

Climate Disclosure Standards Board's (CDSB) response to the consultation document on the ad personam mandate of EFRAG Board President Jean Paul Gauzès on potential need for changes to the governance and funding of EFRAG

The Climate Disclosure Standards Board (CDSB) would like to thank EFRAG for the opportunity to provide comments on the consultation document on the ad personam mandate of EFRAG Board President Jean Paul Gauzès on potential need for changes to the governance and funding of EFRAG.

The Climate Disclosure Standards Board (CDSB) works to provide decision-useful environmental information to markets via mainstream corporate reports. Our mission is to create the enabling conditions for material climate change and natural capital information to be integrated into mainstream reporting.

CDSB is an international consortium of business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We do this by offering companies a framework for reporting environmental information with the same rigour as financial information. In turn this helps them to provide investors with decision-useful environmental information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials.

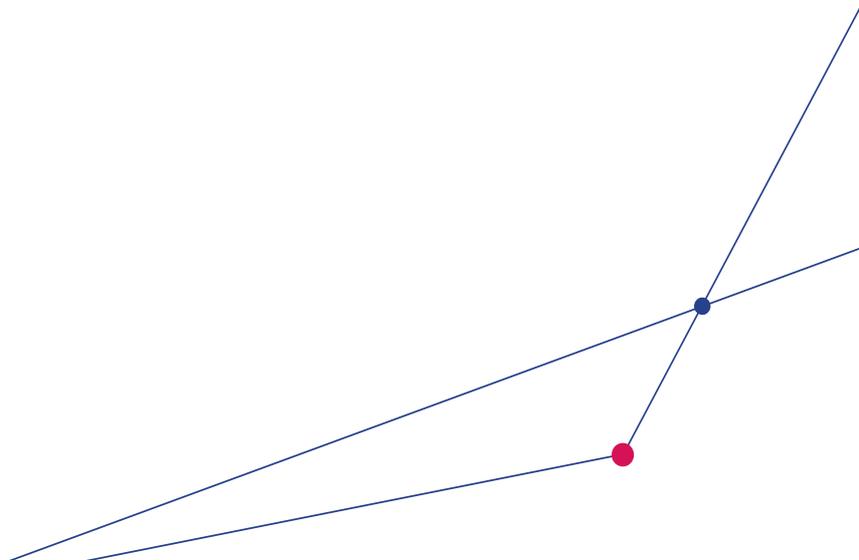
Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems.

The CDSB Framework is used by large listed companies globally and is referenced in government guidance to reporting regulation in the Commission Guidelines on Non-Financial Reporting, the UK Companies Act 2006, and stock exchange guidance in London, Australia, Singapore, Egypt, Santiago de Chile and elsewhere. CDSB has also contributed to the work of the UN Sustainable Stock Exchanges Initiative through its working groups on disclosure, green finance and financial regulators. CDSB also hosts the TCFD Knowledge Hub on behalf of the Task Force on Climate-related Financial Disclosures (TCFD), which helps report preparers to find the resources they need to understand and implement the TCFD recommendations.

Our comments in full are provided below. Please do not hesitate to contact me directly (mardi@cdsb.net) or CDSB's EU Policy Manager Axelle Blanchard (axelle.blanchard@cdsb.net) for further information.



Mardi McBrien
Managing Director
Climate Disclosure Standards Board (CDSB)



Appendix: Responses to consultation questions

QUESTION 1 - DUE PROCESS

Do you agree that the above reflects the key due process steps for open and transparent non-financial standard setting?

The consultation recommendations acknowledge that EFRAG would be given a new mission as a standard setter. This compares to its current advisory role of developing and promoting European views in the field of financial reporting, and ensuring those views are properly considered in the IASB standard setting process.

