



**Mr. Jean-Paul Gauzès**  
**EFRAG Board President**

35 Square de Meeûs  
1000 Brussels – Belgium

Paris, 8 January 2021

**Re: Consultation document on the ad personam mandate on potential need for changes to the governance and funding of EFRAG**

Dear Mr Gauzès,

Société Générale thanks you for the opportunity to respond and comment on your second public consultation on non-financial reporting standard setting and changes to the governance structure of EFRAG. The sustainable finance framework implies an outstanding need of relevant, standardized and comparable data related to the exposures of companies to ESG factors. As such, we are, as you already know, highly supportive of the European Commission's ambition to overhaul the Non-Financial Reporting Directive (NFRD) and of EFRAG which we believe would be the best positioned to be entrusted with the development harmonized and common EU non-financial reporting standards.

We applaud the work undertaken so far by the EFRAG's multi-stakeholder European Lab Project Task Force (PTF) which have made a comprehensive inventory of existing regulatory and voluntary standards on non-financial reporting as well as high-level recommendations.

The financial industry is exponentially facing the extensive need of information from investee/borrowing companies of any geographies, sectors and sizes. With this in mind, we express the strongest wishes that the forthcoming NFRD review will give rise to consistent harmonized standards for both financial institutions and non-financial companies.

We do also share the same conviction that any EU common standards should be well-fitted to the specificities of EU companies, their economic sector and their size. In this regard, it is preferable to have an EU standard setter developing and owning control on those standards. It is also key to involve at the right level in the governance structure the great diversity of stakeholders detailed in the consultation paper.

We are highly supportive of your proposals on the transparent due process, based on the existing EFRAG public consultative mode, and on the new governance structure. Our answers to your specific questions are detailed below but in brief, we would recommend that:

- The renewed EFRAG Board remain a political instance with the European general interest in perspective and open to a limited number of highly senior representatives of key European public decision-making bodies with expertise and experience on non-financial reporting (i.e. European Commission, ESAs and the European Environmental Agency).
- However, the new Non-Financial Reporting Board located under the auspices of the Board should as much as possible **incorporate sufficient representatives of the great diversity of stakeholders**

(preparers, auditors and users). For the preparers and auditors, it is key that geographical and sectoral specificities are duly taken into consideration. The Non-Financial Reporting Board could therefore be composed of **a number of national experts from relevant national public authorities and business representatives and auditors proposed by relevant national and European trade bodies following an official call for applications**. For the users, it is key that the Non-Financial Reporting Board also incorporate **a number of highly qualified representatives from the investors and from the banking community as well as members representing the interests of consumers and civil society following an official call for applications**. The great challenge of the Board would indeed be to reach the right balance between coherence, harmonization, clarity, comparability of the information and the need for local and sectorial adaptations.

- The TEG for Non-Financial Reporting should **be divided into different streams** given the diversity of specificities to take into consideration for the development of common EU non-financial reporting standards. The current structure of the multi-stakeholder European Lab Project Task Force (PTF) **with European policy makers as observers**, would be a good starting point. For example, this is where the specific interests and operational problematics of SMEs could be well represented. Also, a specific stream should be dedicated to financial institutions' views. The different streams could be composed of **a number of highly experimented experts and auditors from the sectors that the streams represent selected following an official call for applications**. They would be mandated to evaluate and make the synthesis of the proposals and recommendations made by the different working groups as well as drafting non-financial reporting standards to be submitted to the non-financial reporting board.
- The Working Groups could report to the specific streams of the TEG and be composed of several representatives with a sufficiently diversified background and a sufficient expertise on the sectors they are representing as well as auditors. We do recommend that each working groups, whatever their main focus, be also composed of users in the financial industry, the civil society and consumers. **The member selection should follow an official call for applications**.

We would be happy to contribute further to any forthcoming discussions on those highly important issues for the banking industry and beyond that, for the EU sovereignty in the field of ESG data and non-financial reporting.

