

This paper provides the technical advice from EFRAG Administrative Board Due Process Committee to the EFRAG Administrative Board. The paper does not represent the official views of EFRAG or any individual member of the EFRAG Administrative Board. This paper is made available to enable the public to follow the discussions and decisions on the EFRAG's due process.

# **EFRAG's DUE PROCESS PROCEDURES**

## **EU SUSTAINABILITY REPORTING STANDARD-SETTING**

**APPROVED BY THE EFRAG GENERAL ASSEMBLY ON XX MARCH 2022**

**The Draft DPP contains references to the 'proposal for a CSRD' that will be replaced by the references to the final text of the CSRD once adopted.**

# Contents

<b>CHAPTER 1: OBJECTIVE</b> .....	<b>3</b>
<b>CHAPTER 2: PRINCIPLES</b> .....	<b>54</b>
<i>TRANSPARENCY</i> .....	<u>54</u>
<i>PUBLIC CONSULTATION</i> .....	<u>76</u>
<i>IMPACTS</i> .....	<u>86</u>
<b>CHAPTER 3: DUE PROCESS OVERSIGHT</b> .....	<b>97</b>
<i>AREAS OF RESPONSIBILITY</i> .....	<u>107</u>
<i>PROCEDURE</i> .....	<u>108</u>
<i>COMMUNICATION</i> .....	<u>118</u>
<b>CHAPTER 4: AGENDA-SETTING</b> .....	<b>1240</b>
<i>DEFINING THE WORK PLAN</i> .....	<u>1240</u>
<i>RESEARCH PROGRAMME</i> .....	<u>1344</u>
<i>CONNECTIVITY AND COORDINATION BETWEEN FINANCIAL AND SUSTAINABILITY REPORTING</i> .....	<u>1344</u>
<i>IDENTIFYING GOOD PRACTICES</i> .....	<u>1442</u>
<b>CHAPTER 5: STANDARD-SETTING</b> .....	<b>1543</b>
<b>APPENDIX 1: THE GLOSSARY OF TERMS</b> .....	<b>2220</b>
<i>GLOSSARY OF TERMS</i> .....	<u>2220</u>

## CHAPTER 1: OBJECTIVE

- 1.1 A rigorous and transparent due process must underpin standard-setting and is critical for the long-term credibility and independence of the standard-setting. It is, however, not an end in itself but a means to an end leading to the development of high quality and proportionate standards in the public interest.
- 1.2 The Due Process Procedures set out the due process requirements to be followed by EFRAG in its role as technical advisor to the European Commission in the preparation of the draft EU Sustainability Reporting Standards (ESRS).
- 1.3 In this capacity, EFRAG is requested to prepare Technical Advice with 'proper due process, public oversight and transparency, and with the expertise of [relevant stakeholders](#), and it is accompanied by ~~impact analyses that include~~ cost-benefit analyses ~~and that include analyses~~ of the impacts of the Technical Advice on sustainability matters<sup>1</sup>, contributing to the delegated acts through which the ESRS will be adopted in the European Union.
- 1.4 EFRAG ~~will provide~~[provides](#) its Technical Advice to the European Commission in the form of fully prepared draft standards and/or draft amendments to ESRS complete with their bases for conclusions and ~~impact analyses (including~~ cost-benefit analysis ~~and (including analyses~~ impacts on sustainability matters).
- 1.5 A robust yet agile and adaptable due process is necessary to meet urgent standard-setting needs within a rapidly moving landscape. Therefore, all the steps described in this document may not need to be applied mechanically or sequentially in all instances. In some circumstances, an accelerated due process may be appropriate whereby a core of necessary due process steps will be defined. [In such cases, the EFRAG Administrative Board, in its oversight role of the due process, will be consulted.](#)
- 1.6 The Due Process Procedures therefore:
- a) Specify the minimum steps to be taken to ensure that the activities have benefited from a thorough and effective public consultation process;
  - b) Identify additional non-mandatory steps to be considered by the Sustainability Reporting Board (~~EFRAG SRB~~, [\(EFRAG SRB\)](#), [the Sustainability Reporting Technical Expert Group \(EFRAG SR TEG\)](#) and their working groups, panels or [task forces](#) for each project.
- 1.7 The Due Process Procedures detail the requirements for the due process for the preparation of the draft ESRS as laid down in the EFRAG ~~Internal Rules and should be read in the context of the EFRAG Statutes and EFRAG Internal Rules. These Statutes and Internal Rules will be updated as EFRAG will move ahead with the governance reforms (see the new organisation of EFRAG in Appendix 2) based on the recommendations contained in the report of Jean-Paul Gauzès on his ad personam mandate.~~ [Statutes \(Article 7.3.4\) and EFRAG Internal Rules \(Article 17\) . The Due Process Procedures should be read in the context of these EFRAG Statutes and EFRAG Internal Rules \(here\).](#)

<sup>1</sup> EC Proposal for a CSRD: Paragraph (11) of Article 1 amending Article 49 of the Accounting Directive, laying down the conditions for empowering the Commission to adopt the delegated acts on sustainability reporting standards.

- 1.8 The Due Process Procedures ~~will be~~ reviewed ~~on a regular basis~~ at least every five years taking into account the developments in the ESRS process and the wider environment this standard-setting process takes place.<sup>2</sup>.

DRAFT

---

<sup>2</sup> By exception to this rule as this is a new activity for EFRAG, a first review of the DPP will be conducted by the EFRAG Administrative Board and its DPC, one year after the first implementation of the DPP to assess whether the DPP is fit for purpose.

## CHAPTER 2: PRINCIPLES

- 2.1 EFRAG's legitimacy is built on its transparency, governance, due process, public accountability and thought leadership.
- 2.2 EFRAG serves the European public interest.
- 2.3 The due process allows all stakeholders to put forward their views for consideration by EFRAG. It ensures that the diversity of environments (including economic) and stakeholder views are taken into account in an inclusive way in developing ESRS.
- 2.4 EFRAG conducts its activities in a transparent manner (Transparency); considering the perspectives of ~~the~~ all stakeholders ensuring the engagement of subject-matter experts in the process of development of ESRS, including investors, non-governmental organisations and social partners (Public Consultation), and analysing the potential impacts of its proposals on affected parties and explains the rationale for the decisions it reached (Impacts).
- 2.5 The Due Process Procedures address these principles.
- ~~2.6 Appendix 2 of this consultation document provides an overview of EFRAG's organisation based on the envisaged governance changes to integrate its new sustainability reporting standard-setting activity as far as relevant for the due process and due process oversight. This organisation is based on the recommendations made by Jean-Paul Gauzès in his ad personam report *Potential need for changes to the governance and funding of EFRAG* that were fully supported by European Commissioner McGuinness in her letter dated 12 May 2021.~~

### Transparency

#### Public meetings

- ~~2.6 EFRAG conducts its activities in a transparent manner:~~
- ~~2.7 The meetings of the EFRAG SRB and the Sustainability Reporting Technical Expert Group (EFRAG SR TEG) are open to the public but the EFRAG SRB and EFRAG SR TEG may, at their discretion, hold certain discussions in private. Such private When technical discussions would normally relate to administrative (e.g. nominations) and other non-technical matters. Meetings of working groups are generally held in closed form.~~
- ~~a) The private, the EFRAG Reporting Board Chair informs the EFRAG SRB Administrative Board DPC including a justification<sup>3</sup>.~~
- ~~b) Public sessions of EFRAG SRB and EFRAG SR TEG meetings are webcasted (audio and video recorded). The audio and video recording will be publicly broadcasted on the Chair internet and will be later stored for on-demand viewing and will be available for a period of one year on the EFRAG website. Thereafter, the recordings will be archived and be made publicly available on-demand as long as needed<sup>4</sup>.~~

<sup>3</sup> Internal Rules, Article 35-1 for EFRAG SRB and Article 45-1 for EFRAG SR TEG.

