assess whether the DPP can be considered as sufficient and the best option. In other words, while the proposed DPP seem to generally be able to accommodate all relevant steps in an appropriate way (as soon as the final EFRAG governance structure has been implemented), this cannot be conclusively evaluated based on the information provided at this stage.
- Where the Corporate Sustainability Reporting Directive (CSRD) proposal specifies expectations or objectives that are also relevant for the ESRS, this should translate correspondingly into EFRAG's objectives and, accordingly, be clearly reflected in the DPP.
 - For example, the CSRD proposal specifies the following: "This set of standards should specify information that companies should report about all sustainability matters and all reporting areas listed in Article 19a(2). These delegated acts should at least specify the information that companies should report to serve the needs of financial market participants subject to the disclosure requirements of Regulation (EU) 2019/2088.". Accordingly, we expect that this requirement is also clearly reflected in the DPP and that this would also be a key focus area of the Administrative Board (AB) / Due Process Committee (DPC).
 - A similar rationale applies to the degree to which EFRAG collaborates with relevant sustainability reporting initiatives / organizations, which is partly, but should be more strongly and systematically reflected in the DPP. For example, while a Statement of Cooperation has been signed with the Global Reporting Initiative (GRI), it is still unclear how the collaboration

will ultimately be structured. Related to this, we deem it as absolutely essential for EFRAG to also collaborate with the IFRS Foundation; this is indispensable to achieve a building blocks approach and ensure compatibility with the envisaged global sustainability reporting baseline.

- The CSRD proposal also specifies the following two aspects: “In order to minimise disruption for undertakings that already report sustainability information, sustainability reporting standards should take account of existing standards and frameworks for sustainability reporting and accounting where appropriate. Those include the Global Reporting Initiative, the Sustainability Accounting Standards Board, the International Integrated Reporting Council, the International Accounting Standards Board, the Task Force on Climate-related Financial Disclosures, the Carbon Disclosure Standards Board, and CDP (formerly the Carbon Disclosure Project).” and “Standards of the European Union should take account of any sustainability reporting standards developed under the auspices of International Financial Reporting Standards Foundation.”. Accordingly, we expect that these requirements are also clearly reflected in the DPP and that they would also be a key focus area of the AB / DPC.
- Given the urgent need to make timely progress with regard to increasing the transparency and comparability of sustainability reporting in the EU (and globally), we welcome that EFRAG has launched the technical work for its Technical Advice to the EU COM in project mode by establishing the EFRAG Project Task Force ESRS (PTF ESRS), thus prolonging the work of the previous EFRAG PTF Non-Financial Reporting Standards (PTF NFRS). However, we deem it as absolutely essential that appropriate transparency measures and due process solutions are established from the beginning, i.e. also while interim technical work is undertaken by the EFRAG PTF ESRS. As such, we fully agree that the DPP shall, wherever relevant, apply during this interim phase as well, and, thus, not only as soon as the final EFRAG governance structure has been implemented. This is particularly relevant as the foreseen EFRAG governance and oversight structure will, in our understanding, not be in place until at least early 2022. Therefore, it is likely that EFRAG’s Technical Advice to the EU COM (at least regarding the first set of ESRS) will to a significant extent rely on work conducted by the EFRAG PTF ESRS. Among others, EFRAG needs to make it transparent to the public and, upon handover, to the Sustainability Reporting Board (SRB) and the Sustainability Reporting Technical Expert Group (SR TEG) as to which topics / recommendations, no consensus could be reached.
- The DPP should apply analogously to any (potentially upcoming) related work conducted by the sustainability reporting pillar within the EFRAG governance or the European Lab, if / where relevant / applicable, e.g. for the development of a digital taxonomy.

In what follows, we lay out our detailed comments as to specific proposals brought forward in the Consultation Paper, separately for the proposals on 1) due process principles, 2) work plan, 3) due process oversight, 4) due process steps, 5) interim technical work, and 6) review.

