

CDP Europe's contribution to Jean-Paul Gauzès', EFRAG Board President, *ad personam* mandate from the European Commission to develop proposals for possible changes to the governance and funding of EFRAG

Background

CDP – as the global system for corporate environmental disclosure – has been contributing to the EU agenda on sustainable finance, and in particular to the non-financial reporting law (NFRD) and its current revision. We also engage in the efforts of harmonization and convergence of non-financial information at global level, since we feel that we understand and can contribute to both, the global and jurisdiction-level needs. CDP's standardized questionnaires and disclosure system has also acted as an incubator for private sector sustainability innovation that can ultimately inform standard-setting.

We have been focussing on the content and the technical side of corporate information to serve the policy and societal goals such as the Paris Agreement, the 2030 Sustainable Development Agenda and the European Green Deal from the perspective of CDP's core expertise which is driving the transformation of the financial system and the entire economy by proving corporate environmental data to capital markets to take informed investment decisions.

We do not aspire to formulate a detailed response in regard to the questions on governance and funding, but as experts in the area we have set our general observations and comments on the prospect of EFRAG being appointed as the standard-setter.

Governance – Structure and due process

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 characteristics of a standard-setting due process should at least cover the following:

- Transparency
- Independence (including the nomination of experts)
- Public oversight
- Multi-stakeholder
- Appropriate consultation
- Accountability

Due process should also consider the alignment with international standards.

To allow ensuring these elements, EFRAG staff and board would need to have the relevant competences and expertise to independently develop non-financial reporting standards based on evidence. We believe that non-financial reporting expertise should be represented at both, board and technical level of EFRAG.

While different stakeholder groups should be involved, we see a need for and benefit of differentiating each stakeholder group's involvement along:

- Expertise on the issues and consequently involvement on specific aspects in the standards development process;
- Input driven by private interest versus public interest (for-profit entity or charity).

Capital market actors: The main audience of the NFRD is financial market actors. They are key users of non-financial information in order to invest in line with the European Green Deal and the Paris Agreement and need non-financial information from companies to comply with investor disclosure requirements in interconnected regulations. Investors' view should be given extra emphasis when it comes to location and presentation, accountability framework, and assurance of non-financial information.

Preparers: The sustainability departments, but also other departments such as risk management, research and development and purchasing need to ensure that the reporting standards enable and drive internal strategic integration of sustainability and transitioning the business model. Preparers should be given extra emphasis when it comes to the accountability framework, the use value of different indicators for internal management, and on the design of simplified standards for SMEs from a value chain/client (purchasing department) perspective.

Auditors / accountants: These stakeholders need to ensure that non-financial information is provided in a way that allow assurance and audits to drive high-quality and efficient verification of non-financial information. Accountants should be given extra emphasis when it comes to enabling preparers via the standards to assess and assign the real costs to negative impact of corporate activities on the environment and to identify ways to reward sustainability and factor it into business decision making.

Civil society representatives / NGOs: This stakeholder group represents the public interest across environmental, social and governance issues. Expert organizations on the different matters should be given extra emphasis when it comes to the principles and the content of European standards on non-financial reporting. NGOs should also be involved in the governance of the European non-financial reporting standard(s) in order to uphold the public interest and non-financial reporting leading to private sector activities that serve the public good.

Academics / scientist: Representatives from academia and scientists need to ensure that the content and in particular the methodology and metrics that might be specified in the non-

financial reporting standard enable science-based measuring of corporate impact against limits of natural resources from a holistic and interdependency perspective.

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?

The development of future standards for non-financial information in the EU would need to be enabled to deliver on European priorities, as those of the European Green Deal. At the same time, a due process for the development of standards should also be commensurate with the developments at international level, as currently consulted on by the IFRS foundation. Many European businesses are also listed outside of the European Union, using other international non-financial reporting standards or frameworks. It's, therefore, crucial the European companies subject to the application of those standards are not disadvantaged by a different regional regime. The alignment of regional and international standards is key and in order to accelerate towards the realization of the international climate and sustainable development agenda. The European Union can play a strong steering role to promote ambition and raise the bar at the global level.

EFRAG could as the European non-financial reporting standard-setter, be instrumental in driving synergies to the extent possible, reducing additional burden for preparers and more importantly, driving consistent and comparable corporate information for a sustainable global economy.

Relevant EU institutions and agencies, consistent with their mandate, should be involved in the standard-setting process. This should apply to the harmonization and impactful utilization of existing standards and development of future standards.

ESMA will be the supervisor of the information required under the European non-financial reporting standards and will therefore need to be involved in the process. This would be particularly relevant in regard of the oversight of the standard-setting process (e.g. monitoring body) as well as to the development of technical guidance, and to creating supervisory convergence to ensure unambiguous, consistent and swift enforcement and supervisory across the EU member states.

