Principles for Responsible Investment

QUESTIONNAIRE RESPONSE

EFRAG AD PERSONAM MANDATE ON NON-FINANCIAL REPORTING STANDARD SETTING

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THE PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

This consultation questionnaire represents the view of the PRI Association and not necessarily the views of its individual members.

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SUMMARY OF PRI RESPONSE

The European Union has led the globe in sustainable finance reforms and yet there is a clear and urgent need for better harmonisation of corporate and investor disclosure requirements to support the implementation of the Paris Agreement and the Sustainable Development Goals (SDGs).

Europe incorporates these goals in the EU Green Deal and respective legislation such as the Sustainable Finance Disclosure Regulation, the Sustainable Finance Taxonomy, the EU Climate Law and the upcoming initiative on sustainable corporate governance which need to be supported by a non-financial reporting standard.

In full support of the development of a European non-financial reporting standard, the PRI makes the following overarching recommendations:

- Ensure the widest possible transparency and involve relevant stakeholders;
- Define overarching goals and desired outcomes first and attempts to align elements of existing standards second;
- Ensure non-financial reporting standards are integrated under the EFRAG structure;
- Ensure the structure and governance of non-financial standard supports the Sustainable Finance Taxonomy and other frameworks like the SFRD as important tools for investors.

The EU's action on non-financial standard setting will resonate around the world, and set the bar for a global corporate sustainability reporting standard. As first mover, Europe will benefit from more meaningful corporate disclosure and should work with other willing countries, to align at international level under the scope of the International Platform on Sustainable Finance.

QUESTIONNAIRE RESPONSE

1. Governance – Structure and due process

1.1 Standards need to be developed in the public interest and no individual category of stakeholder may exercise undue influence: How can it be best ensured that standards are developed based on an inclusive and transparent due process? What should be the characteristics of such a due process?

The PRI suggests that the development process shall take place in a fashion that ensures the widest possible transparency, which can include public meetings, regular public reports, observer access and the opportunity to share feedback during the development process within the scope of public consultations.

1.2 Relevant European institutions and agencies shall be invited to be fully involved in the development of future standards, including the European Securities and Markets Authority (ESMA): How can these European Institutions and agencies be involved in the development of future standards and in the standard setter? Should there a particular role for ESMA?

The PRI supports the involvement of ESMA during the process of developing a standard in view of the necessary alignment between corporate disclosures and investor disclosure obligations, in particular under the Sustainable Finance Disclosure Regulation (SFDR) and the Regulatory Technical Standards thereof.

1.3 To permit relevant national public authorities to provide input about whether any future standards are responsive to the public interest, how can these authorities be included in the governance of the non-financial reporting pillar? Which authorities would be the most relevant and how should they be involved?

No response.

1.4 Should private sector and civil society representatives be involved in the standard setting work? If so, what would be suitable options for doing so in a balanced way? Which stakeholders should be involved? Should the standard setting pillar be a public-private partnership like in the financial reporting pillar?

The standard setting process should take into account the perspectives of both the user (investors, civil society, etc.) and preparer (companies that will do the reporting). An inclusive and transparent standard setting process ensures the representation of different stakeholders (i.e. users and preparers) in the governance structure.

1.5 If there were to be SME standards derived from the future EU non-financial reporting standards, how should the SME angle be addressed in the governance and in the standard setting process?

The PRI recommends a simplified mandatory reporting standard for SMEs so that they can be on par with larger organisations. The development of a SME standards should follow the same procedure as the development of the EU non-financial reporting standards.

1.6 Which governance structure would you foresee for the EFRAG EU non-financial reporting standard setting pillar? How would this fit in the overall EFRAG governance structure? What relation would there be with the financial reporting pillar, if any?

1. Developing a future EU non-financial reporting standard should start with determining the overarching purpose and desired outcomes of such a standard. This means identifying the users of financial and non-financial reporting and understanding how they use this information in their decision making. For investors this means information that allows for the assessment of the profitability and assumptions underpinning the value of a company's assets and liabilities;
2. the significance of sustainability issues in terms of impact on society and the environment and a company's exposure;
3. the company's sustainability performance relative to a goal or threshold.

An EU non-financial reporting standard should focus on the information that is needed to support decision-making by users. In this context, it is important to consider the use of sustainability information for both financial and non-financial decision making and to identify what sustainability information can also underpin financial reporting by companies. Almost all sustainability issues, to some extent, will have both a financial and a sustainability dimension. However, they require a parallel analysis by investors and companies to determine the materiality of an ESG issue relative to financial considerations and/or its sustainability performance.