Sincerely yours,

Eric Litvack  
Group Director of Public Affairs

Pierre-Henri Damotte  
Accounting Public Affairs

## QUESTIONNAIRE

### QUESTION 1 - DUE PROCESS

*Do you agree that the above reflects the key due process steps for open and transparent non-financial standard setting? If not, which other steps would you advise me to consider or to remove?*

Société Générale agrees that EFRAG's current due process for financial reporting is transparent and inclusive allowing the diversity of European stakeholders to be involved in EFRAG's positions. Taking the existing due process as a model for the non-financial reporting standard setting process is sensible. We particularly welcome your suggestions to make publicly available debates on proposals and supporting documents, policy discussions and decision summaries as well as work plans and public consultations and responses. This would greatly facilitate the much-needed participation of the highly diverse categories of actors captured or likely to be captured in the forthcoming revision of the NFRD as well as users of the non-financial information.

### QUESTION 2 - MEMBER STATES AND NATIONAL PUBLIC AUTHORITIES

*Considering the proposed new governance structure (see section 5 EFRAG proposed new core structure) at what level do you consider that the relevant national authorities should be involved and should they be members or observers:*

- *EFRAG General Assembly?*
- *The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?*
- *The Non-Financial Reporting Board?*
- *TEG for Non-Financial Reporting?*

*Should a Consultative Forum (similar to the Consultative Forum of Standard Setters in the Financial Reporting pillar) or any other form of advisory committee; be created for the Member States and national public authorities?*

Société Générale welcomes the clarity of the proposed structure of the new EFRAG governance. Representation of national public authorities of the member states that are the most involved in the debate around the enhancement of non-financial reporting within the governance structure is critical. The main reason for this is that finding the right balance between EU harmonization of non-financial reporting standards and the much-needed local adaptations will be of essence.

EFRAG has still a successful experience of such contributions through the engagement of some national accounting standard authorities to both the Board and the TEG regarding the endorsement of international accounting standards in Europe. It would therefore be sensible that the representation of national public authorities in the non-financial reporting pillar governance mirror the current participation of national standard-setters in EFRAG's financial reporting pillar.

On that purpose, we would recommend that National Standard Setters, be they NCAs, accounting standard setters or other relevant national bodies, nominate their candidates for the Board, the Non-Financial Reporting Board and the TEGs on non-financial reporting. Replicating a Consultative Forum of National Standard Setters for non-financial reporting would also be sensible. The national public authorities should also use their capacity to consult stakeholders domestically to inform their views on

specific elements on any proposals on the non-financial reporting setting process given the very specific and multidimensional nature of non-financial reporting compared to financial reporting.

### **QUESTION 3 - EUROPEAN INSTITUTIONS AND AGENCIES**

*Considering the proposed new governance structure (see section 5 EFRAG proposed new core structure) at which level do you consider European institutions and agencies should have representatives and should they be members or observers:*

- *The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?*
- *The Non-Financial Reporting Board?*
- *TEG for Non-Financial Reporting?*
- *The Working Groups?*

*Should a Consultative Forum or any other form of advisory committee; be created for European Institutions and Agencies to provide input to the TEG for Non-Financial Reporting and the Non-Financial Reporting Board?*

Involving European institutions and agencies playing an important role in the construction of the EU sustainable finance regulatory framework in the development of future non-financial reporting standards is indeed critical to reach consistency in this already highly complex framework.

We agree that the European Commission, the ECB, the ESAs and the European Environmental Agency should participate in the renewed EFRAG Board as well as the TEG meetings as observers.

### **QUESTION 4 - PRIVATE SECTOR AND CIVIL SOCIETY**

*Considering the proposed governance structure (see section 5), at which level do you consider private sector and civil society ought to have representatives:*

- *The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?*
- *The Non-Financial Reporting Board?*
- *TEG for Non-Financial Reporting?*
- *The Working Groups?*

As already expressed in our response to your first consultation, we view as critical the need for both preparers and users for investment and financing purposes of the non-financial reporting information as well as auditors to be significantly involved in the standard setting process.

On that purpose, we agree that the great diversity of stakeholders as listed in this consultation paper and particularly representatives of the private sector and civil society (as both users and influencers/prescribers) with expertise on sustainability, non-financial reporting and specific sectors should be involved at all the levels of the governance structure beneath the renewed EFRAG Board: within the EFRAG non-financial reporting board, the TEG for non-financial reporting and the working groups.

The new Non-Financial Reporting Board should as much as possible incorporate sufficient representatives of the great diversity of stakeholders such as preparers, users and auditors and be

composed of business representatives proposed by relevant national and European trade bodies, representatives from the investors and the banking community, as well as auditors and accounting experts, while mitigating any conflicts of interests.

