



## EUROPEAN CORPORATE REPORTING LAB @EFRAG

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### CALL FOR CANDIDATES FOR NON-FINANCIAL INFORMATION EXPERTS FOR THE PROJECT TASK FORCE ON PREPARATORY WORK FOR THE ELABORATION OF POSSIBLE EU NON-FINANCIAL REPORTING STANDARDS

17 July 2020

Dear Madam, Dear Sir,

#### **PREPARATORY WORK FOR THE ELABORATION OF POSSIBLE EU NON-FINANCIAL REPORTING STANDARDS**

#### **CALL FOR CANDIDATES FOR NON-FINANCIAL INFORMATION EXPERTS FOR PROJECT TASK FORCE**

##### BACKGROUND

The European Commission adopted an updated Work Programme on 27 May 2020 that foresees the publication of a legislative proposal to revise the Non-Financial Reporting Directive (NFRD) in Q1 2021. One of the possible ways of enhancing the comparability, reliability and relevance of information disclosed by companies pursuant to the NFRD will be to mandate the use of a common set of non-financial reporting standards. Such standards could also facilitate the assurance of non-financial information, its enforcement and its digitisation using a taxonomy (tags) and a structured data standard.

Pursuant to the above, the European Commission has mandated EFRAG to undertake preparatory work for the elaboration of possible EU non-financial reporting standards. This mandate will be carried out by a multi-stakeholder Project Task Force (PTF) that will be appointed by the Steering Group of the European Reporting Lab @EFRAG (European Lab).

##### REQUEST FOR TECHNICAL ADVICE

As detailed in the request for technical advice from the European Commission (Appendix1), the appointed PTF shall carry out at least the following tasks:

- assess the extent to which existing non-financial reporting standard-setting initiatives meet the needs of investors and other stakeholders taking account of the

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NFRD's double materiality perspective and covering at least the four non-financial matters covered by the NFRD (environment; social and employee matters; human rights; bribery and corruption).

- consider how best to structure the standard or set of standards.
- assess whether it would be appropriate to develop sectoral non-financial reporting standards for financial institutions taking into account the specific role they play as both preparers and investors.

In fulfilling the above tasks, the appointed PTF shall:

- take into account relevant EU legislation when preparing its proposals in order to ensure the consistency and alignment of future non-financial reporting standards with EU law and EU legislative initiatives. There is need to consider that companies subject to the (revised) NFRD shall disclose information necessary to allow financial market participants to meet the requirements of the taxonomy regulation and sustainable finance disclosure regulation (SFDR). Due consideration shall also be given to EU and international environmental and social policy.
- assess how future EU non-financial reporting standards could ensure a more integrated view of the performance, development, position and risks of companies, ensuring connectivity between the financial and non-financial statements contained in company periodic reports.
- consider the possible development of a non-financial information taxonomy and structured data standard enabling tagging of non-financial information to facilitate access of all stakeholders to non-financial information in a digital format.
- assess whether future standards should be developed in a staged or progressive manner to ensure that companies shall quickly be able to provide at least a basic level of disclosures, including potential Key Performance Indicators (KPIs).
- assess whether a simplified standard or set of standards, possibly applied on a voluntary basis, could be appropriate to promote and facilitate cost-effective disclosure of non-financial information by Small and Medium-sized Enterprises (SMEs).
- take into account that periodic non-financial reports disclosed to the public may in future be subject to appropriate assurance and/or audit procedures, whether on a voluntary or statutory basis, pursuant to the revised NFRD.
- consider the relevance of both qualitative and quantitative disclosure requirements, including KPIs, in future standards.
- ensure that its recommendations for mandatory elements of any future standards do not exceed the requirements of the (revised) NFRD, although it may recommend a combination of essential elements intended to comply with the NFRD requirements and non-essential elements that companies may use if they wish to provide more detailed or extensive information.

The PTF shall also consider how to improve narrative reporting about intangible factors, including in relation to human capital and workforce skills. The PTF may consider the need to take into account additional non-financial matters.

#### TIMELINE AND AVAILABILITY

The PTF will have to meet a strict timeline given the dates for the deliverables of a progress report at the end of October 2020 and the final report at the end of January 2021. This

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requires that candidates should be able to make significant time (on average two days a week) and own resources (support from organisation/colleagues) available during this period.

#### COMPOSITION OF THE PTF

The composition of the PTF shall include a balanced representation from a broad range of stakeholders with a legitimate interest in non-financial information. It shall include a sufficient number of members having relevant and broad-based expertise in the different matters covered by the NFRD and the European Commission's requirements.

