Global Reporting Initiative
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30 October 2020

Dear Mr. Gauzès,

Thank you for the opportunity to share our views on the *ad personam* mandate given to you by Executive Vice-President Valdis Dombrovskis. GRI welcomes the initiative to build European non-financial reporting standards. We think this is the right moment to mandate the practice of non-financial reporting and enable the reporting of comprehensive, comparable and decision useful information.

Before responding to your questions, we would like to share a more general concern. We are observing that the global debate around sustainability reporting seems to be skewed more and more towards the interest of one stakeholder. We think that it cannot be stressed enough how important it is to uphold the ambition level set by the European Commission, and supported by EFRAG, regarding the need for an independent development of standards that are relevant for all stakeholders and create transparency around the impacts of business activities.

GRI fully supports the European Commission's effort to ensure stakeholders, including investors and civil society, have access to adequate non-financial information to make informed decisions around risks, opportunities and accountability. Expanding EFRAG's mandate to bring financial and non-financial reporting together is a welcomed idea.

We believe that if EFRAG were entrusted with the development of European non-financial reporting standards and to provide the structure ensuring public oversight over the development and maintenance of such standards, considerable changes to the mission, governance and funding of EFRAG would be necessary to safeguard that the European non-financial standards represent public interest and are responsive to the needs of all stakeholders.

Below we share our ideas on the required changes to EFRAG's governance and scope along the lines of the specific questions outlined in the questionnaire. These ideas are based on over 20 years' experience in the governance of global non-financial reporting standard setting activities in the public interest and focus on the objective of contributing to the best possible solution aligned with the European Commission's ambition as formulated in the mandate.

GRI and the GRI Standards can help accelerate the development of European standards by avoiding additional cost, time and reporting burden. In part because our standard setting process is already governed by a strong due process protocol ensuring independent, multi-stakeholder standard setting. But also because of the global nature of our standards; both in terms of input to the standard setting process as well as in terms of adoption.

Finally, the GRI Board has indicated its willingness to consider changes to the governance model to accommodate the expectations of EFRAG.

We look forward to working with you on developing the best solution possible which meets the needs of the European Commission, is globally applicable and reduces the burden on reporting organizations.

Kind regards,

Eric Hespenheide Chair, GRI Board of Directors	Judy Kuszewski Chair, Global Sustainability Standards Board

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?

GRI fully supports the idea that the development of standards in the public interest must be based on an inclusive and transparent due process. This is in our view best ensured by clearly separating the due process regarding the development of standards from the governance of EFRAG as the 'facilitating' organization. Both need to be multi-stakeholder and transparent.

The due process should reflect the following characteristics for standard setting:

- **Multi-stakeholder**: The process needs to ensure all relevant stakeholders are represented. See question 1.4 for a proposed list.
- **Transparency**: The process needs to be transparent and give stakeholders full access to the information and meetings that pertain to standard setting
- **Inclusiveness**: The process should mandate public consultation for all standard setting activities to give all parties affected by the non-financial standards an opportunity to comment.
- **Expert-led**: Recognizing the variety and complexity of issues covered in non-financial reporting, the due process needs to ensure the adequate involvement of issue level experts.
- **Accountability**: The process needs to include (i) a mandatory analysis of the potential effects of proposals on affected parties and (ii) a requirement to explain the rationale for why the decisions were made regarding the development or changes to a standard.
- **Independence**: The process needs to safeguard the standard setting activities from undue influence. Unconditional/independent funding and adequate remuneration of members of the oversight body are important considerations in this context.

Governance of standard setting

GRI believes that European non-financial reporting standards should be drafted using an independent, global and multi-stakeholder standard setting process (see also 1.4) guided by a clear due process in order to increase stakeholder confidence that the non-financial reporting standards are responsive to the public interest.

The due process needs to protect the standard setting activities from undue influence by any stakeholder group – both from a financial as well as a content perspective. The Due Process Protocol of the Global Sustainability Standards Setting Board (GSSB)[1], is a proven example of such process.

[1] The Global Sustainability Standards Setting Board (GSSB) is the independent entity linked to GRI responsible for setting globally accepted standards for sustainability reporting.

Governance of EFRAG

Adding the development of possible European non-financial reporting standards in a revised NFRD to EFRAG's mandate would require significant changes to the composition of the current board of EFRAG to reflect the multi-stakeholder interest in the standards. At a minimum, the following constituencies should include: Business, Civil Society Organization, Investment Institution, Labor, Professional Consultants (relevant professions associated with the reporting process) and governmental representatives (including for example European institutions and agencies as well as representation of national standard setters and market regulators).