<sup>4</sup> Internal Rules, Article 35-2 and Article 45-1 for EFRAG SR TEG.

c) Notice of the next EFRAG SRB's and EFRAG SR TEG's meeting and the agenda are posted on the EFRAG website<sup>5</sup>.

2.82.7 The EFRAG SRB Chair and the EFRAG SR TEG Chair can invite other sustainability standard setters or initiatives; or any other individuals/guests to the meeting and they may be accorded speaking rights during any meeting as and when appropriate.<sup>6</sup>

2.9 Meetings of the The EFRAG SRB Chair and the EFRAG SR TEG are planned as far in advance as is practicable and notice of the next meetings and the agenda are posted on the Chair may invite additional permanent observers with speaking rights to attend EFRAG website.

2.8 Public (sessions of) EFRAG SRB and EFRAG SR Reporting TEG meetings are webcast (audio and video recorded) on the internet and are later stored for on-demand viewing and available for one year through the EFRAG website. Thereafter, the recordings are archived and made publicly available on request as long as needed for internal and external research purposes.<sup>7</sup>

2.102.9 The EFRAG Administrative Board will hold public sessions whenever the due process oversight is discussed. Meetings of the EFRAG Administrative Board Due Process Committee are not held in public.

2.10 A summary of the (tentative) decisions reached in each is published as part of the monthly EFRAG Update for each:

a) EFRAG SRB and meeting<sup>8</sup>.

a)b) EFRAG SR TEG meeting is published on EFRAG's website after each meeting.<sup>9</sup>

c) Due process oversight session held in public in the EFRAG Administrative Board meetings.<sup>10</sup>

### *Meeting Papers*

2.11 EFRAG SRB's and EFRAG SR TEG's agenda papers are usually publicly available on the EFRAG website. However, The related advice/reports of the EFRAG SR TEG form part of these publicly available agenda papers.<sup>11</sup> The EFRAG SRB and the EFRAG SR TEG may decide, at their discretion, to make selected agenda papers not publicly available.<sup>12</sup>

<sup>5</sup> Internal Rules, Article 35-3 for EFRAG SRB and Article 45-2 for EFRAG SR TEG

<sup>6</sup> Internal Rules Article 35-1 for EFRAG SRB and 45-1 for EFRAG TEG

<sup>7</sup> EFRAG Internal Rules, Article 38-4.

<sup>8</sup> EFRAG Internal Rules Article 15-4

<sup>9</sup> EFRAG Internal Rules Articles 41-3 and 45-1.

<sup>10</sup> EFRAG Internal Rules Article 16-6

<sup>11</sup> EFRAG Internal Rules, Article 35-3 for EFRAG SRB and Article 45-2 for EFRAG SR TEG.

<sup>12</sup> In such cases, in Article 35.1 of the EFRAG Internal Rules provides that 'when technical discussions are held in private, the EFRAG Reporting Board Chair informs the EFRAG Administrative Board DPC including a justification.'

2.142.12 This may be the case, for instance, if it is determined that making the material publicly available would be harmful to individual parties. However, it is expected that withholding agenda papers in such circumstances would be rare and that most papers of the EFRAG SRB and EFRAG SR TEG will be publicly available in their entirety.

2.142.13 All papers and comment letters received as part of EFRAG's due process are published on the EFRAG website ~~(unless confidentiality is requested by the respondent).~~

2.132.14 Agenda papers are ~~normally~~ distributed to EFRAG SRB and EFRAG SR TEG members ~~at least seven~~ no later than five (5) working days before they are scheduled for discussion to allow members sufficient time to consider and assess the recommendations. Exceptionally, it may be necessary to distribute technical staff papers closer to the meeting date. The agenda papers are ~~usually~~ at the same time made publicly available.

2.142.15 The EFRAG Secretariat ~~may provide~~ provides supplementary explanations and comments on the papers verbally at EFRAG SR TEG meetings and where relevant at EFRAG SRB meetings, drawing from research, consultations with consultative groups and other interested ~~parties~~ stakeholders, and comments and information gained from outreaches, fieldwork, education sessions and comment letters.

## Public Consultation

2.152.16 EFRAG conducts a public consultation process with stakeholders ~~on its draft Technical Advice to the European Commission,~~ to gather feedback from stakeholders on an inclusive basis ~~on:~~

a) Exposure drafts of Technical Advice to the European Commission accompanied with cost-benefit analyses (see section 'Impact' below) bases for conclusions

b) The proposed digital guidance ( see Section 5).

2.162.17 Through open and transparent public comment periods indicated on the EFRAG website, any interested or affected party may provide comments and input.

2.172.18 Exposure Drafts specify the time and manner in which individuals and organisations may comment. Written comments received during the public comment periods constitute a part of the EFRAG's public file. All public comments received are posted publicly on the EFRAG's website unless confidentiality is requested. In such case the feedback provided will be considered without citing the name of the respondent.

2.182.19 Responses received during the public comment period are considered when preparing and agreeing on the final Technical Advice.

2.192.20 Chapter 5 further details how public consultations are conducted.



## Impacts<sup>13</sup>

2.202.21 Article 49 of the proposal for a CSRD requires that EFRAG's Technical Advice is 'accompanied by cost-benefit analyses that include analyses of the impacts of the Technical Advice on sustainability ~~matters~~ (impact analyses ~~matters~~' (hereafter '*Cost-Benefit Analyses*').

2.212.22 The purpose of ~~impact analyses is to permit EFRAG~~ *Cost-Benefit Analyses* 'is to understand the impacts of proposed ESRS and amendments from various stakeholders' points of view on a systematic basis to enable informed judgements about how to balance the needs of competing interests, including costs and benefits but also wider impacts on sustainability matters.

2.222.23 ~~Impact analyses~~ *Cost-Benefit Analyses*' should operate throughout the life cycle of a standard-setting project when projects to propose new or to amend draft standards are initiated, researched, developed and finally recommended to the European Commission. ~~Impact analyses is~~ *Cost-Benefit Analyses* 'are also a feature of post-implementation reviews. (See Chapter 5).