1) Due process principles

Transparency. We fully support the proposed measures to ensure transparency. However, the following should be considered by EFRAG in our view:

- It is absolutely essential that transparency is ensured from the beginning, i.e. also with regard to the interim technical work undertaken by the EFRAG PTF ESRS (see above).
- EFRAG should undertake concrete steps to ensure transparency on a) how it will contribute to a global solution and the envisaged timeline in this regard and b) how it will collaborate with international initiatives (see above). Given EFRAG’s commitment to engage in a co-construction approach and to support a building blocks approach as well as the fact that the market strongly calls for a global solution, transparency in this regard is of particular importance. The fact that

the CSRD proposal also specifies respective expectations / objectives further corroborates this argument (see above).

- While we welcome that the Chair of the SRB and the Chair of the SR TEG “can” invite other sustainability reporting standard setters or initiatives or other individuals to meetings, if appropriate, we believe that they should even be obliged to do so, given the EU COM’s objectives laid out in the CSRD proposal (see above).
- While we understand that selected meetings / documents should not be public / made publicly available, we believe that a requirement should be implemented for the respective bodies to report to the AB / DPC at least on an annual basis on the extent to which material discussed has not been made publicly available (at all or with sufficient lead time) and the respective reasoning.

Public consultation. We fully support EFRAG’s intention to publicly consult on its Technical Advice to the EU COM on an inclusive basis. Comprehensive involvement is of key importance to ensure that standards are developed in a balanced manner and are not solely driven by the, admittedly urgent, need for action and respective (EU) political objectives. While a due process as applied in financial reporting under IFRS would likely be too time-consuming at this stage, we still deem it as essential that a reasonable timeframe and inclusive set-up for public consultations is chosen. Otherwise, we perceive a high risk of introducing an insufficiently substantiated short-term solution that requires numerous subsequent revisions / improvements and respective conversions by preparers, which would be highly detrimental with view to transparency and comparability as well as entail significant additional / double implementation effort.

Impacts. We fully support EFRAG’s intention to include impact assessments into its Technical Advice to the EU COM. Both public consultation as well as fieldwork will play a key role in this regard. Please refer to section 5) below for more specific comments on the foreseen impact analyses.

2) Work plan

Public consultation. We fully agree that public consultation and impact assessments are also of key importance to define the work plan. However, given that sustainability reporting is a comparably less mature field and that EFRAG is just now taking on its new role, we do not believe that consultations on the work plan every three years would be sufficient in an initial phase, until a reasonable level of maturity has been reached.

International developments. In addition, we believe that it should be clearly specified in the DPP that international developments shall be taken into account when defining the work plan as well, given the EU COM’s expectations / objectives laid out in the CSRD proposal (see above).

EFRAG PTF NFRS recommendations. While we generally agree that the SRB should “review whether and how the [EFRAG PTF NFRS’s] recommendations (...) have been followed and decide whether further input is needed from stakeholders to complete the agenda”, this formulation as well as the proposals on p. 4 of the Consultation Paper strongly suggest that all of these recommendations in fact need to be followed. In this regard, we would like to emphasize the following:

- a) This work has been conducted on a project basis only and not (yet) been subject to a full due process;
- b) Some recommendations, e.g. on intangibles, were intensely debated and a meaningful number of EFRAG PTF NFRS members had a dissenting opinion; and
- c) new members of the EFRAG PTF ESRS should also be able to express their opinions and bring in their expertise.

Accordingly, where deemed appropriate, we believe that the EFRAG PTF ESRS and, subsequently, the SRB should be able and even encouraged to scrutinize these recommendations. In this context, they should, in particular, take into account further developments that took place since the EFRAG PTF NFRS’s report was issued such as the fact that the IFRS Foundation has in the meantime

announced the establishment of a dedicated sustainability reporting standard-setting board that would most likely develop a global sustainability reporting baseline.

Post-implementation Review. While we fully support the proposal for Post-implementation Reviews to form part of EFRAG's work plan, we believe that it should be clearly specified in the DPP that such assessments should, among others, take into consideration international developments, especially given that the EU COM shall as per the CSRD proposal also "at least every three years after its date of application, review any delegated act adopted pursuant to this Article, taking into consideration the technical advice of the European Financial Reporting Advisory Group (EFRAG), and where necessary shall amend such delegated act to take into account relevant developments, including developments with regard to international standards".

Research program. As to the research program, we do not believe that EFRAG should only "influence", but, in particular, "contribute to" the development of global sustainability reporting standards.