At a minimum, the PTF shall include representatives from the following categories of stakeholder organisations:

- Non-Financial Corporations (NFCs) with securities listed on EU regulated markets.
- Unlisted NFCs and Small and Medium-Sized Enterprises (SMEs).
- Financial Institutions, in particular banks and insurance companies, including both listed and non-listed institutions.
- Other categories of financial market participants as defined in Article 2(1) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.
- Auditors, assurance providers and accountants.
- Other categories of investors, including where relevant smaller or retail investors.
- Sustainability rating agencies and index providers.
- Non-Governmental Organisations active in the areas covered by the NFRD including consumer organisations.
- Trade Unions.
- Academics specialising in the field of corporate reporting, in particular in sustainability or ESG reporting.

Appointments will be for the duration of the project, envisaged to be at least six months. Non-financial information experts will be appointed in their personal capacity and may not be represented by alternates.

#### PROFILE

**Practical experience and expertise:** PTF members should have demonstrated knowledge, practical experience and high-profile expertise in the field of preparing, reviewing or using non-financial information and/or expertise in matters within the scope of the project including digitisation of corporate reporting.

**Competency:** PTF members should be competent and qualified within their professional or business background and have the knowledge and experience relevant for the project.

**Thought leadership:** PTF members should have a demonstrated interest in improving reporting of non-financial reporting both at a European and at an international level.

**Commitment to acting in the European public interest:** PTF members are required to commit themselves to acting in the European public interest.

**Time commitment:** PTF members should be committed to provide the time - which could be significant - to contribute effectively and constructively to the work of the PTF. Time

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commitment is not limited to participation to the meetings of the PTF but includes desktop work as well (availability should be on average two days a week).

**Good command of the English language:** The working language of the PTF is English. European Lab PTF members should have a professional knowledge of the English language to participate in and actively contribute to the project.

**Collegiality:** PTF members are expected to cooperate in a collegial atmosphere. European Lab PTF members are expected to have the ability to engage diplomatically and constructively and be able to uphold the highest standards of integrity, objectivity and discipline.

**Candidate nationality:** PTF members shall have a nationality from the European Economic Area.

All members of the PTF should meet the above profile.

#### SELECTION PROCESS

The selection amongst candidates will be based on the following criteria:

- Meeting the profile: The extent to which a candidate meets the above profile for the PTF on preparatory work for the elaboration of possible EU non-financial reporting standards notably in terms of expertise and experience;
- Background, geographical spread and gender balance: The aim is to secure a reasonable balance in backgrounds and skills needed to execute the mandate. The need for geographical and gender diversity will also be taken into account in the selection process. The aim is to secure a reasonable geographical and gender balance. Both the aims will be considered in the selection.
- Collective coverage of relevant and broad-based experience in the different matters covered in the NFRD (environment; social and employee matters; human rights; bribery and corruption) as well of experience and expertise to fulfil the tasks set out in the request for technical advice.

PTF members and the PTF Chair will be appointed by the European Lab SG.

#### ADDITIONAL INFORMATION

PTF members will not be remunerated by EFRAG for their duties and are expected to bear their own expenses, including travel expenses, except in exceptional circumstances.

The envisaged practical operations are described in the [European Lab PTFs Guidelines](#). The PTF will itself decide how to organise its work, including the methods to be employed in collecting wider input to supplement the expertise, views and experience of the members of the PTF.



**PTF on preparatory work for the elaboration of possible EU non-financial reporting standards**

Applications for the PTF membership should be submitted by **Monday 17 August 2020** for the attention of the Chairman of the European Lab Steering Group, Jean-Paul Gauzès.

**All applications must be submitted electronically [here](#). Only applications submitted through this link will be considered.**

The CV and motivation letter describing: how the candidate meets the requested profile; and the candidate's demonstrated practical experience and expertise with the subject matter, should be uploaded through the electronic process above.

All candidates will be informed about their appointment or outcome of their application after the European Lab Steering Group makes the decision on the composition of the PTF. The first meeting of the PTF is scheduled for **Friday 11 September 2020**. Candidates are requested to reserve this date in their diary to allow for a swift start of the activities of the PTF.

Yours sincerely,

A handwritten signature in blue ink that reads "JP Gauzès".