2.232.24 EFRAG gains insight on the likely impacts of its Technical Advice through the exposure of proposals, and through consultation with stakeholders and field testing.

---

<sup>13</sup> The due process on *Cost-Benefit Analyses* will be further developed after the SRB and TEG have clarified their approach to the matter. This will be done in the context of the review that will be done one year after implementation of the DPP (see paragraph 1.8).



## CHAPTER 3: DUE PROCESS OVERSIGHT

3.1 EFRAG operates under a cascading oversight structure, of which due process oversight is part:

a) The General Assembly exercises oversight over the EFRAG Administrative Board<sup>14</sup>.

a)b) The EFRAG Administrative Board is responsible for EFRAG's ~~organisation, administration, finance,~~ due process and the due process oversight of all EFRAG's technical bodies. ~~The Administrative Board may decide to establish a Committee in charge of the oversight of the due process (DPC) from amongst its members to support the due process task<sup>15</sup>.~~

3.1 This DPC would be responsible for supporting the EFRAG Administrative Board in overseeing the due process of the EFRAG SRB and EFRAG SR TEG.

3.2 The ~~DPC supports~~EFRAG Administrative Board is assisted by the EFRAG Administrative Board in ensuring that the EFRAG SRB and EFRAG SR TEG follow due process procedures that reflect the requirements set out in these Due Process Procedures in the context of the EFRAG Internal Rules and EFRAG Statutes. Committee (EFRAG Administrative Board DPC)<sup>16</sup>.

3.3 The ~~DPC operates on a simple majority basis in supporting the EFRAG Administrative Board in its due process oversight and due process oversight decisions.~~EFRAG Administrative Board ensures that EFRAG has an open and transparent due process including a public consultation process with European constituents on draft EFRAG's positions such as discussion papers, draft consultation documents, technical advice to the European Commission in the form of draft EU sustainability reporting standards and related guidance<sup>17</sup>.

3.4 The EFRAG Administrative Board DPC shall meet when either substantial issues are raised by stakeholders or at the request of any of its members or by the EFRAG Administrative Board. The EFRAG Administrative Board DPC meeting shall be held at least twice a year by physical meeting, conference call or video conference webcast meetings<sup>18</sup>.

3.5 The EFRAG SRB organises the due process and may delegate the organisation of EFRAG's transparent due process including the public consultation process on both technical and other matters to the EFRAG SR TEG<sup>19</sup>.

3.3.6 The composition and role of the EFRAG Administrative Board DPC are further described in Article 19 of EFRAG Internal Rules (here).

<sup>14</sup> [EFRAG Statutes, Article 7.2.2 e.](#)

<sup>15</sup> [EFRAG Statutes Article 7.3.4.](#)

<sup>16</sup> [EFRAG Internal Rules Article 19.](#)

<sup>17</sup> [EFRAG Statutes Article 7.3.4.](#)

<sup>18</sup> [EFRAG Internal Rules Article 19-4.](#)

<sup>19</sup> [EFRAG Internal Rules Articles 17-5.](#)

## Areas of responsibility

~~3.4~~ The EFRAG Administrative Board provides ongoing oversight over the due process throughout the development of ESRS, including agenda-setting and post-implementation reviews, when applicable.

~~3.53.7~~ The EFRAG Administrative Board does not review or consider technical content or sustainability reporting matters that have been recommended by the EFRAG SR TEG or decided on by the EFRAG SRB<sup>20</sup>.

~~3.63.8~~ The due process oversight includes:

- a) Reviewing regularly, and in a timely manner, the due process activities of the EFRAG SRB and EFRAG SR TEG, including standard-setting, research activities and the development of materials to support the consistent application of ESRS<sub>7</sub>, when applicable.
- b) Reviewing, and proposing updates to the procedures in the Due Process Procedures so as to ensure that they continue to reflect good practice that could be subject to public consultation as part of the regular review of Due Process Procedures.
- c) Reviewing the composition of consultative groups to ensure an appropriate balance of perspectives and backgrounds, and overseeing the monitoring activities performed by the EFRAG SRB and EFRAG SR TEG of the effectiveness of those groups.
- d) Responding to correspondence from third parties about due process matters, in collaboration with the EFRAG Secretariat<sub>7, 2</sub>.

## Procedure

~~3.73.9~~ The due process oversight occurs throughout the development of ESRS, including agenda-setting and post-implementation reviews. This is achieved through periodic reporting by, and dialogue with, representatives of the EFRAG SRB, the EFRAG SR TEG and supported by the EFRAG Secretariat.

~~3.83.10~~ For each technical project, the EFRAG SRB and the EFRAG SR TEG first self-assesses whether it has complied with its due process requirements, and:

- a) ~~provides~~Provides evidence and evaluation of the process that was undertaken; and
- b) ~~concludes~~Concludes whether applicable due process steps have been complied with<sub>2</sub>.

~~3.93.11~~ In addition, if the EFRAG SRB decided not to undertake a non-mandatory step for a specific standard-setting project, it provides a report on the reasons why. The reports are communicated to the EFRAG Administrative Board, giving it sufficient time to review them and to react in a timely manner. The EFRAG Administrative Board reviews and evaluates the evidence provided by the EFRAG SRB of compliance with the established due process.

---

<sup>20</sup> [EFRAG Statutes Article 7.3.4 and EFRAG Internal Rules Article 13.](#)

[3.403.12](#) These reports are posted on the EFRAG website after clearance by the [EFRAG Administrative Board](#).

[3.443.13](#) On a yearly basis, the EFRAG Administrative Board reports to the [EFRAG General Assembly](#) on how the due process oversight has been carried out. On a case-by-case basis, the due process for an individual standard may be considered.

## Communication

[3.423.14](#) The EFRAG Administrative Board supported by the ~~DPC (if applicable)~~ [EFRAG Administrative Board DPC](#) operates transparently and with fair consideration of the matters raised by stakeholders. The [EFRAG Administrative Board](#) meets in public when addressing matters related to the due process and the related meeting papers and recordings of the meeting are made available on EFRAG's website. [Meeting of the EFRAG Administrative Board DPC are not public<sup>21</sup>](#).

[3.433.15](#) The EFRAG Administrative Board responds, when appropriate, to matters raised about the due process of the EFRAG SRB and EFRAG SR TEG and ensures that such matters are addressed satisfactorily.

---

<sup>21</sup> [EFRAG Internal Rules Article 15.4.](#)

### Defining the work plan

4.1 This chapter consists of:

- a) The initial phase in which EFRAG will develop a first and second set of ESRS required under the proposal for a CSRD; and
- b) Establishing EFRAG's work plan as an ongoing process.

### *Initial phase - First sets of sustainability reporting Standards*

4.2 The proposal for a CSRD provides that, to meet the information needs of users in a timely manner, the European Commission should adopt<sup>22</sup>:

- a) The first set of sustainability reporting standards by 31 October 2022 that specify the information necessary to understand the companies' impacts on sustainability matters and information necessary to understand how sustainability matters affect the companies' development, performance and position. And at least specify information corresponding to the needs of financial market participants subject to the disclosure obligations laid down in Regulation (EU) 2019/2088 (SFRD).
- b) The second set of sustainability reporting standards by 31 October 2023 that specify complementary information that undertakings should disclose about sustainability matters and reporting areas where necessary, and information that is specific to the sector in which an undertaking operates.

