SOCIETE GENERALE

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

35 Square de Meeûs
1000 Brussels – Belgium

Paris, 30 October 2020

**Re: Ad personam mandate on Non-Financial Reporting Standard Setting**

Dear Mr Gauzès,

Société Générale thanks you for the opportunity to respond and comment on your public consultation on non-financial reporting standard setting. The sustainable finance framework implies an outstanding need of additional data related to the exposures of companies to ESG factors. As such, we are highly supportive of the European Commission's ambition to overhaul the Non-Financial Reporting Directive (NFRD) in order to incorporate further ESG considerations.

We believe that EFRAG would be perfectly fitted to be entrusted with the development of possible harmonized and common EU non-financial reporting standards. However, instead of being an extension of financial reporting under IFRS, we would rather recommend that those standards stay in the remit of the NFRD framework.

For the time being, we understand that the EFRAG's multi-stakeholder European Lab Project Task Force (PTF) is currently working hard to make a comprehensive inventory of existing regulatory and voluntary standards on non-financial reporting. We support their ultimate objective to propose a set of common standards avoiding overlaps, duplications and over complexity as much as possible. Yet, on the financial institution's side, we have high expectations with regards to the enhancement of non-financial reporting of our counterparties. It is critical for us in order to honor our own reporting obligations and to make well-informed investment and financing decisions. With this in mind, we express the strongest wishes that the task force will be proposing consistent harmonized standards for both financial institutions and non-financial companies.

Finally, we share the same conviction that any common standards should be well-fitted to the specificities of EU companies. In this regard, it is preferable to have an EU standard setter owning control on those standards.

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.

You will find hereafter our answers to the questionnaire.

Sincerely yours,

Eric Litvack

Group Director of Public Affairs

Pierre-Henri Damotte

Accounting Public Affairs

**QUESTIONNAIRE**

In your opinion, if EFRAG were entrusted with the development of possible EU non-financial reporting standards in a revised NFRD, how would the following general and specific considerations, identified as relevant to standard setting mechanism, apply if EFRAG were to be the standard setter? (NB: this does not affect EFRAG' present mission)

## 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?

We agree that standards need to be developed in the public interest without individual category of stakeholder exercising an undue influence. To ensure that standards are developed based on an inclusive and transparent due process, we suggest the following recommendations:

- The specificities of the different categories of actors captured or likely to be captured in the forthcoming revision of the NFRD should be properly understood and integrated so the required disclosures are adapted to the extent possible to the type of geographies, sectors, companies' size etc.. Such adaptations are essential to provide the most relevant and useful information to users and interested stakeholders.
- For each type of actors (by sector, geography and size), the EFRAG Lab Project Task Force should get and publish a clear overview of current level of disclosures (data quality, comparability, user friendly access etc.) as well as of any of their challenges (i.e. operational and costs challenges) and obstacles to the disclosure of non-financial information in order to work on appropriate solutions.

The specific point of view of financial institutions that will ultimately use the data to make well-informed investment and/or financial decisions should not be seen as exercising undue influence but be used as a driver in the standard setting process.

In the specific case of banks, a prerequire to their reporting on their indirect impacts on ESG factors is to be facing counterparties liable to disclose on their impacts on or on the way they are impacted by ESG factors. In particular, to ensure consistency in the implementation of the reporting framework; attention should be paid to:

- Banks cannot be expected to be a channel for regulatory enforcement.
- that companies' disclosures mirroring properly the information required from banks under the Sustainable Finance Disclosure Regulation, under the taxonomy regulation, and under the benchmark regulation will be integrated into the upwards NFRD review. In this regard, the analysis of the implementation of the draft taxonomy shows that there is a significant lack of information on DNSH, in particular on circular economy (including for EU based activities).
- Ensure regulatory flexibility to be extended to accommodate the apparent mismatch in timing between the disclosure requirements due by banks and the forthcoming revision of the NFRD. Financial institutions will use the sustainability-related information published by non-financial institutions one accounting year before. For example, article 8 of the taxonomy regulation will apply at the same time to corporates as to financial institutions. This means that the data needed by financial institutions to make those disclosures would not likely be available at the application date.

