

Mr Jean-Paul Gauzès
EFRAG Board President
EFRAG European Financial Reporting Advisory Group
AISBL-IVZW
35 Square de Meeûs B-1000 Brussels
Belgium

Paris, 14 September 2021

Re Due process procedures for EU sustainability reporting standard setting

Dear Mr Gauzès,

The FFA (Fédération Française de l'Assurance) represents more than 90% of the premium income of the French insurance market, gathering both insurance and reinsurance companies. The French insurance industry is strongly committed to sustainable development and fully supports the European Green Deal and similar initiatives in France. We believe France is one of the leading markets in sustainability innovation.

The FFA commends the leading role of Europe in the field of sustainable finance and believes relentless engagement by all stakeholders will be needed to successfully achieve the goals of sustainability and resilience set out by the European Commission. The French insurance industry is committed to fulfilling its pledge in this regard and calls for a stable and open dialogue with the European bodies - as the EFRAG - to drive forward and deliver the European sustainable agenda.

The French market is a pioneer in the regulatory environment for sustainable finance and sustainability reporting. Our members are fully committed to reach a high-level of transparency based on the upcoming sustainability standards. They already have significant experience as sustainability reporting preparers (as both issuers and investors) but also as users of ESG data from investee companies.

The FFA welcomes the opportunity to comment on EFRAG's public consultation paper on the due process procedures for EU sustainability reporting standard setting. We have included our responses to the questions raised in Appendix 1.

Against this strong background, the FFA would like to emphasize the importance of considering the following key success factors in the upcoming sustainability standardization process.

➤ **Global cooperation on sustainability standardization is key to reach convergence**

An international approach to sustainability reporting standards would be ideal considering the global nature of the (re)insurers activities and investments. Nevertheless, the FFA strongly supports the EU's ambition to take the lead in developing sustainability standards. The demonstrated experience of European companies in sustainable reporting can enable the European Union to develop, in a reasonable timeframe, consistent and efficient standards.

In addition, standardization at local level is relevant, when local specificities justify it. Regarding social issues for instance, the FFA believes that EU policies, notably but not limited to the just transition initiatives, should be reflected in the sustainability standardization.

The EU goal to rapidly cover the broad spectrum of ESG issues, based on the double materiality approach, is also key and goes further than what has been announced so far on global standardization.

In this context, the FFA considers that the global standardization process should build on the work of leading international initiatives but also of those jurisdictions that have already reached a high level of maturity. To this end, we strongly support the European Commission's ambition mentioned in the explanation memorandum to the CSRD proposal, that "EU sustainability reporting standards should be developed in constructive two-way cooperation with leading international initiatives, and they should align with those initiatives as far as possible while taking into account European specificities."

Therefore, we call on the European Commission to work closely and cooperatively to converge as much as possible with others standardization initiatives including the one launched by the IFRS Foundation. The International Platform on Sustainable Finance established by the European Union could play a role to this end. We believe the EFRAG at the European level and others standard initiatives including the IFRS Foundation at the global level should organize broad consultations and dialogues with stakeholders, especially issuers and investors.

If convergence is not possible, an equivalence system between the different standards should be implemented to avoid legal uncertainties and double reporting.

➤ **A well-balanced governance for the European bodies in charge of sustainability standardization both during the interim period and in the revised structure**

FFA understands that Due Process Public Procedures will also apply -where possible- to interim technical work. As it is unclear at this stage how long such interim period will last, it seems important to further clarify the governance structure that will be in place during this timeframe with regards sustainability standards-drafting and especially how will the decision-making process work. In our opinion, preparers and users should be fully involved both in the technical work and the decision-making during the interim period.

Furthermore, in the revised governance structure, it is central that both preparers and investors are well represented to achieve balanced and feasible standards.

Financial services and in particular the insurance industry, being the biggest institutional investor in Europe, should be represented at the Board. This is even more essential as they are doubly involved, both as providers of sustainable reporting and as users in their institutional investors' capacity.