~~4.3 The report issued in March 2021 by the Project Task Force on Preparatory work for the elaboration of possible EU non-financial reporting standards (PTF-NFRS), established by EFRAG, made a number of recommendation as to what the first and second sets of priority standards should consist of and address.~~

~~4.4 Considering the urgency and short delay to prepare the first two sets of Standards, it will be up to the EFRAG SRB, in consultation with the EFRAG Administrative Board when the revised EFRAG governance is in place, to review whether and how the recommendations referred to in paragraph 4.3 have been followed and decide whether further input is needed from stakeholders to complete the agenda.~~

### *Establishing EFRAG's work plan as an ongoing process*

4.3 EFRAG Article 19b 1 of the CSRD requires the European Commission to review, at least every three years after the application date, the standards taking into consideration the EFRAG's Technical Advice and where necessary, request EFRAG for advice to amend the standards taking into account relevant developments, including developments with regard to international standards. Such post-implementation reviews are part of EFRAG's workplan.

4.54.4 In this context the EFRAG SRB undertakes a public consultation on its activities and its work plan every three years (agenda consultation)-) or more often if external circumstances and developments would require so.

<sup>22</sup> Art 19 B on Sustainability Reporting Standards of the proposal for a CSRD COM (2021) 189 final.

4.64.5 The objective of an agenda consultation is to-;

- a) ~~gather~~Gather views on EFRAG's strategic direction and balance of activities in the field of sustainability reporting within the context of the proposal for a CSRD and EFRAG's research and European lab function activities;
- b) ~~assess~~Assess the criteria<sup>23</sup> for adding a research or European lab function project to EFRAG's work plan; and
- c) ~~identify~~Identify new sustainability reporting issues that could be considered to be given priority in ~~by~~ the EFRAG's work planEuropean Commission.

4.74.6 EFRAG SRB may also decide to undertake field tests and other forms of ~~impact analyses before~~Cost-Benefit Analyses before a project is included in the work plan. These include scientific review and adequacy with EU policy analysis, and other forms of impact analyses. These may, in particular, be relevant for SME standards to make the cost-benefit analysis.

~~4.81.1 The European Commission shall, at least every three years after the application date, review the standard taking into consideration the EFRAG's Technical Advice and where necessary shall amend the standards taking into account relevant developments, including developments with regard to international standards. Such post-implementation reviews are part of EFRAG's workplan.~~

## Research programme

4.94.7 Research contributes to evidence-based standard-setting. EFRAG undertakes proactive activities in sustainability reporting with four strategic aims:

- a) Engage with stakeholders to ensure we understand their issues and how sustainability reporting affects them;
- b) Influence the development of global sustainability reporting standards;
- c) Provide thought leadership in developing the principles and practices that underpin sustainability reporting; and
- d) Promote solutions that improve the quality of information, are practical, and enhance transparency and accountability.

## Connectivity and coordination between financial and sustainability reporting

4.8 As explained in Article 46 of EFRAG's Internal Rules, connectivity and coordination between financial and sustainability reporting is ensured by:

- a) Observership of the Chairs of the EFRAG Reporting Boards in the other EFRAG Reporting Board;
- b) Joint regular meetings between the EFRAG Reporting Boards;

<sup>23</sup> Appropriate criteria to identify new projects to add to the work plan will be identified by the EFRAG Administrative Board as part of its oversight of the activity of the EFRAG SRB.

- c) Joint oversight of the EFRAG Reporting Boards over the European Lab function carried out by the Project Task Forces (see next section);
- d) Observership of the Chairs of the EFRAG Reporting TEGs in the other EFRAG Reporting TEG; and
- e) Consideration of the connectivity aspect in the development of technical positions and technical advice in the form of draft EU Sustainability Reporting Standards;

4.9 When appropriate, the EFRAG Reporting Boards and EFRAG Reporting TEGs may jointly develop (research) projects.

## Identifying good practices

~~4.10—The EFRAG SRB will identify European Lab function of identifying and select sharing good practices to stimulate and stimulating innovation in sustainability reporting. This process may involve forms of public consultation and outreaches.~~

~~4.11—In doing so, will be exercised by project task forces accountable to either the EFRAG SRB may use the European Lab activities in the form of task forces to identify good practices and stimulate innovation and debate related to sustainability reporting.~~

4.10 Depending on the EFRAG Financial Reporting Board (EFRAG FRB) or both depending on the availability of resources, subject matter. The two EFRAG Reporting Boards appoint the Project Task Forces based on the recommendations of the EFRAG Administrative Board supported by its Nominating Committee<sup>24</sup>.

~~4.11 The European Lab activities may also go beyond identification of good practice and consider proactive research on some topics or help with the development of education-oriented material. Through its attachment to both the Financial and Sustainability Reporting Pillars, the European Lab activities may also help to foster interconnectivity between financial and sustainability reporting.~~

<sup>24</sup> [EFRAG Internal Rules Article 32.](#)



## CHAPTER 5: STANDARD-SETTING

### Note to stakeholders

This section focuses on the activities to draft new standards or amendments to standards to recommend to the European Commission (Technical Advice).

Once the standards and amendments are implemented, further consideration will need to be given on how to foster consistent application including the [possible](#) need to issue interpretations, provide educational materials or implementation guidance such as illustrative examples to accompany the Standards and Amendments.

### [Due process alignment with the principles and requirement in the proposal for a CSRD](#)

[5.1 At each step of the Due Process Procedures, that are described in this section, the EFRAG SRB and EFRAG SR TEG ensure that EFRAG's work is aligned with the objectives and disclosure requirements contained in Article 19 of the proposals for a CSRD in particular as regards:](#)

- [a\) The disclosure requirements to be addressed by ESRS \(Article 19a of the proposal for a CSRD\);](#)
- [b\) The consideration of the interactions of the ESRS with the other existing EU legislations '\(as listed in paragraph 19\(b\)\(3\) of the proposals for a CSRD\);](#)
- [c\) The consideration of existing standards and frameworks for sustainability reporting and the collaboration with relevant international sustainability reporting organisations \(Article 19b\).](#)

[5.2 Where appropriate, substantial differences with other existing standards and frameworks for sustainability reporting are explained in the 'basis for conclusions' and considered as part of the costs and benefits assessment.](#)

[5.3 The EFRAG Administrative Board, supported by its DPC, considers whether appropriate consideration has been given to the due process steps \(process-wise\).](#)

[5.45.4 The due process steps that are mandatory to be undertaken by the EFRAG SRB and EFRAG SR TEG include:](#)

- [a\) ~~debating~~Debating any proposals in one or more public meetings;](#)
- [b\) ~~issuing~~Ensuring that the proposed new draft ESRS or draft amendments to ESRS are developed taking into account relevant developments, including developments with regard to international standards<sup>25</sup>.](#)
- [c\) Considering the interactions of the ESRS with the other existing EU legislations \(as listed in paragraph 19\(b\)\(3\) of the proposal for a CSRD\);](#)

<sup>25</sup> [Article 19\(b\) of the Proposals for a CSRD.](#)



~~b)d) Issuing~~ for public comment exposure drafts of any proposed new draft Standard, proposed draft amendment(s) to a Standard respecting minimum comment periods. Exposure drafts and other consultation documents are ~~issued by the EFRAG SRB~~ open for comment for a period of ~~usually minimum~~ 120 ~~calendar~~ days which may be reduced to no less than 60 ~~calendar~~ days (~~in case of an accelerated process~~) after obtaining approval from the ~~EFRAG~~ Administrative Board.