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?

National authorities may be included in the public oversight to the standard-setting body function and may also have an interactive role through the conduct of impact assessments at national level focussing on the civil society, business, environmental and financial sector aspects. However, in order to ensure maximum consistency of non-financial reporting standards, national authorities should not be provided with the capacity to modify standards at a national level.

- **National environmental (protection) agencies:** Provide the technical knowledge regarding environmental laws, impact assessments and can ensure standards to be science-based as much as possible; The European Environment Agency might be able to represent the Member States' agencies and public interest.
- **National market regulators and supervisors:** Provide the expertise regarding enhancing the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development. The ESAs and the European Central Bank might be able to represent the Member States' views.
- **National accounting setters:** Provide the technical knowledge of corporate reporting (financial and non-financial) in the Member State' regulatory context and could potentially strengthen the link between non-financial and financial accounting and reporting standards.

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 stakeholders should be involved? Should the standard setting pillar be a public-private partnership like in the financial reporting pillar?

Please see response to question number 1.

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 SME related governance and standard-setting process should be the same as for large companies. It is expected that SMEs will be – to some extent – be included in the scope of the currently revised NFRD. Further, SMEs play a crucial role as the supplier companies of large corporates that will be required to apply the European non-financial reporting standards. To ensure consistent and coherent reporting requirements over time, SME standards should be addressed by similar governance and processes.

However, SMEs might be offered simplified (reduced) standards derived from the future European non-financial reporting standards.

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?

Please consider answers above.

Governance – Cooperation with standard setters and other initiatives

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?*

European non-financial reporting standards should be built on existing reporting standards and frameworks to the extent that such standards and frameworks collectively address the full range of sustainability- and intangibles-related aspects and provide specialist knowledge/expertise in key areas such as science-based target-setting, verification and traceability in supply chains.

Selected reporting standards and frameworks must fully support standardized/harmonized information and clearly demonstrate that they have been in existence for sufficient time to be driving behavioural change among capital market actors.

EFRAG as the standard-setting body would need to have experience and adequate resources to facilitate cooperation on an international level with existing public and private initiatives producing international standards and frameworks. The standard-setting body would be tasked with ensuring that any future non-financial reporting standards applying in the EU build to the greatest extent possible on existing international standards and frameworks while vice versa, driving international harmonization and possible standard-setting with the ambition of achieving the highest level of quality to deliver against environmental and societal goals.

In order for the European non-financial reporting standard-setting to have a global impact, existing platforms and fora such as the International Platform on Sustainable Finance should be explored to serve this purpose as much as possible. At the same time it will be crucial to dovetail any regional standard-setting work with the potential developments currently being evaluated by the IFRS Foundation, with regard to the global approach to sustainability

reporting and on possible Foundation role¹. It's particularly important for Europe to follow that development, bearing in mind the EU institutional approach to the double-materiality.

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, in its capacity of the European financial-reporting standard-setter and possible future European non-financial reporting standard-setter would be best placed to ensure the appropriate coordination between financial and non-financial reporting on both, the policy and technical level.

Possible changes to finance of EFRAG

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

Adequate financial and human resources of the non-financial standard-setting body or team within EFRAG would be crucial to ensure the development of high-quality and globally relevant standards.

Do you have any other comments you want to share?

CDP welcomes this opportunity to provide feedback. We see the emerging European and global standards on non-financial information as a step towards the fulfilment of CDP's mission and look forward to supporting the process with our 20 years of expertise and the largest dataset of corporate environmental information built under our charitable mission.

¹ <https://www.ifrs.org/news-and-events/2020/09/ifrs-foundation-trustees-consult-on-global-approach-to-sustainability-reporting/>

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CDP Europe and the CDP global system

CDP Worldwide (Europe) gGmbH - '[CDP Europe](#)' - is a wholly owned subsidiary of CDP Europe AISBL, a charity based in Brussels, Belgium. CDP Worldwide (Europe) gGmbH has been registered on the EU Transparency Register since 2012. CDP Europe staff members are also based in Belgium (Brussels), Sweden (Stockholm), and Switzerland (Geneva). It has been a grateful recipient of EU LIFE funding since 2012.

CDP Europe is part of the global CDP system that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Voted number one climate research provider by investors and working with investors with assets of US\$106 trillion, we leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts. Globally, over 8.400 companies with over 50% of global market capitalization disclosed environmental data through CDP in 2019, including more than 2.100 European companies representing approximately 76% of European market capitalization. This is in addition to the over 950 cities, states and regions globally who disclosed – including more than 215 in Europe – making CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change. CDP, formerly Carbon Disclosure Project, is a founding member of the We Mean Business Coalition.



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