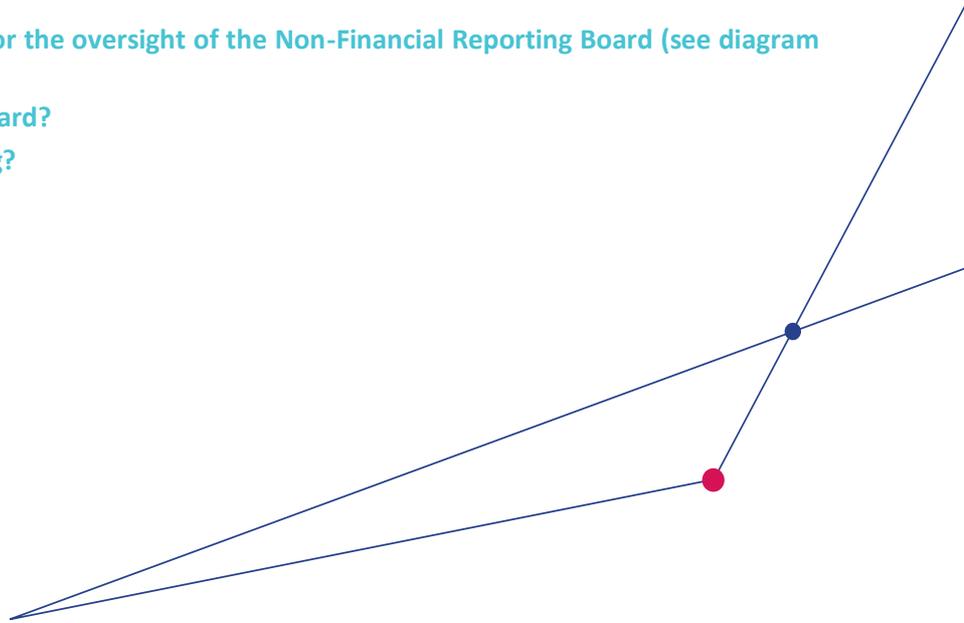
For EFRAG to become a standard setter across financial and non-financial reporting and serve the European Union (EU) public interest as detailed in the consultation, it must have appropriate due process to deliver that mission. From the perspective of CDSB, the current due process used by EFRAG for developing and promoting views for advisory purposes will not suffice. CDSB believes EFRAG should follow a more detailed due diligence, like existing standard setters. An example can be gleaned from '[IFRS Due Process Handbook](#)' from a financial standard perspective, and [CDSB's Due Process](#) from an environmental framework perspective. EFRAG must ensure that standards connect with the wider ecosystem, ensuring comparability and consistency rather than fragmentation, which would negatively impact interpretation of information by investors in and outside the EU.

Specific to EFRAG developing EU non-financial reporting standards covering sustainability matters, this will need to be done at speed, built on existing practice, promote organisational change, and have a collaborative nature with existing standard setters. We believe it is important for a future EFRAG non-financial reporting standards to fully appreciate the dynamic nature of materiality for corporate sustainability issues. Fast moving developments in science and technology, policy and regulation, and social and customer movements mean that the material sustainability issues of today for a particular company are likely to be different in a number of years' time in terms of composition and operational, strategic or financial impact. The appreciation of this dynamism and mutability could be expressed in the Board composition and approach to standard development, for instance. The overall purpose of the creation of an EFRAG non-financial reporting standard is not to compete on standards, but for standards to serve a purpose of allowing preparers and investors to converge on non-financial reporting, allowing the appropriate reallocation of capital to address globally defined Sustainable Development Goals. Please see [CDSB's supportive response to IFRS recent consultation on the creation of a Sustainability Standards Board](#), and the [joint statement by the big five standard setters to work together towards comprehensive corporate reporting](#).

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?

CDSB has no specific comments on that question.

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?

CDSB has no specific comments on that question.

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:

