



Global Reporting Initiative
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SUBJECT: Second consultation on the *ad personam* mandate on the potential need for changes to the governance and funding of EFRAG

Dear Mr. Gauzès, dear Jean-Paul,

It was with great interest that we reviewed your preliminary proposals for the future of the governance of EFRAG in the event it is entrusted with the development of EU non-financial reporting standards.

In principle we support the proposed creation of a two-pillar structure under the EFRAG umbrella to drive the necessary and appropriate reporting by organizations. We strongly believe that all companies need to prepare two comprehensive reports to provide all stakeholders a complete and relevant picture of their impacts; one addressing financial considerations and the other addressing all external impacts a company is having on society and the environment and hence their contributions towards the goal of sustainable development. The proposed structure safeguards against one of the two being underweighted. Furthermore, we are of the opinion that both financial reporting and non-financial reporting need to be mandated and pursued with the same level of rigor.

Thank you for the opportunity to provide additional input in the context of this second consultation. Building on our initial [response](#) which addresses your questions around due process, involvement of other state actors and funding, we would like to take this opportunity to share the following overarching observations for your consideration and offer to support EFRAG through our experience with the Global Sustainability Standards Board.

Oversight and global applicability

The acceptance and trust in the standards are strongly dependent on credibility and public interest oversight providing the standards the public legitimacy that private initiatives lack. The IFRS Monitoring Board could provide a useful blueprint for such a body.

The European Commission has been very clear in its ambition to develop a non-financial reporting regime which has the inherent potential to become the global standard. GRI strongly supports a globalized system because it will unlock the value of the information by facilitating

comparability and analysis. It acknowledges the fact that business and trade are by definition global in nature, while it also minimizes the reporting burden for MNEs as well as the SMEs in their value chains. And, finally, globally applicable standards recognize the reality that companies and their value chains impact by definition a global set of stakeholders

With this in mind it would be potentially problematic to design a European-only set up and solution which only later is expanded to include other jurisdictions. We do realize that not all jurisdictions are at the same level of development, but that should not hinder the European Commission in taking a global leadership role and designing the essential public oversight with appropriate global representation. Even if the implementation of the standards at first is limited to the European market to meet the Commission's ambitions and timelines.

We believe that the Public Oversight Board would need to include representatives from the European Commission and Parliament complemented by representatives from the ESA's, the various (global) stakeholder groups as well as from member states. Furthermore, in a first step towards a truly global system, we suggest, from the start, to include representatives from intergovernmental organizations whose internationally accepted authoritative instruments will be codified in the standards; for example the UN (guiding principles), the ILO or the OECD.

Such an approach would be a safeguard against other sustainability standards boards being launched elsewhere. Further research and consultation are required to agree on the appropriate composition.

Standard setting

Creating and maintaining standards is a time and resource intensive activity. Being able to leverage and build on existing globally applicable standards, such as the GRI Standards, will therefore be vital for the European Union to be able to deliver on its ambitions as set out in the Green Deal within the foreseen timeframe. Furthermore adopting and building on existing GRI standards will accelerate the implementation as these are already the most widely used standards by companies in Europe as well as companies selling onto the European market to report their impacts on society and the environment.

We are also concerned about taking an approach of "cherry picking" whereby individual standards from various standard setters are used to prescribe a limited core set of disclosures. Mandating standalone standards or a narrow set of disclosures might in the short term improve comparability but does not lead to the creation of the credible and comprehensive reporting standard system that is envisioned by the European Commission. Nor does it provide the ability to quickly adopt new standards or update existing standards to address changing societal demands and/or technical developments.

In addition, the methodology (multi-stakeholder versus investor-only, broad applicability versus industry-only) and rigor with which standards are set differs significantly, potentially impacting the usefulness of the standards due to differences in definitions and measurements.