In addition with regards the standards setting process, we believe the role of ESMA should be clarified and carefully considered against the role devolved to other European Supervisory authorities. It is indeed important to make sure that guidelines and opinions are issued by the most appropriate authority to match the specificity of each sector.

➤ **An ambitious timeline with a proportionated approach**

We believe that the current ESG-related barriers to sustainable finance need to be addressed rapidly. Therefore, we strongly support the ambitious timeline of the EU Sustainability Reporting standards (ESRS)

However, should the finalization of the standards take longer than expected, the timetable will also need to be adjusted to allow sufficient time for preparers to adapt their data collection systems and processes.

In general terms, the implementation of sustainability reporting standards should be required for the first financial year following the adoption and publication of these standards. For example, sustainability reporting standards adopted and published in the fourth quarter of 2022 results in application for the reference period 2023 and publication in 2024. Any postponement in the adoption and publication of the sustainability reporting standards should automatically result in a deferral of the implementation.

➤ **An active dialogue with stakeholders through written consultation processes and field test campaigns is needed to ensure proper design and implementation of the standards**

We caution against the adoption of an overly hasty position out of a sense of urgency. While we share the need for rapid progress in the development of sustainability standards, this should not come at the expense of the sound due process and stakeholder involvement that will ensure high quality standards. We take the view that appropriate robust consultation processes (and not only outreach event) with an effective dialogue are required to ensure the success of the initiative and proper implementation of the sustainability standards.

If the finalization of the standards takes longer than expected, the timetable will also have to be adjusted to allow sufficient time for preparers.

The principles of progressiveness and proportionality should guide the work on the European standard-setting. For instance, the reporting on intangibles is not mature enough to be compulsory or framed through standardization.

➤ **Funding for the sustainability standardization should reflect the EU's ambition**

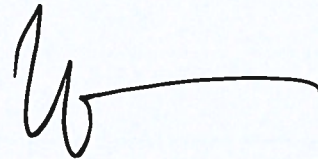
As EFRAG has been entrusted with the development of EU sustainability reporting standards, its financial resources should be strengthened to be able to pursue and amplify the actions currently undertaken by the EU Reporting Lab.

Considering the benefits to and focus on the wider public good for the sustainability work of EFRAG, the funding mechanism for this pillar may need to be different from the financial reporting pillar and should rely on public funding.

Furthermore, we strongly believe that the financial resources for the EU sustainability standardization must match the declared ambitions. We believe the resources provided by the EU on sustainability standardization should be comparable to the support given to accounting standardization to have a chance to meet the ambitious timeline and to be considered in the global standardization process.

We thank you for your kind consideration, and we stand ready to engage in further discussions on this important matter.

Yours sincerely,



Christine Tarral
Directeur référent technique Finance et Investissements

Appendix 1

Chapter 2 “Principles”, Chapter 3 “Due process oversight”, Appendix 2 “EFRAG’ new organisation”

➤ **A well-balanced governance for the European bodies in charge of sustainability standardization (Chapter 2 principle, Appendix 2) both during the interim period and in the revised structure**

We welcome the mandate given to the EFRAG to embrace the leading role in drafting the EU sustainable standards. The FFA supports the private/ public partnership model under which EFRAG operates.

FFA understands that Due Process Public Procedures will also apply -where possible- to interim technical work. As it is unclear at this stage how long such interim period will last, it seems important to further clarify the governance structure that will be in place during this timeframe with regards sustainability standards-drafting and especially how will the decision-making process work. In our opinion, preparers and users should be fully involved both in the technical work and the decision-making during the interim period.

In fact, we believe that European sustainability reporting standards should satisfy all relevant stakeholders, from preparers and investors to consumers, public authorities, and civil society. Therefore, a balanced governance structure reflecting the variety of actors involved is important both during the interim period and in the revised structure.