The governance structure of EFRAG should reflect and support the development of a standard along these principles. A crucial element that needs to be clearly captured in EFRAG's future structure is the need to ensure the link between financial and non-financial reporting standards. In this context, it is recommended to fully incorporate EFRAG's pillar on non-financial reporting standards in EFRAG's existing structure, for example by setting up an additional Technical Expert Group for non-financial reporting that has the same status as the expert group for financial reporting. In addition, EFRAG's overall governance structure should reflect its broadened mandate, in particular in terms of the stakeholders that are represented in the various bodies within the structure.

2. Governance – Cooperation with standard setters and other initiatives

2.1 Any future possible EU non-financial reporting standards must be built on existing reporting standards and frameworks to the greatest possible extent:

- **How can the relevant existing standard-setting organisations be closely associated in future standardisation work? How would you see cooperation and involvement?**

Any effort to develop an EU non-financial reporting standard should start with the overarching goals and desired outcomes of such a standard first and attempt to align elements of existing standards second. There will be important elements related to the use of non-financial information that are not necessarily reflected in existing standards and approaches. An EU standard should identify what these gaps are and fill them where needed.

The PRI recommends that future standardisation work builds from existing standards applied in the EU and internationally, with particular reference to the Taskforce on Climate-Related Financial Disclosures, existing TCFD guidelines embedded in the NFRD Non-Binding Guidelines and the recently introduced disclosure requirements for corporates under the Taxonomy regulation and build from key elements of existing widely-used ESG reporting standards such as GRI and SASB.

- **More broadly, how should cooperation with existing public and/or private initiatives producing international standards and framework be established, to ensure that any future non-financial reporting standards applying in the EU build to the greatest extent possible on existing standards and frameworks?**

The renewed efforts by public and private initiatives toward alignment and consolidation of non-financial reporting are an important moment and a clear opportunity to reduce confusion, create alignment and utilize non-financial reporting to encourage better investment decision-making to prioritize and incentivize sustainable investment and outcomes.

To make the most of this opportunity, it is critical that the future non-financial reporting standard setter and the various initiatives adopt a highly coordinated approach, and consider the relevant developments in the regulatory and voluntary spheres to avoid fragmentation of an already complicated space. PRI recommends that the future non-financial reporting standard setter, makes a concerted effort to work closely with other regulatory bodies and initiatives that are also gaining traction. Principal among these are:

- Existing standard setters such as GRI and SASB - given that they form the basis of existing reporting and companies collect and report data in accordance with these frameworks;

- The International Financial Reporting Standards (IFRS) Foundation consultation on creating a Sustainability Standards Board (SSB);

- The International Organization of Securities Commissions (IOSCO)'s efforts to determine which non-financial information is decision-useful for the investor, and its ambitions to use that information to develop a framework for principles-based guidance for future standard-setters.

Coordinating with these groups will help ensure alignment between typical methods of financial and non-financial reporting. Regulatory involvement in the non-financial reporting space – as exemplified by EFRAG, IOSCO and IFRS – is also critical for "levelling the playing field" and for encouraging transparency around information that may be useful for business strategy and investment decision-making. Common principles for non-financial reporting and supporting guidance will also lead to better reporting and effective enforcement by the regulator.

We are aware of that the scope of these efforts may not meet the sustainability and reporting objectives in the EU. Therefore, PRI suggests that EU standards align with future global sustainability standards where relevant to avoid potential overlap and only add-on where elements do not have a global equivalent.

- **How can the EU non-financial reporting standard setting have a global impact?**

Europe's globally recognized leadership on sustainable finance and its pioneering role on non-financial reporting will set the tone for a global sustainability reporting standard. The EU should support and advance international dialogue around global harmonisation of sustainability reporting standards. This should emphasise the need for sustainability reporting that supports the assessment of the financial implications of sustainability issues and interprets a company's sustainability performance and alignment in the context of long-term sustainability goals and thresholds.

Existing initiatives such as the International Platform on Sustainable Finance (IPSF) can help advance debates on global alignment.

Furthermore, the PRI recommends that EFRAG seeks to exchange with global standard setters and institutions such as the IFRS Foundation/SSB and IOSCO.

2.2 How to establish an appropriate coordination between the financial and nonfinancial reporting so as to ensure that financial and non-financial reporting provide an integrated view of the performance, position, development and impacts of reporting companies?

As set out in our response in section 1.6, the starting point for coordination is understanding information users' needs and the types of sustainability information is needed to support both financial and non-financial reporting. With this perspective in mind, EFRAG should to draw clearer links between the requirement to disclose financially material ESG information in existing financial reporting and the additional requirements under the Non-Financial Reporting Directive (NFRD) or a respective European non-financial reporting standard.

3. Possible changes to finance of EFRAG

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

No response.

4. Do you have any other comments you want to share?

No response.