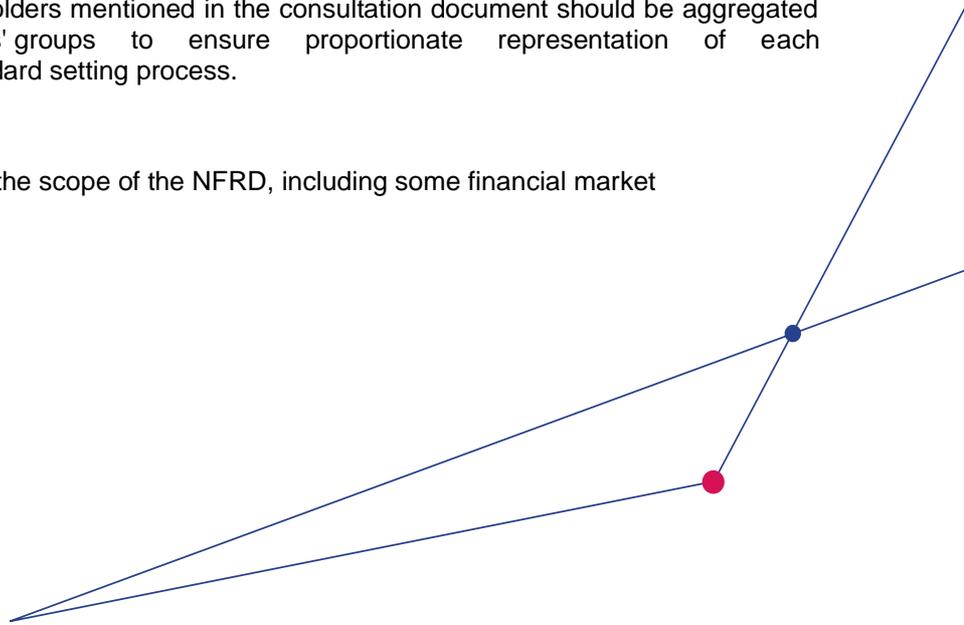
- **The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?**
- **The Non-Financial Reporting Board?**
- **TEG for Non-Financial Reporting?**
- **The Working Groups?**

The nature of non-financial information and the variety of preparers and users of that information requires the involvement of private sector and civil society representatives in the standard setting process. They will ensure standards quality and market appropriateness ahead of standards adoption and implementation and help their consistent application.

We believe the different relevant stakeholders mentioned in the consultation document should be aggregated in a set of relevant stakeholders' groups to ensure proportionate representation of each and avoid undue influence over the standard setting process.

Such stakeholder groups could be:

- Report preparers (companies in the scope of the NFRD, including some financial market participants);



- Report users (investors and other financial market participants, credit rating agencies...)
- Advisers (auditors, assurance providers); and
- NGOs working in subject matters covered by the NFRD (environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters).

Their representation should ensure that a reasonable number of representatives from each of the stakeholder groups gets a seat at the relevant tables, based on the set of expertise each level of the governance structure requires. It means that civil society representatives within the EFRAG Board or the Non-Financial Reporting Board should be able to provide strategic inputs to ensure that the standard setting process properly considers Europe's policy objectives whereas at the TEG or working group level, these representatives should provide technical feedback on the quality and usability of the proposed standards based on their professional experience of reporting and/or standard setting.

The selection process of the members should be as transparent as possible and could be based on pre-agreed terms of reference, with requirements on qualifications, background, length of terms and criteria for selection to ensure a balance of perspectives (see our comments on the relevant body who should be responsible for the nomination process in questions 7, 8 and 9).

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?

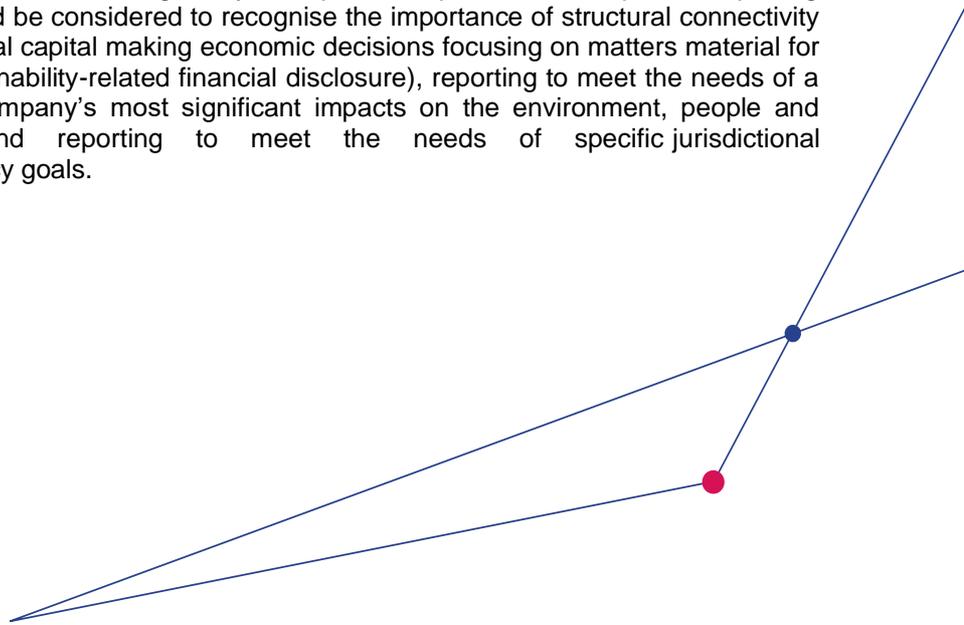
Would it be sufficient to seek input of SMEs/SMPs in the public consultation and outreaches rather than involve them in the governance bodies?