~~e)e) considering~~ Considering and analysing the comment letters received on the proposals in a timely manner;

~~e)d) considering~~ Considering whether the proposals should be exposed again;

~~e)f) consulting with the Consultative Forum of National Authorities and sustainability reporting standard setters on the draft standards and amendments, the work plan, and work priorities;~~

~~f)g) Finalisation of the Technical Advice to the European Commission~~

~~g)h) Submission of the Technical Advice to the European Commission~~

5.25.5 Other steps specified in the Due Process Procedures that can be considered but are not mandatory include:

~~a) publishing~~ Consulting with the Consultative Forum of National Authorities, Sustainability Reporting Standard Setters and Initiatives on major draft standards and amendments, the work plan, and work priorities<sup>26</sup>;

~~a)b) Publishing~~ a discussion paper for major projects before an exposure draft is developed;

~~b)c) establishing~~ Establishing working groups or other types of specialist advisory groups for major projects (such as with specific sectoral experience);

~~e)d) holding~~ Holding outreaches and public events; and

~~e)e) undertaking~~ Undertaking fieldwork.

5.35.6 If the EFRAG SRB decides not to undertake those non-mandatory steps, it ~~informs~~ consults the EFRAG Administrative Board ~~of~~ on its decision and ~~explains the~~ reasons for not undertaking the steps in its report (see paragraphs ~~3.8~~)-3.11).

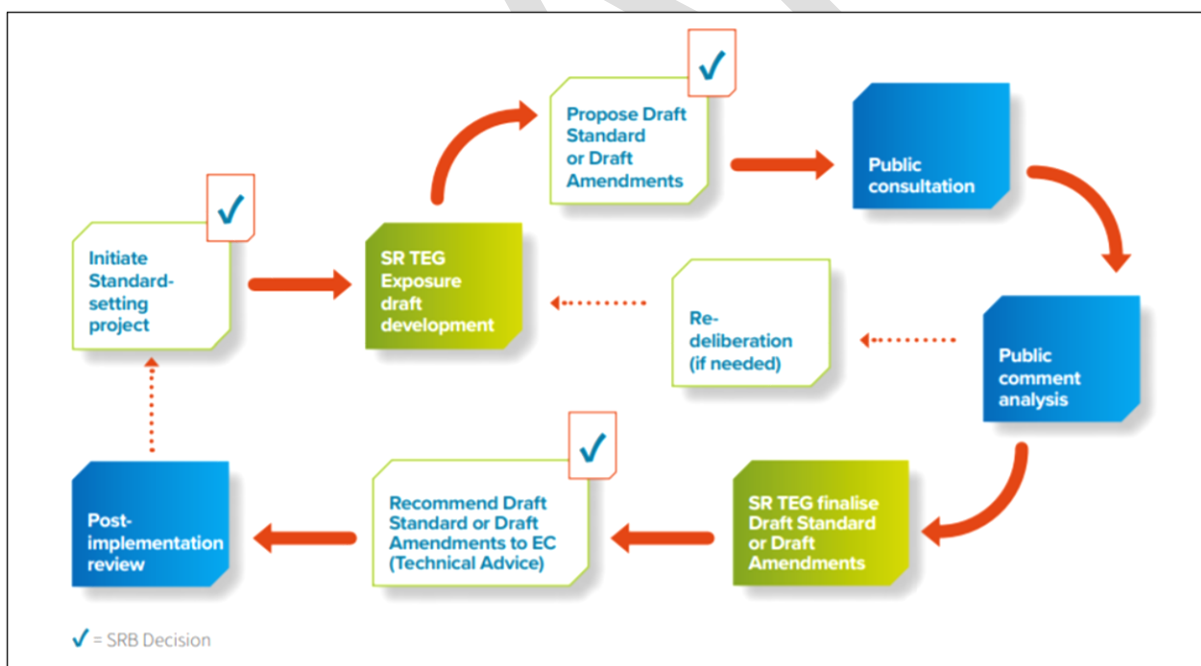
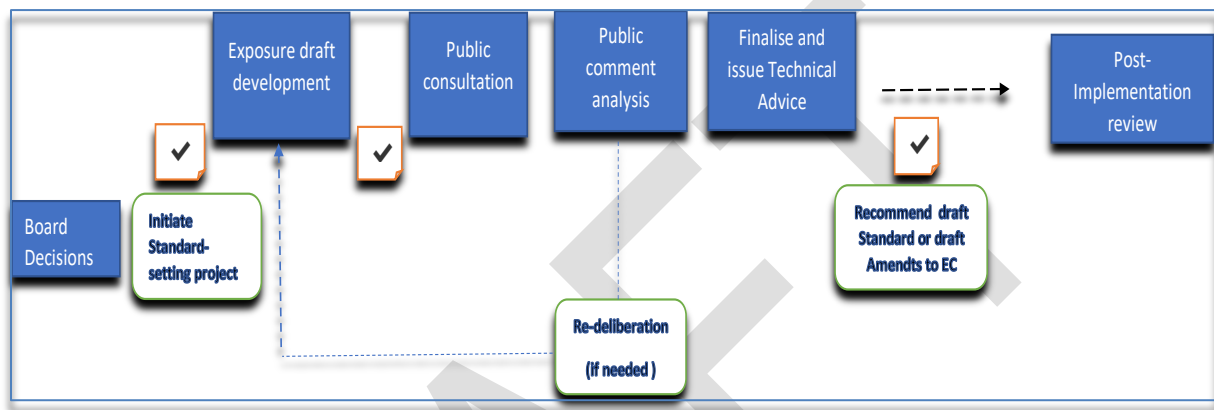
#### *Required steps for new or amended draft ESRS*

5.45.7 For all standard-setting projects, EFRAG conducts a public consultation with stakeholders with an open call for comments on an Exposure Draft of a proposed draft standard or draft amendment or any other draft position papers as appropriate.

<sup>26</sup> After the Consultative Forum of National Authorities, Sustainability Reporting Standard Setters and Initiatives becomes operational and its composition is known, EFRAG will reconsider to make its consultation mandatory in the context of the review of the DPP one-year after its first implementation as mentioned in the footnote to Paragraph 1.8.