The TEG for Non-Financial Reporting could be divided into different streams given the diversity of sector and size specificities to take into consideration for the development of EU common non-financial reporting standards. The current structure of the multi-stakeholder European Lab Project Task Force (PTF) is adapted to be replicated within the TEG. The different streams could be composed of a limited number of highly experimented experts from the private sectors representing the diversity of the economic sectors, SMEs and the investing and banking community, while mitigating any conflicts of interests. These experts would be mandated to evaluate and make the synthesis of the proposals and recommendations made by the different working groups in order to submit draft reporting standards to the Non-Financial reporting board. The Non-Financial Reporting Board should make a call for applications to select the members of this new TEG.

The Working Groups could report to those specific streams of the TEG and be composed of several representatives of the private sectors with a sufficiently diversified background and a sufficient expertise on the sectors they are representing. We do recommend that each working groups, whatever their main focus, be also composed of representatives of the financial industry in their preparers and users' capacities as detailed above. The Non-Financial Reporting Board should make a call for applications to select the members of the working groups.

At those three levels of the governance, representatives from the investors and the banking community should in our view be involved for the following reasons. The financial industry is exponentially facing the extensive need of information from investee/borrowing companies of any geographies, sectors and sizes. Credit institutions and financial market participants need this information in quality of both users and preparers of non-financial reporting:

- We are users of non-financial information to make well-informed investment and financing decisions; and
- We are preparers of non-financial reporting to honor our forthcoming reporting obligations on the integration of sustainability factors into our risk management framework and on the alignment of our financing activities and investment services with sustainability objectives or characteristics.

To achieve those goals, a prerequisite would be to get from investee/borrowing companies' sufficient information on their impacts on and on the way they are impacted by sustainability factors. Notable considerations to address on that purpose are consistency and timing synchronization between the disclosure requirements due by banks and other financial market participants and the forthcoming revision of the NFRD.

It would actually be worth adding in the list of relevant stakeholders in this consultation paper the EU credit institutions as both users and preparers of non-financial reporting. Credit institutions are also key actors for the sustainable transformation of the economy in their great capacity to accompany the sustainability transition of non-financial companies and to redirect financing flows towards sustainable activities via financing and investment activities.

Their views should therefore also be part of the key drivers in the decision-making process on the development of EU common non-financial reporting standards.

## **QUESTION 5 - SMEs**

*Considering the proposed governance structure (see section 5 ), at which level do you consider SMEs (SMPs) should be represented:*

- *The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?*
- *The Non-Financial Reporting Board?*
- *TEG for Non-Financial Reporting?*
- *A SME- focused Working Group?*

*Would it be sufficient to seek input of SMEs/SMPs in the public consultation and outreaches rather than involve them in the governance bodies?*

As expressed in our response to your first consultation, SMEs representatives should absolutely be involved in the new EFRAG governance and in the standard setting process. We agree that the specific challenge of non-financial reporting for SMEs is reaching the right balance between a proportional level of disclosures and a satisfactory level of transparency for financial institutions to orient their investment / financing decision making.

On the one hand, exempting SMEs from non-financial reporting would de facto put SMEs outside the sustainable finance framework and undermine their access to financing and growth potential in the future. On the other hand, the current COVID 19 crisis makes it even more delicate for the smallest companies that would not have the financial and operational capacity to honor even a limited set of disclosures.

We recommend that a specific stream of the TEG for Non-Financial Reporting be dedicated to SMEs and incorporate SMEs representatives with a high expertise on sustainability and reporting as well as auditors with a good knowledge on SMEs. A SME- focused Working Group with a wider range of SMEs' representatives than within the TEG could be located under the auspices of this TEG's stream dedicated to SMEs. The Non-Financial Reporting Board should make a call for applications in both instances.

## **QUESTION 6 - COOPERATION WITH OTHER STANDARD SETTERS AND INITIATIVES**

*What do you see as main features of cooperation with the (global) reporting initiatives? What kind of involvement could you consider?*

We believe that the cooperation and involvement of existing standard-setting organizations into the EU standard setting process is efficient. However, to maintain an EU integrity and sovereignty, the EU standard setting process must keep the ability to adapt any international norms coming from an existing standard setting organization to EU companies' specificities. On that matter, we have recently responded to the IFRS Foundation consultation on their role on global sustainability reporting. We have insisted on our will to see EFRAG greatly involved in the global non-financial reporting standard setting process. We would notably recommend that EFRAG is part of the still hypothetical Global Sustainability reporting Board be it under the auspices of the IFRS Foundation or any other relevant global instances.