CDSB has no specific comments on that question.

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?

As stated in the Joint Statement of Intent of the global standards setters (CDP, CDSB, GRI, IIRC and SASB) to work together towards comprehensive corporate reporting and the [follow up paper on reporting on enterprise value creation](#), we believe that in order to build a globally accepted comprehensive corporate reporting system, a building block approach should be considered to recognise the importance of structural connectivity between reporting to providers of financial capital making economic decisions focusing on matters material for enterprise value creation (through sustainability-related financial disclosure), reporting to meet the needs of a broad range of users focusing on a company's most significant impacts on the environment, people and economy (sustainability reporting), and reporting to meet the needs of specific jurisdictional requirements against specific public policy goals.



These building blocks mean that if elements of international standards are suitable for Europe's policy priorities, they should be adopted following the agreed European due process for the adoption of standards. It is essential that there is a globally standardized baseline of reporting standards that ensures comparability for a core set of information. At the same time, it is equally essential to ensure that a globally aligned reporting foundation allows for jurisdictional extensions to support regional policy priorities (e.g. the EU's sustainable finance agenda), foster innovation and thereby developing and testing approaches that may be suitable for global adoption and dissemination. Where there are additional elements needed, those should be developed with the aim of ensuring complementarity with international standards.

We believe that connectivity and dialogue between international and European standard-setting processes should therefore be aligned, based on the overall aim to contribute to the development of globally recognised high-quality standards. Based on their expertise, existing standard setters should be given a proportionate representation within EFRAG governance, with the Non-Financial Reporting Board, the TEG and the relevant working groups, following the principles set out in pre-agreed terms of reference.

Conversely, EFRAG could also explore how it, or the European Commission, could be more involved in the international standard setting initiatives, through dedicated working groups or advisory groups or similar, to ensure compatibility between the development of international standards with European non-financial reporting standards. This would lead to global consistency between preparers and users of information. CDSB has included similar suggestions in its response to the recent IFRS consultation on sustainability reporting.

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?

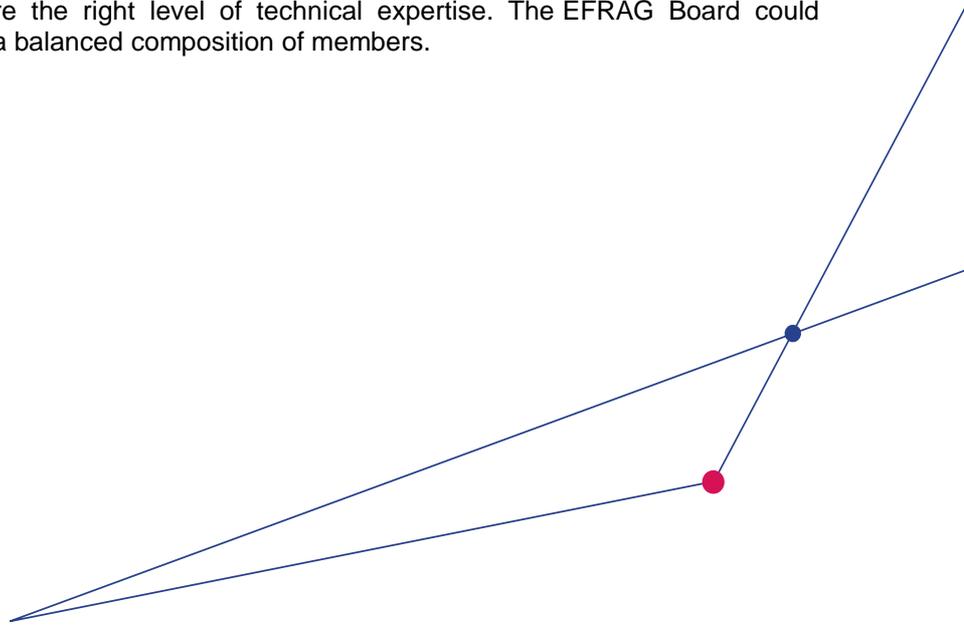
Should there be observers? If so, who should be the observers?