Nevertheless, the numerous and various stakeholders’ expectations may undermine the adoption of standardized content as reflecting all positions may result in standards that are overly detailed and burdensome for companies.

In this context, it is important to ensure that:

- An inclusive and regular dialogue is established aiming at considering stakeholders’ expectations,
- Particular attention is given to companies’ strain in reporting, especially the cost of producing data and the sensitivity of certain information that could affect the competitiveness of European companies compared to their competitors from other regions in the world.

In addition financial services and in particular the insurance industry - being the largest institutional investor in Europe, should be represented at the EFRAG’s sustainability Board.

This is all the more essential as they are doubly involved, both as providers of sustainable reporting and as institutional investors.

To ensure the democratic process, we strongly advocate that any contribution to the EFRAG’s financing should be independent of the board’s governance.

➤ **ESMA Role to be clarified**

We note that, in the due process of setting sustainability standard,

- ESMA is required to provide an opinion on the technical advice issued by EFRAG before it adopts standards and to issue guidelines on the supervision
- ESMA shall issue guidelines on the supervision of sustainability reporting by national competent authorities.

The role of ESMA in the standard setting process needs to be carefully considered and clarified in comparison to the role devolved to the other European institutions.

French insurers would like to clarify the mission of ESMA to make sure there is no conflict between their supervision role and their opinion on the standards, while addressing the need to verify if standards drafted are enforceable.

In particular, French insurers are of the opinion that neither direct supervision of sustainability disclosures by ESMA nor its mandate to draft guidelines are appropriate to match the specificities of all sectors.

Regarding the enforcement, we believe that the European National competent authorities are in a better position to intervene more efficiently as they have a better and direct knowledge of their markets. European countries have organised their enforcement operations in different ways based on their own national legislations.

Chapter 4: “Agenda Setting” , Chapter 5 “Standard setting”

➤ **Maintaining an active dialogue with stakeholders through written consultation processes and field test campaigns is needed to ensure proper design and implementation of the standards.**

FFA agrees that there is an urgent need to develop global standards on sustainability.

Even though the urgency of developing sustainability standards is real, ongoing dialogue is a step that cannot be missed to ensure the success of the initiative. Indeed 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, in comparison, less mature.

FFA believes that sustainability information is different in nature and objectives from the financial information. Sustainability standardization should thus follow a different rationale to adapt to the specificities of such information which is more forward looking and has a more qualitative dimension than the financial information. To this extent, field-testing will be essential to provide evidence on practicability, proportionality and feasibility.

Active and fruitful dialogue with involved stakeholders through appropriate consultation processes will be key to make sure that:

- The design of the proposed standards fit the needs of both preparers and users-
- The implementation of the standards will be proportionate and feasible

Against this backdrop, while we fully support the principle of doing cost benefit analysis, we strongly believe that consultation should not be done by outreach event only nor be run through

tightened deadlines. FFA advises against shortened consultation periods and against the potential reduction to 60 days (instead of 120 days) of feedback period (paragraph 5.1b.)

On the same line, we caution against the exclusion of field-tests during the development of the first sets of sustainability reporting standards.

In general terms, we call on EFRAG to include as a principle the need to consider for each standard (set of standards) whether fieldwork should be conducted and in case of doubt collect views from users and preparers via public consultation. In this regard, we would like to emphasise that fieldwork can take different forms and must not necessarily always involve case studies / simulations which require a considerable amount of time.

➤ **Promoting a phasing-in approach is a central piece to ensure sustainability standards are implemented by companies**

FFA would like to emphasize the need to adopt a “phasing-in” approach. This phasing-in approach should encompass both the number and type of information that will need to be disclosed. Such gradual approach, combined with a reasonable implementation timeline, will be central to enable companies to adapt to the new disclosure requirements. FFA takes the view that Taxonomy and SFDR indicators should be among priority information to be disclosed.

Finally, we believe that the new board should also carry out a reflection on the scope of the to-be-developed standards to reflect proportionality and materiality principles.