While some standards could be used to build EU standards none of them is satisfactory on its own to resolve the ESG data gap problems while also enabling companies to comprehensively meet the current disclosure requirements of the Non- Financial Reporting Directive. For example, SASB is based on the financial materiality, EU practices and non-financial reporting framework also encompass the impact of the undertaking on non-financial (with the double materiality perspective).

However, we see a need for interconnecting the European non-financial reporting activities with other already existing initiatives, such as the TCFD which includes governance, strategy, risk management, metrics and target.

## **QUESTION 7 - EFRAG BOARD**

*What in your view should be the maximum size the new EFRAG Board?*

*Which stakeholders should be represented and in which proportion?*

*Should there be observers? If so, who should be the observers?*

We would recommend that the renewed EFRAG Board remain a political instance with the European general interest in perspective and open to a limited number of highly senior representatives of key European public decision-making bodies with expertise and experience on non-financial reporting (i.e. European Commission, ESAs and the European Environmental Agency).

*Do you foresee any obstacles that may arise were the EFRAG Board charged with oversight to include representatives of the Non-Financial Reporting Board and the Financial Reporting Board?*

We see it as sensible that the renewed Board is charged with oversight to select the members of the Non-Financial Reporting Board as it does for the Financial Reporting Board. The EFRAG Board should therefore include a number of national experts from relevant national public bodies in Member States with a long experience on non-financial reporting. It should also make a call for applications in the business community with the possibility for relevant national and European trade bodies to submit the candidacy of relevant representatives. To also take the users' side into consideration, it is key that the Board also appeals for candidates a number of highly qualified representatives from the investors and the banking community as well as members representing the interests of consumers and civil society.

*Should the EFRAG Board appoint the members of both TEGs and the European Lab, or should this be done by their respective Boards (Non-Financial Reporting Board and the Financial Reporting Board)?*

We do not consider sensible that the EFRAG Board appoint the members of both TEGs and the European Lab. This should be done by their respective Boards (Non-Financial Reporting Board and the Financial Reporting Board) to facilitate the relevant experts' selection process.

We notably recommend that the Non-Financial Reporting Board make a call for applications in the private sector (i.e. in our views : economic sector representatives proposed by relevant national and European trade bodies, representatives from the investors and the banking community, as well as auditors) and civil society and consumers for the following missions :

1. Members of the different streams of the TEG for Non-Financial Reporting to represent the diversity of specificities to take into consideration for the development of common EU non-financial reporting standards. This should be highly experimented experts on non-financial reporting with specific sectors' perspective.
2. Members of the different specific working groups entitled to work on detailed proposals on the great diversity of non-financial reporting specificities. They should be composed of several representatives with a sufficiently diversified background and a sufficient expertise on the sectors they are representing as well as auditors with the same level of experience and expertise.

## **QUESTION 8 - NON-FINANCIAL REPORTING BOARD**

*What in your view should be the maximum size of the new Non-Financial Reporting Board?*

Without ignoring that a large number of members raises practical governance issues, we consider that the first goal to be reached is a comprehensive and faithful representation of the different stakeholders involved in non-financial reporting.

Once the profile of the relevant representatives will have been determined, it will be then time to address the operational governance issues and, if necessary, to address the size issue. This last issue should not be a prerequisite topic.

*Which stakeholders should be represented and in which proportion?*

Given the very specific nature of non-financial reporting and the need for local, sectorial and proportional adaptations, much care should be given to the incorporation of the diversity of stakeholders and interests (preparers, users and auditors). The great challenge of the Board would be to reach the right balance between coherence, harmonization, clarity, comparability of the information and the need for local and sectorial adaptations. On the preparers' side, it is key that geographical and sectoral specificities are duly taken into consideration. The Non-Financial Reporting Board could therefore be composed of a number of national experts from relevant national public bodies and business representatives proposed by relevant national and European trade bodies. For the users, it is key that the Non-Financial Reporting Board also incorporate a number of highly qualified representatives from the investors and the banking community as well as members representing the interests of consumers and civil society.

