

WWF response to consultation on Jean Paul Gauzes' Ad personam mandate on EFRAG governance and funding – 2nd round

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?

WWF believes that the due process described seems positive in terms of being open and transparent, where all the relevant stakeholders (although not specified) would be properly consulted and all the relevant documents regarding impact assessments (exposure drafts, effect analysis, etc.), the proposed standards and additional supporting documents would be made public.

WWF wants to highlight that the 'broad stakeholder consultation' should properly reflect all the interest groups (including civil society organisations, trade unions, etc.), especially those having the needed expertise regarding environmental, social and governance issues. Importantly, in such a consultation, various relevant stakeholders should be integrated not only the most well-known standard-setting bodies like SASB or GRI: other initiatives such as like the climate and the earth [Science-Based Target initiatives](#), [the Future Fit Business Benchmark](#) are important as they aim to cover reporting on planetary boundaries and on forward-looking issues like targets that are not properly captured by the former ones.

At a more general level, WWF is quite concerned that the old wording of "non-financial" information remains, while analysis in the last few years (e.g. from the TCFD^o made clear that this wording is obsolete and should be replaced with another more accurate wording, e.g. "sustainability information". Sticking to the "non-financial" wording is partly misleading as it has been acknowledged by many stakeholders, including the Commission, that a part of this non-financial information is financial. While WWF acknowledges that this specific issue is not the core of the current governance consultation, we strongly recommend to add a note on it in the final proposal for further consideration by the Commission.

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?

WWF believes the standard setter should have a process of consultation with the different National Competent Authorities, that have the obligation to supervise this type of reporting requirement. Depending on the thematic reporting, it may be one specific authority or another one that is more relevant to consult. Coordination of the different national authorities is therefore a must (potentially by the national government). An example could be similar to the Member State Expert Group (MSEG) on the Taxonomy process, where they received input from different relevant Ministries (Finance and Environment).

Regarding the proposal in Question 2, we believe that the relevant national authorities should be involved at the level of the TEG for non-financial reporting. It should be a different, parallel expert group where the relevant national authorities are specifically consulted, to input and complement the work of the TEG. A Consultative Forum can be a good idea in order to bring together the national standard setters involved in sustainability reporting. It could be explored whether the European Lab can be the team organizing and coordinating the input of the MSEG.

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?

WWF agrees with Mr. Gauzes that European Institutions and agencies, such as the ESAs (ESMA specifically), should be obviously involved, the same way they are involved in the EU Platform on Sustainable Finance or the PTF NFRS of the EFRAG Reporting Lab, as an observer in order to ensure coordination with their own mandate. They should be observers of the TEG for sustainability reporting and also for some specific working groups, depending on their own mandate, interest and expertise. We find interesting the idea of a consultation and coordination group of public authorities.

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?

As mentioned in our reply to the first consultation, the EU standard-setter should include a balanced variety of stakeholders, including civil society organisations, academics, private sector and public entities. The relevant expertise depending on the thematic reporting areas should be well covered. A strong representation of NGOs should of course be included as part of the governance, to properly cover the different expertise regarding the subgroups and sector-specific subgroups that could be set by the standard (for example for environmental matters: energy/ deforestation/ water/ marine / biodiversity/ climate change/ pollution / etc., mirroring the six areas structured by the EU Taxonomy –; social matters – human rights/gender equality/etc. -; governance matters – anticorruption/ anti-bribery/etc.). Trade unions and workers representatives should also be included to cover workers' protection perspective, among other social expertise, and consumer organisations to cover consumers protection perspective (importantly, consumer protection is part of the mandate of various financial supervisors). Progressive companies that are frontrunners in the sustainability reporting space, as well as leading financial institutions in terms of sustainability reporting, should be part of the governance structure as well.

We believe the list you proposed is quite broad and covers a broad range of areas and expertises. These stakeholders should be represented at all levels, especially the NFR Board and the TEG and working groups, as the sustainability expertise mentioned above will be key at these levels.

We also consider there should be a clear and precise early agreement and process in order to avoid conflict of interests, finalized before selecting the members at each relevant level.

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?

This should be consistent with the Commission's proposal on the NFRD:

- If there is a proposal for mandatory reporting for SMEs in high-impact sectors, then it is relevant to have SMEs involved in the NFR standard-setter.
- Should SMEs not be subject to any mandatory reporting, then there is absolutely no reason to involve them, given that they are not in the scope and they usually complain about their limited capacity. In such a case consulting them through public consultations is clearly enough.

In all cases the selection of SME representatives should follow the same logic as for civil society and private sector organisations: be based on their expertise on certain reporting issues, and depend on their leadership on the issue to foster best practice.

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?

WWF believes the EU standard setter should consult existing reporting standards and frameworks as it is clear that the EU NFRS will not start from scratch. They can be consulted as part of the development process, as a kind of observer (similar to their role with the PTF NFRS), but cannot be part of the governance structure as there would be problematic conflicts of interest.

On the opposite, we believe that in order for this exercise to be productive, the different existing standards should be made consistent themselves with EU reporting requirements, such as the Taxonomy Regulation disclosure obligations linked to NFRD. Furthermore, there are specific gaps in some frameworks that are addressed by others, or gaps that are not yet addressed by any of these frameworks. It is therefore extremely important to not consult only the most well-known standard-setting bodies like SASB or GRI: other initiatives such as like the climate and the earth [Science-Based Target initiatives](#), the [Future Fit Business Benchmark](#) are important as they aim to cover reporting on planetary boundaries and on forward-looking issues like targets that are not properly captured by the former ones.