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?

We agree that ESMA is legitimate to have a role in the development of those standards, jointly with EFRAG or with a specific mandate given to them by the Commission. ESMA is already well aware of the ESG-data challenge that we as banks are currently facing. To name a few:

- Lack of available, comparable, comprehensive data from corporate clients of all sizes and particularly outside of the EU.
- Lack of consistency between the future reporting obligations falling on financial institutions
- Ensuring proper implementation and application of new legislation given the intense legislative activity at EU level in the last few years (e.g. EMIR, MiFIDII/MiFIR, PRIIPs, BMR etc.).

ESMA has already made proposals with regards to the improvement of the status quo with respect to, most notably, mandatory standardization of the disclosures and the proportionate expansion of the personal scope of the NFRD. Should EFRAG be entrusted with the development of EU non-financial reporting standards, ESMA should then be welcome to participate to the due process in charge of this development, bringing its views and expectations as market authority among the other views to be expressed by all involved stakeholders.

Another role that ESMA could play is on the creation of a common EU data depository. It could host on its website a European single access point (ESAP), that should be a hybrid system whereby information is collected nationally and aggregated by ESMA. It would create a one-step access to all information.

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?

National public authorities of the member states that are the most involved in the debate around the enhancement of non-financial reporting should be welcomed to participate to EFRAG's governance of this new pillar. 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.

The most relevant national public authorities to be invited will have to be designated based on the local governance of non-financial regulation and reporting built in each member state. Such authorities could then be accounting standard setters, market authorities, or other national bodies.

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?

Standard setting shall aim to provide relevant and useful information to all stakeholders considering geographical and sectorial specificities as well as a cost/benefit balance taking into consideration operational challenges for collecting and consolidating the information.

In order to achieve this purpose, we think that preparers should be significantly involved in the standard setting process through representatives of the private sector (which could be professional associations or federations). The panel of these representatives should at least cover all major industries (banks, insurance, commodities, transportation, etc.).

Civil society representatives (as both users and influencers/prescribers) should also be involved in the process.

On top of our response to question 1, it would be useful to create a permanent committee on the same model as the current multi-stakeholder European Lab Project Task Force.

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?

An SME representative body should equally be involved in the governance and in the standard setting process. However, what is specific for SMEs is that there is a need to reach the right balance between a proportional level of disclosures and a satisfactory level of transparency for financial institutions to make well-informed investment / financing decision making. On the one hand, the sustainable finance framework is incentivizing financial institutions to direct capital flows to companies for which ESG data are available, comprehensive and comparable. But on the other hand, the current COVID 19 crisis makes it even more delicate to address for the smallest companies that would not have the financial and operational capacity to honor even a limited set of disclosures.

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?

Should there be links between non-financial information and financial information (either qualitative or quantitative), it would therefore be needed to organize within the EFRAG's governance a clear and transparent communication between the two pillars. At least, the TEG should be informed of the works performed by the non-financial pillar and even more consulted when links will be proposed between non-financial and financial information.

Moreover, if the coming non-financial reporting standards will be applicable by entities which are not required to prepare their 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.

## 2. Governance – Cooperation with standard setters and other initiatives

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

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

We have a positive opinion on a cooperation and involvement of existing standard-setting organizations into the EU standard setting process. However, we believe that it is key, to maintain an EU integrity and sovereignty, that the EU standard setting process keep the ability to adapt any international norms coming from an existing standard setting organization to EU companies' specificities.

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 factors.

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

• 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?

We understand that this is the objective of the work that is currently being undertaken, and that we gratefully welcome, by the multi-stakeholder European Lab Project Task Force.

• How can the EU non-financial reporting standard setting have a global impact? How to establish an appropriate coordination between the financial and non- financial reporting so as to ensure that financial and non-financial reporting provide an integrated view of the performance, position, development and impacts of reporting companies?

Beyond what we have still mentioned about the EFRAG's governance (see question 1.6), 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.

For instance, materiality should be applied similarly both set of standards so that there would be 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).