A professional standard setting organization

The acceptance of standards is premised on a rigorous, replicable and transparent process for standard setting. We are concerned that duplicating the existing model designed for providing input to financial standards and endorsing them in the EU, and using that model for non-financial reporting will fall short of meeting the required rigor and due process demands that underpin the significant effort required for developing standards. A part-time Technical Expert Group,

supported by voluntary working groups, in our view, will lack the time, skills and capacity for developing and maintaining an ever increasing, comprehensive set of consistently high quality non-financial reporting standards, regardless of whether existing standards are taken as a starting point. This problem is further exacerbated by the need to engage with different stakeholder representatives and experts for each topic standard under development. A neutral, politically accountable core standard setting organization is required from a practical and credibility point of view. This core organization needs to be tasked to manage and safeguard the rigorous process of standard setting. As part of that process, it also will need to convene and manage an increasing number of working groups needed to develop the standards.

It is therefore advisable to set up, under the non-financial reporting pillar of EFRAG, a professional division charged with managing the development and maintenance of a comprehensive set of standards; similar to the IFRS/IASB and GRI/GSSB models. Consideration needs to be given as to whether this new division should formally become part of EFRAG or whether the actual process of standard setting should be outsourced to another organization with EFRAG providing the public interest oversight through the non-financial reporting board on behalf of the EU.

It is worth noting that this change to the EFRAG organization is needed regardless of whether EFRAG will be delegated formal standard setting powers or become the drafter of standards for the European Commission, the European Parliament and the Council.

Role for GRI

As a mission-driven organization, we are keen to ensure that our GRI Standards are part of this future. The GRI Standards are truly global in nature and in adoption; which aligns well with the ambition of the Commission to develop a solution for use beyond Europe. The GRI standards are referenced or required by 168 policies in 67 countries around the world, including some 75 policies issued by capital markets from 53 countries.

While GRI's governance model currently does not provide a mechanism for political oversight what does set GRI apart is the independent global, multi-stakeholder standard setting process, focused on the public interest. Building the European effort to develop robust, globally applicable sustainability reporting standards on the 20 years of technical experience from GRI will give the European Union the head start needed to meet its objectives and timelines.

We wish to emphasize that we are open to detailed discussions regarding how GRI and the Global Sustainability Standards Board (GSSB) can contribute to the European solution and in tackling the international need for one global set of sustainability reporting standards and achieving the goal of using transparency to drive the necessary changes for a sustainable future. In addition we realize that our standards are not addressing all the topics nor meet all the European requirements and are open to make amendments.

Funding

A professional organization will also require substantial funding. A funding model needs to be developed that safeguards the independence of standards without real or perceived undue influence from any particular interest group. Public funding from the EU and member countries should be a major source of income, and once other jurisdictions join, they should also contribute. This could be supplemented with for additional fundraising. It goes without saying that full transparency on funding is essential.

Interconnectivity

It is important to recognize that financial reporting itself also must be strengthened to reflect the financial implications of sustainability issues on the reporting entity. Such further evolution of financial reporting is aligned with the objective of general-purpose financial reporting: to provide financial information useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the reporting entity.

Formalizing the role of the European Lab as the platform within EFRAG where the interconnectivity between the financial and non-financial reporting standards is addressed, is an appealing proposition. We would advise in that case to strengthen the governance of the Lab with an updated mandate and a clearly defined membership representing the multiple stakeholder groups engaged in the two reporting disciplines.

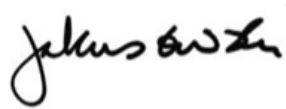
In closing, we wish to reiterate our support for EFRAG's central role related to European non-financial reporting standards and the core concept of the two equally footed pillars. We are keen to explore further with you how GRI, the GSSB and the GRI Standards can help accelerate the development of such standards and which (governance and other) conditions must be achieved to make this a reality swiftly and effectively.

If you have any questions concerning our comments, please don't hesitate to contact us.

Yours sincerely,



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Chair, GRI Board of Directors



Judy Kuszewski
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