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To the attention of Mr Jean-Paul GAUZES and Ms Saskia SLOMP

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Dear Mr Gauzes,
Dear Ms Slomp,

Non-Financial reporting standard setting. EBF views and input to the personal mandate of EFRAG's President.

Support for global standard

While there is a general agreement that the current non-financial reporting data is insufficient in terms of availability, relevance and reliability, it is also agreed that this is not due to the lack of reporting standards, guidelines or initiatives. To the contrary, the current patchwork of existing reporting frameworks leads to fragmentation, inconsistencies and is at times, hard to navigate.

Companies are faced with multiple information request from different stakeholders. It is desirable that companies report information only once, based on a common standard and simple set of indicators. Improving consistency, removing complexity, and increasing comparability and understandability should be the main objective of a harmonized non-financial reporting.

Climate change in particular, but also other sustainability objectives are global in nature and as such we prefer single set of international non-financial reporting standards. **We support the IFRS Foundation to establish Sustainability Standards Board that would set the global international standards for non-financial reporting for three main reasons.**

- First, the IFRS Foundation has an international network and tried and tested structures at its disposal.
- Second, the strengths of the IFRS Foundation lies in its independence, which ultimately guarantees its acceptance. It is important to maintain a clear dividing line between reporting standards and political interests. Political interests should not be advanced through reporting, but through mechanisms such as taxation or investment.
- Third, the interlinkage with financial reporting given possible spill over effects (e.g. discussions on materiality), need for cohesiveness and for paving the way for integrated reporting.

Need for an interim solution

However, while we have a preference for international standard setting both in the field of financial and non-financial reporting, with one single set of global corporate reporting standards, there will likely be **timing mismatch** and we believe that an interim solution will be necessary. The sustainability agenda in Europe is accelerating on an unprecedented speed and is central to both EU policy making and regulatory agenda. The standard will have to be **consistent with the EU legislation and regulatory requirements** to facilitate not only the compliance with the legislation (including e.g. reporting under Pilar III), but also companies' transition, and the support financial market participants can offer.

This will be true in particular if the EU standards follows the need for a **simple but comprehensive standard** in a structured data format enabling digitalization and automatization.

A harmonized reporting standards, a consistent set of KPIs and harmonized templates would facilitate the development of an **EU central data register**[1] that is needed to substantially improve availability and comparability of ESG data that could be used for multiple purposes.

While the aspects of non-financial reporting differ from financial reporting and qualitative aspects will continue to be of prime importance in non-financial reporting, synergies between financial and non-financial reporting should be explored to pave the way towards and **integrated reporting system over time**. Such synergies are essential to ensure that the reporting system is an integrated, holistic and convergent system that preparers can apply and users can rely on to form an integrated view of the financial and sustainability-related risks and impacts on reporting companies.

In this sense, **EFRAG is well placed to become the European centre of expertise on corporate reporting.** Potential future combined role of EFRAG in financial (maintaining the current role in providing endorsement advice) and non-financial reporting could be a major advantage in developing non-financial reporting standards for use in the EU. The EFRAG has built up an excellent reputation in terms of expertise and due process, including transparency, governance, consultation process (which may include field tests, impact analyses and outreach), public accountability and thought leadership. It is exactly this reputation that would be needed to give NFR-standards the required level of credibility.

Should IFRS Foundation move towards becoming the global standard setter also in the field of non-financial reporting, we would envisage strong working arrangements between EFRAG and the Sustainability Standards Board under IFRS Foundation since the beginning and a possible "**convergence project",** should the global standards meet the EU ambitions and considered fit for compatibility with the EU legislative environment. **The ultimate objective should be one single global standard as it is with the IFRS, with 'mutual equivalence" in the interim period**. Such process should ensure that companies and financial institutions with international presence do not have to report under two sets of standards, neither should EU companies reporting under the EU standard be required to switch from one to another in a short period of time, requiring double investments and adjustments of processes and IT systems. Such working arrangements will however be possible only when the EFRAG maintains its independence, transparency, due process and public interest angle it has developed, despite being a private sector organisation.

Opening of EFRAG to relevant interested parties with different roles and responsibilities

While the current fragmentation in the field of non- financial reporting is perceived as an obstacle for efficient and effective reporting, the current material standards and market practices should be taken as a basis for EU standard setting to the extent they are useful and compatible with the EU legislation. The objective would not be to create a European standard in addition to the existing standards, but rather **encompass the material standards in the single set of EU reporting standards**. **We would therefore recommend involvement of the leading standard setting organisations and initiatives such as GRI or TCFD in and advisory role.**

[1] https://www.ebf.eu/ebf-media-centre/a-centralized-register-for-esg-data-in-eujoint-letter/

We understand that it may be necessary to associate the three European Supervisory authorities given their expertise and interest in the non-financial reporting and links to the EU regulation. **However, given their role as enforcers, the EFRAG should look at possibilities how to involve enforcers in the standard setting process.**

While we acknowledge the broad user base of non-financial information, we believe the **focus should be on the information need of key users, which are capital providers and lenders.** We believe that by addressing the need of the key users, the information need of the other groups of users would be largely satisfied. We would therefore advocate for involvement of **experts from broad range of industries representing preparers, including SMEs and the key users of non-financial reporting in the standard setting,** which we agree should be free of any undue, biased or political influence.

As with financial reporting, there should be clear and transparent criteria guiding the standard setting process including relevance, reliability, understandability, true and fair view and the European public good criteria. **Involvement of public organizations both at EU and national level in particular for evaluation of the public good criteria should be considered**. **Establishment of Monitoring Board of Public Authorities could be considered as a possible option**.

Clear and transparent criteria, robust due process

It is important that the final standard **is adopted to the EU legislation either as a level 2 measures or in a similar way as a current IFRS by way of EU endorsement with scrutiny of the European Parliament and the Council.** This is also why a transparent and robust due process including public consultations and thorough evaluation of the public good criteria is as important as involvement of experts with right technical expertise and broad understanding of sustainability issues and their impact, when devising the standard.

Two pillars, two chapters structure of governance with single oversight body

The possible new mandate for EFRAG to develop EU non-financial reporting standards should result in governance changes of EFRAG. A two pilar structure (financial and non-financial reporting) should be envisaged however with integrated governance built on the proven credible and successful existing model of EFRAG, membership of which should be extended to relevant interested organizations from both public and private sector. A **single highest governance body overseeing the work of both pillars, based on public and a private chapter with representatives of both private and public sector should be envisaged**, with each chapter allocated 5o percent of the voting rights, to prevent any undue interest.

Stable funding model

Given the envisaged changes to the EFRAG's mandate, role and strategy, the **funding model of EFRAG should also be further reviewed**. EFRAG needs first to develop a renewed vision and a strategy for the years ahead, adapt its governance, consider the activities necessary to deliver on the strategy before building a budget and set the level of funding necessary to achieve the agreed strategy and related activities.

In this respect, it appears very important to assess what is needed, in terms of resources, to achieve the objectives on financial reporting and non-financial reporting. Synergies need to be found and resources reallocated to the agreed priorities. Any funding model should be fair and built on objective criteria.

The mandate to be given to EFRAG on non-financial reporting should also call for an in-depth discussion on the necessary funding to be provided by EU authorities. **The funding mechanism of the EC also needs to be changed to avoid rigidity and counterproductive incentives and reflect the envisaged broadened mandate from the Commission and ensure stability to funding rather than the current approach which amplifies volatility as it is based on % of the total contributions instead of a fixed contribution.**

Wim MIJS
Chief Executive Officer