5-55.8 EFRAG's due process involves a set of successive and connected activities:

- a) Exposure Draft Development;
- b) Public Consultation;
- c) Public Comment Analysis;
- d) Finalisation of the Technical Advice to the European Commission;
- e) Submission of the Technical Advice to the European Commission; and
- f) Post-Implementation Review.



### Sustainability Reporting Standards for SMEs

5-65.9 The proposal for a CSRD provides that separate, proportionate standards are to be adopted for SMEs tailored for the capacities, characteristics and resources of such companies.

5.75.10 The due process steps presented in the following paragraphs are valid for all standards. However, to take into account the specificities of SMEs and in particular the need to develop requirements that are proportionate to their organisation and resources, field-testing of the proposals is expected to be an important step in the elaboration of sustainability reporting standards for SMEs.

5.11 In reaching out to SMEs, EFRAG will consider ways to facilitate the provision of input such as the use of online surveys and outreaches to obtain input from stakeholders.

### ***Development of Exposure drafts, final draft standards, digital guidance and other discussion papers***

5.85.12 Once EFRAG has formally decided to add a project to its agenda, it proceeds to the development of an exposure draft.

5.95.13 The EFRAG SR TEG is responsible for developing exposure drafts of -draft standards or draft amendments (with inputs from appropriate working groups or panels and supported by the EFRAG Secretariat) and for recommending these documents for approval to the EFRAG SRB. The EFRAG SR TEG recommends a draft Technical Advice to the EFRAG SR Board (in the form of fully prepared draft standards and/or amendments to ESRS complete with their bases for conclusions and impact analysesCost-Benefit Analyses and digital guidance) that has the final responsibility for the content of the exposure drafts, draft standards and draft amendments.

5.405.14 In doing so, the EFRAG SR TEG:

- a) Provides its own professional judgment, arguments and technical analysis based on its technical expertise and EFRAG's due process; and
- b) Considers whether to appoint a working group or advisory panel, open to members with demonstrated subject-matter expertise in sustainability reporting matters and decide on the scope of their work and terms of reference. Working groups and panels must include a balanced and inclusive representation of multi-stakeholders experts.
- ~~c) Consult with the Consultative Forum of National Authorities, sustainability reporting standard setters and existing global initiatives on the draft standards and amendments, the work plan, and work priorities.~~
- c) Considers the due process steps as set out in paragraph 5.4 and 5.5.

5.445.15 The EFRAG SRB and EFRAG SR TEG are supported by the EFRAG Secretariat in all stages of their proceedings.

5.425.16 The EFRAG SR TEG recommendation forms part of the agenda papers that are publicly available unless the EFRAG SRB has decided not to make related selected agenda papers publicly available (see paragraph 2.12).

5.13—All draft and final documents are issued under the EFRAG SRB's authority. However, the EFRAG SRB may decide to delegate part of the its work to the EFRAG SR TEG, assisted by EFRAG Secretariat. The EFRAG SRB ~~determines whether indicates in that case which level of approval by the EFRAG SRB would apply before~~ publication of the draft or final documents ~~should go through a process of approval, high-level clearance or delegation.~~

5.145.17 ~~Publication of additional materials to support the exposure drafts (e.g., podcasts, webcasts, educational material) is the responsibility of the EFRAG Secretariat after consulting EFRAG SR TEG.~~

## Digital guidance

[5.455.18](#) Further to the proposal for a CSRD, companies will have to 'tag' their reported sustainability information according to a digital categorisation system to be developed together with the sustainability reporting standards.

[5.465.19](#) The implications for the ESRS digital categorisation system are considered by the EFRAG SR Board and EFRAG SR TEG during the development and drafting of new or amended draft standards. The Technical Advice provided to the European Commission is accompanied by the proposed digital guidance<sup>27</sup>.

### Decision Procedure

[5.475.20](#) The EFRAG SRB will review the text of the exposure draft of standard or draft amendment proposed by the SR TEG. When necessary, the EFRAG SRB will set out why it considers that the exposure draft, draft standard or draft amendment does not meet the needs of EU legislation, in particular, any specific requirements of the proposal for a CSRD, or any other European public good considerations and ask the SR TEG to reconsider its proposal.

[5.485.21](#) After the redeliberation of the EFRAG SR TEG, the EFRAG SRB will make the final decision on the Technical Advice and will decide whether to submit the proposed draft standard or draft amendment to the European Commission. If the EFRAG SRB does not follow the technical recommendation of the EFRAG SR TEG, it provides an explanation to the EFRAG SR TEG as to why the recommendation was not followed or was amended.

[5.22](#) [EFRAG SRB members who disagree with the Technical Advice are required to explain why they have a dissenting opinion \(EFRAG Internal Rules Article 36- 3c\) . Such dissenting opinions are published with the basis for conclusions.](#)

### Public Consultations

[5.195.23](#) EFRAG runs an open consultation process, the results of which contribute to the determination by the EFRAG SRB of EFRAG's Technical Advice (draft standards or draft amendments) to the European Commission.

[5.205.24](#) EFRAG launches public consultations on its exposure drafts and discussions papers to stimulate comments and expression of views by stakeholders. Comment letters received are published on the EFRAG website unless, [in cases that are expected to be rare](#), the stakeholder concerned asked for the letter not to be made public. [In such case, the content of the comment letter will be considered by EFRAG without citing the name of the respondent.](#) Public consultation may include outreach events and fieldwork including field tests and surveys.

[5.245.25](#) Exposure drafts of draft standards or draft amendments are accompanied by a basis for conclusions, initial [impact analysis](#)[Cost-Benefit Analyses](#) and draft digital guidance. The basis for conclusions should in particular explain how proposed draft standards or draft amendments have relied on existing guidance developed by other standard setters or initiatives and which changes or elaboration have been made

---

<sup>27</sup> [The due process on digital guidance will be further detailed after the EFRAG SRB and EFRAG SR TEG have developed their approach to the matter. This will be done in the context of the review that will be done one year after implementation of the DPP \(see paragraph 1.8\).](#)

~~5.225.26~~ Additional non-mandatory materials to support the exposure drafts can be issued by the EFRAG Secretariat in consultation with the EFRAG SR TEG, such as project summaries, podcasts, webcasts, other explanatory or educational material, Q&As and presentations.

~~5.23~~ EFRAG may also organise, often in coordination with other organisations, outreach events open to the public. These events are an opportunity to hear views directly from stakeholders and stimulate debate.

~~5.245.27~~ Summary reports of outreach events held in public are ~~also~~ published.

### **Finalisation of Technical Advice**

~~5.255.28~~ After the publication of an exposure draft, EFRAG proceeds to consider stakeholders' feedback from the consultative process. In some cases, it may be decided to re-expose proposals before proceeding to a finalised pronouncement.

~~5.265.29~~ The feedback received in the public consultation and other outreach activities determines the focus priorities (if any), or may result in the project being discontinued.