3) Due process oversight

Due Process Committee. We would highly welcome if, as proposed, a dedicated DPC was set up from amongst the AB members that would, among others, review the composition of consultative groups to ensure an appropriate balance of perspectives and backgrounds, and oversee the monitoring activities performed by the SRB and SR TEG of the effectiveness of those groups. However, in our view, the DPC should operate on a qualified majority (instead of a simplified majority) basis in supporting the AB in its due process oversight and due process oversight decisions.

Transparency. We fully agree that the AB should meet in public when addressing matters related to the due process. In this regard, any matters raised by outsiders (i.e. not AB / DPC members) to which the AB responds as per paragraph 3.14 should also be discussed in public. In addition, we suggest for the DPC to additionally prepare reports on their activities and any matters raised on a regular basis. These reports should be made publicly available on the EFRAG website.

Simplified DPP. While we generally agree that a robust, yet agile and adaptable due process is necessary to meet urgent standard-setting needs within a rapidly moving landscape, we deem it as absolutely essential that any fast-track or simplified due process solutions (in general and during the interim phase) are in fact appropriate and that there is wide agreement in this regard. Pace shall not come at the expense of quality (at least not to a significant / unreasonable extent). This should, prospectively, be a key focus area of the AB / DPC.

4) Due process steps

Non-mandatory steps. We fully agree that all of the proposed mandatory steps are indispensable. Moreover, we strongly support that further non-mandatory steps shall be considered in addition. In this regard, we fully agree that if the SRB decides not to undertake those non-mandatory steps, it needs to inform the AB / DPC of its decision and the respective reasoning. This communication should be made publicly available on the EFRAG website. It is critical that the AB / DPC reviews these decisions thoroughly, with view to public interest as well as taking the user and preparer perspective into account, and becomes actively involved, if / where necessary.

Consultation period. We fully agree that the consultation period should only be reduced to no less than 60 days after obtaining approval from the AB / DPC. In this regard, we would like to emphasize that shortened consultation periods (or other simplified due process solutions) should only apply under very exceptional circumstances and where absolutely necessary (see above).

Basis for Conclusions. We strongly welcome that the Basis for Conclusions (BC) should, in particular, explain how proposed draft ESRS or draft amendments have relied on existing guidance developed by other standard setters or initiatives and which changes have been made. We also welcome that the BC shall include alternative views, if applicable, as per Appendix 1. In our view, this should also be specified in the main text of the DPP. In addition, the BC should include the SRB's responses to comments received when the proposals were exposed. We suggest for EFRAG to specify this both in Appendix 1 and in the main text of the DPP.

Impact. We noted that EFRAG twice refers to impact assessments as being particularly relevant for SME-specific standards. While we generally agree, we would like to emphasize that practicability, proportionality and feasibility are also of particular importance for other (larger) preparers, especially given the fact that many companies will need to implement the ESRS requirements when also falling in the scope of the CSRD for the first time.

Also, while we generally agree that EFRAG's Technical Advice should include an assessment of impacts on sustainability matters, we believe that this should be further specified (e.g. how EFRAG intends to proceed in this regard, how quantitative impacts shall be measured, etc.). Furthermore, EFRAG needs to ensure transparency on assumptions, estimates and methodologies on a case-by-case basis. Where relevant / possible, the assessments should be science-based and / or consistent with existing relevant methodologies / guidance.

In addition, we believe that impact analyses should take into account interlinkages with relevant EU legislations, including how a draft ESRS or draft amendment impacts the financial sector with view to its extensive sustainability reporting requirements under the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation (TR).

Fieldwork. As practicability, proportionality and feasibility are of key relevance for preparers (see above) and fieldwork is particularly useful to provide evidence on these matters, we believe that it would be more appropriate to consider fieldwork as a mandatory step during an initial phase, with the option to not undertake field testing subject to public consultation, at least in case of doubt, so that such a decision is only made if there is wide agreement from users and preparers. Experience from standard-setting in financial reporting has shown the importance of appropriate field testing, and this may be even more relevant for sustainability reporting which is significantly less mature. In this regard, we would like to emphasize that fieldwork can take different forms and must not necessarily always involve case studies / simulations which require a considerable amount of time. If this decision shall be made without public consultation, where it is concluded that fieldwork is not required, this would require robust evidence that corroborates this conclusion. In particular, the CSRD proposal contains the following provision: "Sustainability reporting standards should be proportionate, and should not impose unnecessary administrative burden on companies that are required to use them.". Therefore, EFRAG must ensure that this is assessed in sufficient depth in all cases, especially in the absence of fieldwork. This should be a key focus area of the AB / DPC.