It would furthermore require an extension of the secretariat with experts on non-financial reporting. Such an extension is needed regardless of whether EFRAG provides advise to the European Commission regarding new or revised standards developed by a third party (similar to the current mandate for financial reporting) or whether it leads the actual development of standards.

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?

Relevant European institutions and agencies, including ESMA, should have a clear role in a governance body for European non-financial standards as well as in the process of setting individual standards. This way the European Commission will see its thinking and ambitions reflected in (to be) mandated new standards as much as possible without jeopardizing the due process or undermining the multi-stakeholder principle. Concretely, this means that the European institutions:

- should be represented as one of the multi-stakeholder constituencies that make up the Board;
- should be part of and have the right to advise during a mandatory initial review of project proposals for standard setting activities;
- can offer technical experts to the working groups developing specific standards representing one of the multi-stakeholder interest groups;
- can respond to public consultations which are part of the standards setting process.

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?

GRI sees the engagement of relevant national public authorities similar to that of the European institutions and agencies (see 1.2).

Following our comments above, we advise collective representation of relevant national public authorities and European institutions and agencies in the EFRAG Board and other governance bodies. In order to speak with one voice on the EFRAG Board, they would need to establish a process to reach consensus and agree on candidate nominations.

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?

GRI strongly suggests to clearly define in the due process protocol the constituencies that make up the public, multi-stakeholder process. At a minimum, these should include: Business, Civil Society Organization, Investment Institution, Labor, Professional Consultants (relevant professions associated with the reporting process) and governmental representatives (for example from European institutions and agencies).

Furthermore, a public-private partnership like in the financial reporting pillar has several potential advantages for the European Union:

- ability to partner with existing standard setter(s);
- no need to set up a new structure for standard development;
- taking in experience with multi-stakeholder due process standard setting;
- beneficial for the expansion to a global approach.

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?

In our response to the NFRD consultation, we advised against the development of simplified reporting standards for SMEs but rather suggested to draw from existing standards used by large reporting organizations.

The main reason for this suggestion is that when SME reporting is not based on the same reporting standards as the ones used by large reporting organizations, the reported information cannot be used easily to inform reporting on activities and business relationships in the value chain. It would make it more difficult to aggregate information both for public reporting and supply chain reporting and hamper the possibilities to compare.

This does not mean that GRI is opposed to mandatory reporting for medium size companies (< 250 employees) or even some small size companies with a substantial turnover or balance sheet total – but it should be based on the same reporting standards as used by large reporting businesses.

In addition, EFRAG should ensure representation of SMEs as part of the business constituency in its board and working groups.

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?

EFRAG has over the past 20 years developed an effective approach to promoting the European views in the field of financial reporting and ensuring these views are properly considered in the IASB standard setting process and related international debates. It is essential that changes to the governance of EFRAG do not jeopardize this important work. In addition, if EFRAG is given the mandate, its governance needs to reflect and support both the unique characteristics as well as the interconnected nature of financial and non-financial reporting.

Recognizing these two realities, we believe that it is important for EFRAG to create a two-pillar structure under an overarching board that has the competencies to oversee financial and non-financial standard related mandates; one pillar housing the current financial reporting related activities and one housing the activities around non-financial reporting.

Whilst both financial and non-financial standards must be developed and governed in their own right, a mechanism is needed as part of the overarching EFRAG structure where questions of connectedness between the two are addressed. This is an essential element of the needed governance as there is no identifiable point at which an issue facing the world suddenly transforms from a “systemic” risk to society or the environment to a financially material risk to the individual entity. Companies have to disclose their impacts on people, economy and the environment. If not already financially material at the time of reporting, these impacts are important to society and in many cases represent leading indicators of financially material issues over time.

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?

As indicated above, closely associating with existing standard setting organizations has notable advantages ranging from being able to access their standards and experience in standard setting to the increased likelihood of acceptance by reporting organizations and stakeholders who already use these standards.

Creating and maintaining standards is a time and resource intensive activity. Being able to leverage and build on existing standards will allow the European Union to deliver on its ambitions as set out in the Green Deal in time. Starting an entirely new standard setting effort would not only undermine that ambition but also risk the global relevance and applicability of the resulting standards (a stated priority of the European Commission).

As already indicated under 1.4, one option would be to create a public-private partnership under the auspice of EFRAG. The extent of such partnership will be determined by whether EFRAG will be mandated to develop and set the actual standards or, as is the case currently with IASB, endorse standards.