~~5.275.30~~ Decisions to re-expose are taken by the EFRAG SRB, in consultation with the EFRAG SR TEG. These are only considered where either fundamental changes have occurred resulting from the consultation process that have not been subject to consultation or where something new is likely to be learned from re-exposure. In doing so, the EFRAG SRB considers whether the revised proposals include any fundamental changes on which respondents have not had the opportunity to comment because they were not contemplated or discussed in the basis for conclusions accompanying the exposure draft. The EFRAG SRB also considers whether it will learn anything new by re-exposing the proposals. If it is satisfied that the revised proposals respond to the feedback received and that it is unlikely that re-exposure will reveal any new concerns, it proceeds to finalise the proposed requirements.

Once discussions have been finalised, the final draft standard (or draft amendment) will be prepared for approval by the EFRAG SRB.

### **Public comment analysis**

~~5.31~~ EFRAG In the basis for conclusions the EFRAG SRB explains the rationale behind the decisions it reached in developing or amending a draft standard. The basis for conclusions also includes a summary of how the EFRAGSRB addressed the comments received when the proposals were exposed.

~~5.285.32~~ For other publications (discussion papers, educational material...) the EFRAG Secretariat provides feedback statements that explain how the feedback received from stakeholders has been considered by the EFRAG SRB and how its conclusions have been reached.

~~5.29~~ The feedback statements are provided Technical Advice to the European Commission together with the Technical Advice on the draft standard or draft amendment(s) and published on the EFRAG website.



## **Technical Advice to the European Commission**<sup>2829</sup>

**5.305.33** In its role of ~~technical advisor~~**Technical Advisor** to the European Commission in the preparation of the ESRS, EFRAG will provide its Technical Advice in the form of a proposal of fully prepared draft standards and/or amendments to ESRS complete with their bases for conclusions and ~~impact analyses (including cost-benefit analysis and impacts on sustainability matters)~~**Cost-Benefit Analyses** and accompanied by the proposed digital guidance.

**5.315.34** According to the European Commission's proposal for a CSRD, the Commission's adoption process would also involve that, before adopting standards:

- a) The European Securities and Markets Authority (ESMA) provides an opinion on the Technical Advice provided by EFRAG;
- b) The Commission consults the Member State Expert Group on Sustainable Finance, the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Environment Agency (EEA), the European Union Agency for Fundamental Rights (FRA), the European Central Bank, the Committee of European Auditing Oversight Bodies and the Platform on Sustainable Finance.

**5.325.35** The above organisations ~~have been~~**are** closely involved in the development of EFRAG's Technical Advice to the European Commission ~~as they are observers to EFRAG's technical bodies~~. During these consultations, EFRAG will strive to facilitate the above reviews by providing any information or support needed.

## **Post-implementation review**

**5.335.36** According to the European Commission's ~~CSRD~~**proposal for a CSRD**, the Commission shall<sup>30</sup>, at least every three years after the application date, review the standard taking into consideration the EFRAG's Technical Advice where necessary shall amend the standards taking into account relevant developments, including developments with regard to international standards.

**5.345.37** Such Post-implementation Reviews (PIRs) are conducted to identify and address potential implementation issues encountered after the adoption of standards and will form part of the EFRAG workplan.

**5.355.38** Such PIRs will have to consider relevant requirements of EU law and be consistent with the European Commission's better regulation agenda.

<sup>28</sup> ~~In accordance with proposed Paragraph (11) of Article 1 amending Article 49 of the Accounting Directive, laying down the conditions for empowering the Commission to adopt the delegated acts on sustainability reporting standards.~~

<sup>29</sup> ~~In accordance with proposed Paragraph (11) of Article 1 amending Article 49 of the Accounting Directive, laying down the conditions for empowering the Commission to adopt the delegated acts on sustainability reporting standards.~~

<sup>30</sup> Article 19 of the ~~proposed proposal for a~~ CSRD provides that '*the Commission should review the standards every 3 years to take account of relevant developments, including the development of international standards*'.

# APPENDIX 1: THE GLOSSARY OF TERMS

---

## Glossary of Terms

- **CSRD:** Corporate Sustainability Reporting Directive
- **Comment letter:** a letter or a formal submission received by EFRAG in response to a consultation document. All comment letters are made public and can be viewed on the EFRAG website.
- **Cost-Benefit Analyses (CBA):** refers to ‘cost-benefit analyses that include analyses of the impacts of the Technical Advice on sustainability matters’ (proposals for a CSRD). Process for assessing the likely effects of a proposed ESRS, which is undertaken as the new requirements are developed, culminating in an analysis presented with a new standard or amendment to a standard that summarises the EFRAG’s assessment of the likely effects of the new requirements.
- **Discussion paper:** a paper issued by EFRAG that presents the analysis and collective views of the EFRAG SRB on a particular topic. The matters presented will have been discussed in the public meetings of EFRAG. Discussion papers are issued for public comment and the feedback from these consultations informs EFRAG and helps it to assess whether and how to develop a new or amended ESRS.
- **EFRAG SRB:** EFRAG Sustainability Reporting Board.
- **EFRAG SR TEG:** EFRAG Sustainability Reporting Technical Expert Group
- **ESRS:** Sustainability Reporting Standards as applicable in the EU.
- **Exposure draft:** a draft of a proposed Standard or amendment to a Standard. An exposure draft sets out a specific proposal and includes a basis for conclusions and, if applicable alternative views. An exposure draft is a mandatory due process step.
- **European Lab function:** stimulating innovation in corporate reporting by identifying and sharing good corporate reporting practices ( with help of project task forces reporting to the EFRAG Reporting Boards).
- **Feedback statement:** a document that gives direct feedback on the comments that were submitted on the exposure draft. It identifies the most significant matters raised in the comment process and explains how EFRAG considered those matters.
- **Fieldwork:** work (including field test, surveys...) conducted with stakeholders to help EFRAG assess the likely effects of a proposed standard or amendment to a standard. Fieldwork might include experimentally applying new proposals to individual transactions or contracts as if the proposed guidance were already in effect, asking for feedback on the proposed wording of a particular proposal or assessing the extent of system changes that would be required if the proposed guidance was implemented. Fieldwork may also include gathering examples from practice to help EFRAG gain a better understanding of industry practices and how proposed guidance could affect them.



- ~~Impact analysis: a process for assessing the likely effects of a proposed ESRS, which is undertaken as the new requirements are developed, culminating in an analysis presented as part of, or with, the basis for conclusions published with a new standard or amendment to a standard that summarises the EFRAG's assessment of the likely effects of the new requirements.~~
- **Post-implementation review:** a review of a Standard or major amendment to a Standard after its implementation.
- **Re-exposure:** a formal request for comments on a revised version of an exposure draft.
- **SFDR:** Sustainable Finance Disclosure Regulation.
- **Technical Advice:** EFRAG's advice to the European Commission consisting of fully prepared draft standards and/or draft amendments to Sustainability Reporting Standards accompanied by bases for conclusions and ~~impact analyses (including cost-benefit analysis and impacts on sustainability matters).~~ Cost-Benefit Analyses (see definition above).