Discussion Paper. The proposed non-mandatory step "publishing a discussion paper for major projects before an exposure draft is developed" is very vague. At least in an initial phase, all projects would likely qualify as "major" as a) no ESRS exist so far and b) even where existing sustainability reporting guidance is already broadly applied and well-established, this is likely not the case for a large proportion of the envisaged CSRD scope.

Interpretation. We fully agree that once ESRS or amendments are implemented, further consideration will need to be given on how to foster consistent application, including the need to issue interpretations. In our view, this should be included as a mandatory step of the due process, even if EFRAG prefers to assess this only after providing Technical Advice to the EU COM.

Re-exposure. The DPP should contain further information as to the mandatory step "Considering whether the proposals should be exposed again", including concrete criteria based on which the need for re-exposure shall be assessed. Where the SRB proposes to abstain from re-exposure even though the triggering criteria are fulfilled or in case of doubt or judgment, this should be subject to approval from the AB / DPC.

Voting majority. We fully agree with the proposal that the SRB shall operate on a qualified majority basis as pace shall not come at the expense of quality (at least not to a significant / unreasonable extent). Indeed, broad consensus among members is a signal for quality; where a meaningful number of members does not agree with the respective proposals, it seems unlikely that public feedback will have a clear and unambiguous direction, especially with view to the broad range of different stakeholders that will likely be interested in getting involved in the sustainability reporting context.

5) Interim technical work

Lack of information. The Consultation Paper does at this stage not address how EFRAG will ensure transparency as long as the EFRAG PTF ESRS is undertaking interim technical work. Accordingly, we strongly urge EFRAG to provide further clarity in this regard. As outlined above, we deem it as absolutely essential that the DPP, wherever relevant, also apply during this interim phase; in our view, this should be formalized / documented in the DPP as well. Otherwise, EFRAG is likely to be confronted with severe concerns as to quality, legitimacy and acceptance in further due course.

Hand-over to EFRAG governance. Related to this, upon handover, the SRB should thoroughly assess whether any proposals by the EFRAG PTF ESRS should be (re-)exposed, even if they were subject to public consultation during the interim phase, to ensure robust governance and strengthen EFRAG's legitimacy.

Practicability. In any case, while, given the high time pressure, we acknowledge that EFRAG has to find practicable solutions, we do not believe that the DPP represent the appropriate element for adjustments / simplifications. Rather, we believe that a) appropriate safeguards shall apply that allow for reporting on a best-effort basis without exposing companies to uncontrollable legal and / or reputational risks during an initial phase and b) the first set of ESRS shall be centered around key topics and especially tailored towards the financial sector's information demands, given the effective dates of the SFDR and TR.

In any case, we deem it as absolutely essential that the key principles of transparency and of an inclusive due process are fulfilled. In case of doubt / problems / timing issues, to achieve timely progress, yet based on a solution that is in fact practicable and of sufficient quality, EFRAG should focus on the SFDR as the minimum baseline first, i.e. based on the very comprehensive set of "E", "S" and "G" indicators to be reported by the financial sector under this regulation. If possible, this minimum baseline can be extended in a second step, yet only based on existing relevant and well-established sustainability reporting guidance and focusing on climate first.

Outreach. We noted that as long as the EFRAG PTF ESRS is undertaking interim technical work, outreaches to seek input from stakeholders which may include consulting with e.g. sustainability reporting standard setters shall only take place "during the shortened consultation period" and "to the extent feasible within the short timeframe". As such outreaches are of particular importance, we do not only believe that they are indispensable; we further believe that they should take place much earlier and, at best, from the beginning.

6) Review

While we support the proposal for the DPP to be reviewed "on a regular basis taking into account the developments in the ESRS process and the wider environment in which this standard-setting process takes place", we believe that this should be further specified (e.g. how often this review shall be conducted at the minimum). This should be a key focus area of the AB / DPC. Also, we believe that it should be clearly specified in the DPP that such assessments should, among others, take into consideration international developments.