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?

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)?

The composition of the Board should ensure that it is driven by both policy but also technical considerations, which will be looked at more closely down in the governance structure, with an appropriate balance between financial and non-financial reporting expertise.

We believe it would make more sense for the Non-Financial Reporting Board and the Financial Reporting Board to oversee the nomination process of their respective technical expert groups and the European Lab to ensure the right level of technical expertise. The EFRAG Board could have a say within the process to ensure a balanced composition of members.



QUESTION 8 - NON-FINANCIAL REPORTING BOARD

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

Which stakeholders should be represented and in which proportion?

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

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?

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

As stated in our previous answers, we support a proper and balanced representation of private sector and civil society representatives within the Non-Financial Reporting Board.

The body in charge of the nomination of Non-Financial Reporting Board members should be able to ensure a proper representation of the various stakeholder groups we identified in question 4.

We also see merit in having common members of both Boards in case they prove to have the relevant expertise. Such cases could be specified in the pre-agreed terms of reference stipulating a requirement for consistency in the work of the two pillars (e.g. to ensure alignment of reporting periods or comparability of boundary definitions).

This would also address questions around the necessary connectivity between financial and non-financial reporting pillars beyond the suggestions on the role the European Corporate Reporting Lab could play (see our answer to question 10).

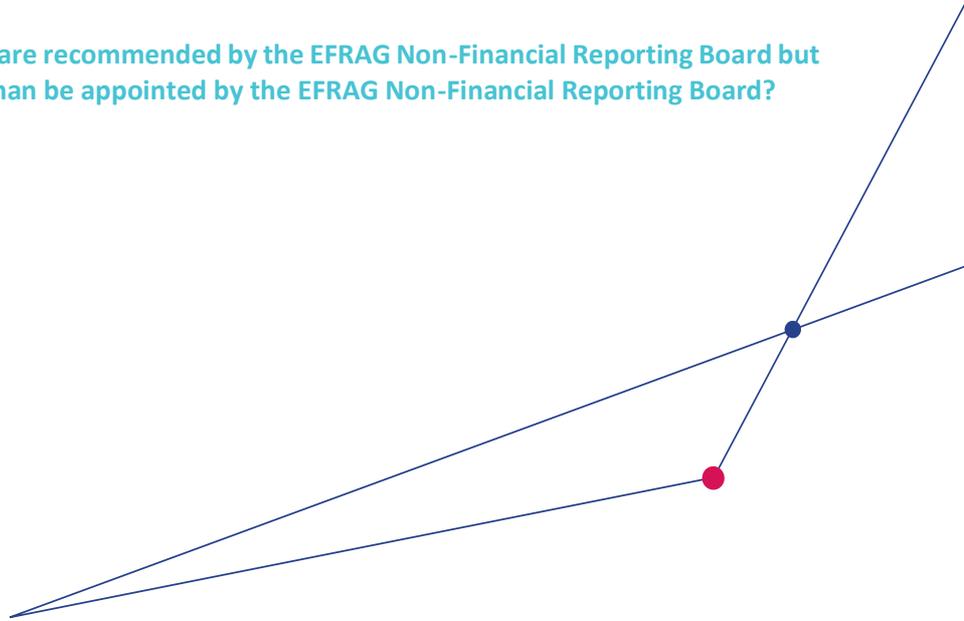
QUESTION 9 - TEG FOR NON-FINANCIAL REPORTING

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 stated in our previous answers, we support a proper and balanced representation of private sector and civil society representatives within the Non-Financial Reporting TEG.

