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In your opinion, if EFRAG were entrusted with the development of possible EU non-financial reporting standards in a revised NFRD, how would the following general and specific considerations, identified as relevant to standard setting mechanism, apply if EFRAG were to be the standard setter? (NB: this does not affect EFRAG' present mission)

1. Governance – Structure and due process

1.1 Standards need to be developed in the public interest and no individual category of stakeholder may exercise undue influence: How can it be best ensured that standards are developed based on **an inclusive and transparent due process?** What should be the characteristics of such a due process?

The current EU non-financial reporting (NFR) regime does not sufficiently meet the needs of workers and other stakeholders for information on the environmental and social impacts and policies of companies. Furthermore, it does not adequately encourage worker involvement in the development and improvement of NFR systems in the company and dialogue with management on these issues. A revision of the Non-financial Reporting Directive (NFRD) is sorely needed to:

- Increase the scope of companies covered by the NFRD (including non-listed companies and companies from outside the EU doing business in the EU)
- Mandate a single set of comprehensive, reliable, comparable and relevant reporting principles and standards to be used, and define in detail the topics that these standards need to address
- Clearly define a set of reporting principles, including the need to report information that is relevant to investors OR to stakeholders ("double materiality")
- Provide consultation rights for workers at the company level on the development and improvement of NFR and ensure a dialogue with management about improving the sustainability of companies
- Clearly define the mandate and operations of any body to which the development of specific reporting standards is delegated

With regard to the last part, it is key that stakeholders (and not only companies, investors and auditing firms) are involved in the governance and operation of the designated standard setting body and that this body be in the public domain. This is needed to ensure that the standards developed are relevant and respond to the information needs of stakeholders.

This means that the governing board of this body needs to include significant representation of civil society organizations, trade unions and public representatives. Furthermore, working committees developing specific standards need to have multi-stakeholder representation. This body also has to have the resources (from public funding) to have a technically-competent staff which also has the capability to work with multi-stakeholder groups, including representatives who are not involved full-time in non-financial reporting. Draft standards should undergo online consultations during which the public may comment on these proposed standards, and these comments need to be taken into account. Finally, all operations must have a high level of transparency, such as the online posting of meeting protocols and (for key meetings) online streaming.

1.2 **Relevant European institutions and agencies** shall be invited to be fully involved in the development of future standards, including the European Securities and Markets Authority (ESMA): How can these European Institutions and agencies be involved in the development of future standards and in the standard setter? Should there a particular role for ESMA?

European institutions such as the ESMA should be consulted in the standard-setting process but should not be directly represented on the board of the standard-setting body.

1.3 To permit **relevant national public authorities** to provide input about whether any future standards are responsive to the public interest, how can these authorities be included in the governance of the non-financial reporting pillar? Which authorities would be the most relevant and how should they be involved?

Same as 1.2 – they should be consulted in the standard-setting process but not directly represented on the governing board.

1.4 Should private sector and civil society representatives be involved in the standard setting work? If so, what would be suitable options for doing so in a balanced way? Which stakeholders1 should be involved? Should the standard setting pillar be a **public-private partnership** like in the financial reporting pillar?

Trade unions and NGOs should have significant representation on the governing board and in the working groups of the standard setter. The Global Reporting Initiative (GRI) provides an interesting example of how multi-stakeholder governance can work in the development of NFR standards.

1.5 If there were to be **SME** standards derived from the future EU non-financial reporting standards, how should the SME angle be addressed in the governance and in the standard setting process?

The consultation process on developing standards should be open, so SMEs and their representative associations could have input through the consultation process.

1.6 Which **governance structure** would you foresee for the EFRAG EU non-financial reporting standard setting pillar? How would this fit in the overall EFRAG governance structure? What relation would there be with the financial reporting pillar, if any?

As the current governance structure of EFRAG deviates substantially from the criteria listed in point 1.1, the governance of EFRAG would need to be modified quite significantly. An alternative approach would be to create an autonomous standard-setting body, which EFRAG could liase with to assist in the coordination of financial and non-financial standards (to the extent that it is needed).

2. Governance – Cooperation with standard setters and other initiatives

2.1 Any future possible EU non-financial reporting standards must be built on **existing reporting standards and frameworks** to the greatest possible extent:

- How can the relevant existing standard-setting organisations be closely associated in future standardisation work? How would you see cooperation and involvement?
- More broadly, how should cooperation with existing public and/or private initiatives producing international standards and framework be established, to ensure that any future non-financial reporting standards applying in the EU build to the greatest extent possible on existing standards and frameworks?
- How can the EU non-financial reporting standard setting have a global impact?

The European Commission's 2020 consultation on the revision of the NFRD clearly shows that some reporting frameworks are used to a much greater extent than others. However, the large majority of respondents said, if adopted, that no one existing framework by itself would solve the outstanding problems with the current EU NFR regime. Thus, it will not be sufficient to simply "rubber stamp" an existing framework and set of standards for mandatory usage in the EU. The EU NFR standard-setter should examine existing reporting standards and frameworks in its own work of developing standards.

The work of this standard-setter should be open and transparent, thus these initiatives will have an opportunity to have input into the standard-setting process. EU NFR standard-setting can best have a global impact if the largest possible scope of companies is included under a revised directive (including non-EU companies with operations in the EU).

2.2 How to establish an appropriate **coordination between the financial and non-financial reporting** so as to ensure that financial and non-financial reporting provide an integrated view of the performance, position, development and impacts of reporting companies?

EFRAG could play a role in coordinating between the standard-setters for financial and non-financial reporting. It is important however that non-financial reporting remain autonomous from financial reporting, as its concepts, target audience and types of information (non-monetary, and narrative as well as quantitative information) differ.

3. Possible changes to finance of EFRAG

3.1 What ideas do you have for financing of the non-financial reporting pillar? Should the financing reflect the public-private partnership?

In order to be truly multi-stakeholder, the EU NFR standard-setter should receive public funding from the EU. This funding needs to cover the staffing costs as well as any travel costs for participants in the governing board and working groups. Trade unions and NGOs will be disadvantaged if the current financing structure (private financing through participants) continues.

4. Do you have any other comments you want to share?

This discussion offers the opportunity to bring under public oversight and democratize not only NFR but also financial standard-setting.