QUESTION 7 - EFRAG BOARD

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

WWF considers that the EFRAG Board should properly represent all key relevant categories of stakeholders. Point 5.9 on the composition seems fine, if "*representatives of the stakeholders chosen for their competence and expertise*" includes a balanced representation of civil society organisations, academics, private sector and public entities. The size is less relevant, although we understand that it cannot be a huge Board, than the proper representation of stakeholder interests.

However, importantly the most important level to address the issue of stakeholder representation is the Non-Financial Reporting Board.

Which stakeholders should be represented and in which proportion?

See answer to the previous question.

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

WWF does not have a very strong view on this issue. If the European institutions are included among the representatives of the Board, as you propose, then there is no need to have 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?

The obstacles that we see is the difficult task of selecting the different Boards' members, while avoiding conflict of interests and ensuring the necessary sustainability expertise, especially regarding the NFR (sustainability) 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)?

It would be better to let the specific NFR and FR Board appoint the members of both TEGs and European Lab, creating the nominating committee for appointment, as the EFRAG Board will not be able to ensure a balanced representation of stakeholders and expertise while limiting its number of members to something manageable. The EFRAG Board should ensure overarching consistency.

QUESTION 8 - NON-FINANCIAL REPORTING BOARD

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

Same as for the general EFRAG Board, the important thing rather than the size is a balanced representation of civil society organisations, academics, private sector and public entities; and the inclusion of members with recognized sustainability expertise and best practice on related reporting. But the Board must be a manageable body in size (15-20 members could therefore make sense).

Which stakeholders should be represented and in which proportion?

Same as previous question: a balanced representation of civil society organisations, academics, private sector and public entities. CSO should not be underrepresented, as it is the case in many other stakeholder groups.

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

European institutions and agencies such as ESAs, EIB, EEA, and potentially national authorities could be relevant observers in the TEG in particular (less so in the NFR Board) as they have relevant expertise to be taken into account.

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?

They should likely be appointed by the EFRAG Board directly.

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

Building on your diagram in Chapter 5, the European Lab could be a coordination body between both Boards and there could be a specific working group where both Boards meet regularly to discuss connectivity issues and issue specific recommendations that can be brought up by both TEGs (NFR and FR). This is a very important point that WWF would like to stress: both Board must not work with a silo approach.

In particular, we see a major risk that the Financial Reporting Board (well established issue with high-level importance for centuries) ignores and dismisses the NFR one (focused on a more recent and less mature issue). So it is not sure that the European Lab alone will be enough to ensure the necessary level of connectivity? Another link is therefore a must: it could be through joint meetings of the two Boards once or twice a year; additionally it could be as well through a Board representative nominated by the other Board to report back regularly to the nominating one (i.e. the FR Board nominating one of its members to attend the NFR Board, and vice versa).

QUESTION 9 - TEG FOR NON-FINANCIAL REPORTING

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

Same as for the Boards, the important thing rather than the size is a balanced representation of civil society organisations, academics, private sector and public entities; and the inclusion of members with sustainability expertise, especially regarding the technical work when developing the standard. WWF believes the work of the TEGs on sustainability reporting should be based on the recommendations that will be provided by the PTF NFRS, which have a similar role, in order to avoid duplication of work, restarting from scratch and wasting a precious amount of time: the PTF NFRS is going through a very relevant assessment and will provide relevant recommendations.

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

A balanced representation of civil society organisations, academics, private sector (of two types: financial institutions : banks, investors, insurers / 'real economy' companies) and public entities should be included, not underrepresenting any stakeholder, especially CSOs. European institutions and agencies, such as ESAs, EEA or EIB should be observers of the TEG and working groups.

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?

WWF believes that the TEG members should likely be appointed by the EFRAG NFR Board directly, with the EFRAG's Board simple approval.

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

There should be a specific subgroup led by the European Lab and connecting both TEGs, providing recommendations and concerns to their respective Boards.

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?

We agree that the European Lab should continue the work on good/best practices on non-financial reporting and to stimulate innovation and debate related to non-financial reporting. It should also (i) undertake work on cross-cutting issues with financial reporting, as mentioned above, and provide best practice on how to differentiate both areas and (ii) explore further non mature NFR issues where standardization remains challenging.

Do you agree that the European Lab could address both non-financial reporting and financial reporting activities?

Yes, ensuring connectivity: see previous answer.

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

See previous answer.

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?

We fully agree with the following: *“The EC would need to make sure that the necessary funding is guaranteed for both the financial and non-financial reporting whilst supporting the public interest mission, the multi-stakeholder model and independence of EFRAG.”* Avoiding conflict of interest via public funding is absolutely critical, as the standards that will be developed need to reflect all public interests.

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?

For WWF it is absolutely critical that the private sector is NOT allowed to contribute to the funding, to (i) avoid conflicts of interest, (ii) avoid potential undue influence to the standard setting process, and (iii) ensure that all public interests are reflected in the final outcome. The funding should be fully and exclusively public. For the same reasons, the public-private sector partnership model should NOT be reflected in the funding.

In addition, being a member of the NFR Board and the TEG and working groups should not be subject to a financial contribution, to avoid conflicts of interest and ensure the adequate representation of stakeholders with more limited financial capacity.

Would a levy at national or European level be feasible?

N/A

What alternative financing mechanism would you suggest being considered?

N/A