We also believe that some members could be members of both Financial and Non-Financial Reporting TEG if they have the relevant expertise. Such cases could be specified in the pre-agreed terms of reference stipulating a requirement for consistency in the work of the two pillars (e.g. to ensure alignment of reporting periods or comparability of boundary definitions).

At the level of the TEG, observers could include scientific and academic experts on specific issues, including human rights, to give evidence and contextual elements to advise the work of the TEG.

We believe it would make more sense for the Non-Financial Reporting Board to oversee the nomination process of the technical expert group to ensure the relevant set of technical expertise. The EFRAG Board could have a say within the process to ensure a balanced composition of members.

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?

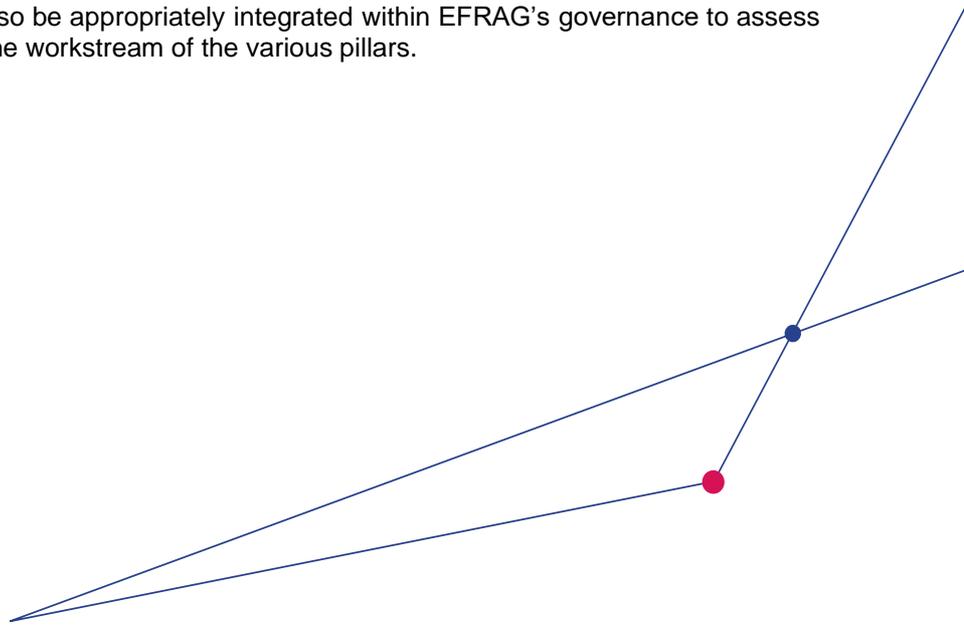
The functioning and purpose of work of the current European Lab should evolve in order to make it a more useful vehicle for innovation, rather than a platform for sharing best practices, in order to feed into Europe's ambitions on reporting.

The European Lab should look both at content and new approaches to reporting, including digital reporting, in close collaboration with other European institutions such as ESMA.

If the European Lab would become a vehicle for interconnectivity between the two EFRAG pillars (we do not think it should be the only one), it should also look at the connectivity between financial and non-financial reporting (CDSB has just published a [guidance](#) on this matter).

To be able to address both non-financial and financial reporting activities, both the Lab Steering group and the selected members for the different Project Task Forces should be appropriately selected on their experience and expertise.

The outcomes of the Lab work should also be appropriately integrated within EFRAG's governance to assess whether and how it should be added to the workstream of the various pillars.



QUESTION 11 - FUNDING

Considering the proposed governance structure in this consultation document:

Should the majority of the funding, or even all the funding, be provided by the European Commission and the Member States?

Is it important that the private sector contributes to the funding and why?

Should the public-private sector partnership model also be reflected in the funding?

Would a levy at national or European level be feasible?

What alternative financing mechanism would you suggest being considered?

CDSB has no additional comments on that question. Please refer to our response to the previous consultation on this matter.