Regardless, GRI is certainly open to a detailed discussion on such partnership. Our existing set of most widely adopted global sustainability standards, developed through a credible multi-stakeholder process, could form the basis and jumpstart of a European effort.

Ultimately, the European non-financial reporting standards should go beyond building on existing standards and contribute to the much-needed consolidation in the area with the aim to establish one global solution for non-financial reporting alongside the IFRS.

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?

Regardless of the selected approach to standard setting, a review of existing standards and guidelines based on the stated intent of the new standards would need to be the starting point of any standard development process.

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

GRI strongly supports the global applicability of non-financial reporting requirements without jeopardizing the ambitions laid out in the Green Deal. A globalized system will unlock the value of the information by facilitating comparability and analysis while minimizing reporting burden. It also acknowledges the fact that business and trade are by definition global in nature.

A successful solution therefore needs to cater to the expectations of stakeholders globally as well as to the needs of globally operating companies. Furthermore, it should be developed in line with international expectations for responsible business conduct as outlined in authoritative intergovernmental instruments including the UN Guiding Principles on Business and Human Rights, the ILO conventions, and the OECD Guidelines for Multinational Enterprises.

EFRAG should therefore consider developing a governance structure for the process of non-financial standard setting which, over time, could be amended to facilitate the participation of other countries and regions.

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?

To ensure appropriate coordination between financial and non-financial reporting, the mandates of the respective institutions charged with developing financial and non-financial reporting standards under the auspice of EFRAG need to spell out the requirement to collaborate to evidence the interconnectedness where relevant.

This requirement needs to be embedded in the Terms of Reference of the relevant governance bodies on both sides as well as in the due process and scope of project proposals. Importantly, work is required to embed the notion of interconnectivity in the respective conceptual frameworks.

A worthwhile endeavor would be the exploration of joint projects between the respective standard setters – both on the conceptual level as well as on the level of specific application guidance for non-financial topics. An example would be how the information about climate change related impacts in sustainability reporting can inform financial reporting based on existing IFRS Standards.

In this context, GRI agrees with IASB Chairman Hans Hoogervorst who recently stated in his keynote at the IFRS Foundation Virtual Conference that sustainability issues are set to increase in financial statements as these 'are closely intertwined.' Sustainability reporting can have 'substantial added value to financial reporting' reflecting issues which may 'very well be material to investors.'

GRI is of the opinion that companies have to disclose their impacts on people, economy and the environment. If not already financial material at the time of reporting, these impacts are important to society in their own right and in many cases represent leading indicators of financially material issues over time. Therefore, the concept of double materiality will be essential to the European standards.

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?

Naturally, the European Commission will want to be assured that, in case EFRAG is entrusted with the development of European non-financial reporting standards, it is adequately and independently funded to deliver on the expanded mandate – and that the funding is transparent.

1.1 Adequate level of funding

The level of sustained funding needed to support the European Commission's objectives will depend on further clarification of the actual aims and ambitions of the European Commission and the Parliament. Factors that determine the adequate funding level are:

- Standard development: the cost of developing a standard consists of two main components, namely staff and experts and multi-stakeholder engagement process.
- Governance: the scope and volume of standards to be developed will likely require a professional standard setting board (compensated) with an independent appointment process, a public oversight board and due process oversight.
- Advocacy and communication: these functions are critical for a standard setting organization to ensure its standards are used globally and remain current. While also ensuring that they are adopted widely by countries, capital markets regulators, understood correctly by assurers and supported by all relevant stakeholder groups including civil society, labour unions and investments institutions.

1.2 Independent and sustainable income streams

A funding model needs to be developed to safeguard EFRAG's ability to set standards independently – without real or perceived undue influence from any interest groups.

Funding can come from three sources – and ensuring a mix of these streams will further protect the independence of the standard setting process. It goes without saying that full transparency about funding is essential:

- Government funding: annual contributions from the European Union and other governments joining the public oversight board, for example using an 'assessed contribution' model as applied by the UN where country fees are determined based on a percentage of GDP and the level of development of the country.
- Fundraising: a mechanism should be established to solicit unrestricted grants and contributions from actors interested in supporting the organization's mission with safeguards to ensure no undue influence can be obtained by funders.
- Earned revenue: as an independent standard setter, EFRAG will have limited ability to collect earned revenue to avoid (the perception of) a conflict of interest. It could develop revenue streams that support its mission by improving the quality of reports produced based on the European standards, such as providing training and certifying practitioners.

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