*Should there be observers? If so, who should be the observers?*

European public decision-making bodies with expertise and experience on non-financial reporting, as long as they would be members of the EFRAG Board, should also be allowed to be observers in the Non-Financial Reporting Board.

*Should the Non-Financial Reporting Board members be appointed by the EFRAG General Assembly on recommendation of the EFRAG Board or directly by the EFRAG Board?*

We consider it sensible for the EFRAG Board to appoint or appeal to candidate the Non-Financial Reporting Board members.

*How can the interconnectivity between the Financial Reporting Board and the Non-Financial Reporting Board be ensured?*

As expressed in our response to your first consultation, should there be links between non-financial information and financial information (either qualitative or quantitative), it would be needed to organize within the EFRAG's governance a clear and transparent communication between the two pillars. On top of having the Board overseeing both the financial and non-financial board, we believe that there should be bridges between the TEG for financial reporting and the new TEG for non-financial reporting with consultations of the TEG for financial reporting where links are proposed between non-financial and financial information. Moreover, if the coming non-financial reporting standards are applicable to entities which are not required to prepare financial statements according to IFRSs, EFRAG will have to address the issue of the linkage between non-financial and financial information looking at the current European accounting Directives, but also through communications and consultations with national standard setters.

### **QUESTION 9 - TEG FOR NON-FINANCIAL REPORTING**

*What in your view should be the maximum size of the new Non-Financial Reporting TEG?*

*Which stakeholders should be represented and in which proportion? Should there be observers? If so, who should be the observers?*

*Do you agree that EFRAG TEG members are recommended by the EFRAG Non-Financial Reporting Board but appointed by the EFRAG Board rather than be appointed by the EFRAG Non-Financial Reporting Board?*

*How can the interconnectivity between the Financial Reporting TEG and the Non-Financial Reporting TEG be ensured?*

As above-mentioned, we believe that the TEG for Non-Financial Reporting should be divided into different streams given the diversity of specificities to take into consideration for the development of common EU non-financial reporting standards. The current structure of the multi-stakeholder European Lab Project Task Force (PTF) with European policy makers as observers, would be a good starting point. The different streams could be composed of a limited number of highly experimented experts from the sectors that the streams represent and be mandated to evaluate and make the synthesis of the proposals and recommendations made by the different working groups as well as drafting non-financial reporting standards to be submitted to the non-financial reporting board. The Working Groups could report to the specific streams of the TEG and be composed of several representatives with a sufficiently diversified background and a sufficient expertise on the sectors they are representing as well as auditors. We do recommend that each working groups, whatever their main focus, be also composed of users in the financial industry, the civil society and consumers.

We would recommend that EFRAG TEG for non-financial reporting members as well as members of the working groups are selected following a call for applications made by the EFRAG Non-Financial Reporting Board that is itself appointed by the EFRAG Board.

As above-mentioned, we agree that there should be bridges between the TEG for financial reporting and the new TEG for non-financial reporting via specific consultations launched to the TEG for financial reporting where links are proposed between non-financial and financial information.

Dedicated joint meetings should also be settled regularly and follow the proposed due process described in this consultation paper.

It is indeed key that consistency between non-financial and financial standards applicable in the EU should also be addressed at a technical level. Materiality of information shall be assessed consistently in the two sets of standards in order for entities to select appropriately which information are to be collected, aggregated and presented in the public reports.

It would also allow to have the same scope of entities belonging to the consolidation perimeter used for financial statements and non-financial reports (if a subsidiary is excluded from the consolidated financial statement because it is not material, it should be excluded as well from entities that will be required to report non-financial information to the group in order for it to apply the non-financial reporting requirements at the consolidated level).

#### **QUESTION 10 - ACTIVITIES OF THE EUROPEAN LAB**

*Do you agree that there is a need for a European Lab activity in the revised EFRAG governance structure?*

*Do you agree that the European Lab could address both non-financial reporting and financial reporting activities?*

*Do you have other comments or suggestions regarding the activities of the European Lab?*

We have no objection to the continuation of the activities of the European Lab, extended to both financial and non-financial reporting activities in order to identify best practices and areas of progress in these two scopes of activities without ignoring the potential links between them. It can provide valuable inputs for the non-financial standard setting activities of EFRAG while promoting consistency with EFRAG's activities on financial reporting.