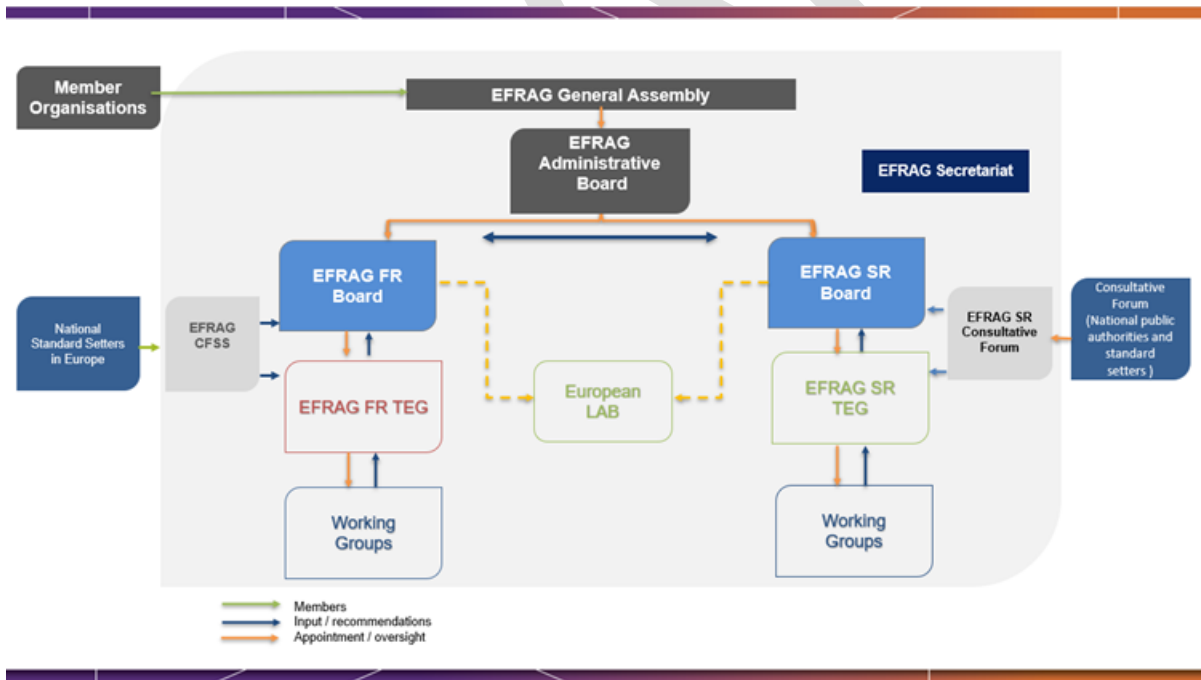
## Appendix 2: EFRAG'S NEW ORGANISATION

This appendix provides an overview of the elements relevant for the due process and due process oversight of EFRAG's new organisation after the envisaged governance changes to integrate its new activity of sustainability reporting standard-setting. This organisation will be based on the recommendations made by Jean-Paul Gauzès in its ad personam report on Potential need for changes to the governance and funding of EFRAG that was fully supported by Commissioner McGuinness in a letter dated 12 May 2021. The full set of recommendations will be implemented in EFRAG's governance and finance structure and detailed in the EFRAG Statutes and EFRAG Internal Rules. This implementation process will take place in parallel with the public consultation on the proposed EFRAG Due Process Procedures.

Information in this appendix is only provided for background purposes to provide context for the public consultation on the proposed EFRAG Due Process Procedures for the sustainability reporting pillar. It is not part of the public consultation itself.

### Overall organisation

Taking into account the different nature of its missions, the technical work will be carried out under the responsibility of two separate Reporting Boards operating under the oversight of an Administrative Board as reflected in the graph below



The **EFRAG Administrative Board** is responsible for EFRAG's organisation, administration, finance and due process and oversight of all EFRAG's bodies. It does not play a role in EFRAG's technical work, including the development of the standards.

The Administrative Board may have various committees including a Nominating Committee for the preparation of the recommendation of the EFRAG Administrative Board to the EFRAG

General Assembly on the appointment of the members of the two Reporting Boards, an Audit and Budget committee, a Remuneration Committee and a Due Process Oversight Committee.

The Administrative Board would approve the due process system used by the Reporting Boards and TEGs, and periodically evaluate the transparency, efficiency and effectiveness of EFRAG's due process.

EFRAG's technical work will be carried out under the responsibility of **two separate Reporting Boards**:

- **A Financial Reporting Board (EFRAG FRB)** that would essentially continue the current role of the existing EFRAG Board in the IFRS endorsement process and contributing to the IASB standard setting process including research activities. The only significant change to the financial reporting pillar would be that the current EFRAG Board's administrative tasks and responsibilities would be transferred to the Administrative Board.
- **A newly formed Sustainability Reporting Board (EFRAG SRB)** that would be responsible for all positions expressed within its area of competence, including setting the work plan and approving draft standards submitted to the European Commission. The EFRAG SRB may also develop non-binding guidance documents or other material to support the implementation of the future EU sustainability reporting standards.

Each Reporting Board would operate by consensus to the maximum extent feasible, or by qualified majority (two-thirds) if there is failure to reach consensus.

Each Reporting Board is assisted in its area of competence by a **Technical Expert Group (TEG)**. The TEG for sustainability reporting (EFRAG SR TEG) will be responsible for developing draft standards with the input from Working Groups and Advisory Panels and for recommending these draft standards for approval to the EFRAG SRB.

Each EFRAG TEG operates by simple majority decisions, but situations may be specified where a qualified majority will apply.

The EFRAG SRB will review the EFRAG SR TEG proposals. If necessary, the EFRAG SRB will set out why it considers that the draft standard does not meet the needs of EU legislation and ask the EFRAG SR TEG to reconsider its proposal. If an agreement cannot be reached, the EFRAG SRB will submit the proposed standard to the European Commission accompanied by a reasoned opinion setting out why it considers that the standard does not meet the needs of EU legislation. It would be for the European Commission to provide the final arbitration about the points at issue.

A **Consultative Forum** of National Authorities, sustainability reporting standard setters and existing global initiatives and other players will be established. This Forum will be consulted by the EFRAG SRB and the EFRAG SR TEG for advice on the draft standards.

A number of new **Working Groups/Task Forces/Advisory Panels** may be established by each TEG. Each TEG would decide on the need for and mandate for such groups and their composition. The role of Working Groups/Task Forces/Advisory Panels is to advise and provide input to the TEGs discussions aiming at providing contributions on specific matters.

**The European Lab activities will be** continued in the form of task forces to identify good practices, and stimulating innovation and debate related to sustainability reporting. The European Lab activities could potentially also include work on cross-cutting issues with the financial reporting activities (or on financial reporting only).



~~EFRAG receives financial support of the European Union – DG Financial Stability, Financial Services and Capital Markets Union. The contents of this document is the sole responsibility of EFRAG and can under no circumstances be regarded as reflecting the position of the European Union.~~

DRAFT