**Jean-Paul Gauzès**

*Chairman of the European Lab Steering Group and EFRAG Board President*

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## **REQUEST FOR TECHNICAL ADVICE**

**Subject: preparatory work for the elaboration of EU non-financial reporting standards**

### **I. BACKGROUND**

1. The European Commission adopted an updated Work Programme on 27 May 2020 that foresees the publication of a legislative proposal to revise the Non-Financial Reporting Directive (NFRD) in Q1 2021.<sup>1</sup>
2. One of the principal findings of the European Commission's analysis of the implementation of the NFRD is that public disclosures made by companies pursuant to the NFRD are inadequate to allow users of company reports to understand how non-financial matters impact the value and performance of companies, nor how companies themselves impact society and the environment. Specific issues include:
  - i) Reported non-financial information is not sufficiently comparable or reliable.
  - ii) Reported non-financial information is not sufficiently relevant, i.e. companies do not report all non-financial information that stakeholders think is necessary, and many companies report information that stakeholders do not think is relevant.
  - iii) Some companies from which investors and other stakeholders want non-financial information do not report such information.
  - iv) Users have difficulty in finding and exploiting the reported information, in part because the information is not sufficiently digitalised.
3. One possible means to enhance the comparability, reliability and relevance of information disclosed by companies pursuant to the NFRD would be to mandate the use of a common set of non-financial reporting standards. This could also facilitate the assurance of non-financial information, its enforcement and its digitisation using a taxonomy (tags) and a structured data standard. This is one of the possible options that is currently being analysed in the Commission's impact assessment and for which feedback is being sought in the public consultation.<sup>2</sup>
4. In a speech on 28 January 2020,<sup>3</sup> Executive Vice-President Dombrovskis announced his intention to request that EFRAG launch technical preparatory work in accordance with the conclusions on the deepening of the capital markets union agreed by the

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<sup>1</sup> See [https://ec.europa.eu/info/publications/2020-commission-work-programme-key-documents\\_en](https://ec.europa.eu/info/publications/2020-commission-work-programme-key-documents_en)

<sup>2</sup> See <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revision-of-Non-Financial-Reporting-Directive>

<sup>3</sup> See [https://ec.europa.eu/commission/presscorner/detail/en/SPEECH\\_20\\_139](https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_139)

Economic and Financial Affairs (ECOFIN) Council on 5 December 2019. These conclusions invited the Commission to “consider the development of an European non-financial reporting standard taking into account international initiatives, with specific attention for climate-related disclosures (in order to promote Paris alignment of investment flows).”<sup>4</sup>

5. The European Commission has not yet taken any decisions about the future role, if any, of standards in the context of the forthcoming revision of the NFRD. This matter has been the subject of a public consultation carried out by DG FISMA and will be fully assessed in the context of the impact assessment that will support the Commission’s legislative proposal to revise the NFRD. However, it is necessary to launch technical preparatory work to allow for the swift development, adoption and implementation of European standards should that be the choice included in the Commission’s proposal. It will ultimately be for the Council and the European Parliament, as co-legislators, to decide whether the use of standards should be included in the revised NFRD and, if so, pursuant to which modalities.

## **II. MANDATE**

6. The European Corporate Reporting Lab (European Lab) @ EFRAG shall establish a Task Force in order to develop recommendations about the possible scope, content and structure of future non-financial reporting standards for use by European companies in preparing periodic, entity-level (at both legal entity and group consolidated level) reports that are disclosed to the public. The Task Force’s recommendations shall take into account the existing requirements in the NFRD, including the double materiality perspective of the NFRD.
7. Matters related to the governance and funding of EFRAG shall be outside the remit of the task force.
8. The Task Force shall consider the full sustainability spectrum of environmental, social and governance factors in line with the overall aim of the European Green Deal and Agenda 2030. This would also bring the work in line with the broader scope of the six environmental objectives of the Taxonomy regulation as well as other relevant work streams aimed at strengthening corporate sustainability.
9. This task force shall carry out, at least, the following tasks:
  - i. Map the relevance of existing non-financial reporting standard-setting

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<sup>4</sup>See <http://data.consilium.europa.eu/doc/document/ST-14815-2019-INIT/en/pdf> at page 11

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initiatives<sup>5</sup> to meet the needs of investors and other stakeholders to understand

(i) how non-financial matters, and sustainability-related matters in particular, impact the performance, development and position of companies; and (ii) how companies impact society and the environment.

- ii. Consider how best to structure the standard or set of standards. For example, the task force may take into account the four level structure (governance, strategy, risks and metrics) used in the recommendations of the Task force on Climate-related Financial Disclosures (TCFD), the elements set out in the IASB's practice statement on management commentary or other relevant initiatives. The structure of the standards shall reflect the NFRD's double-materiality perspective.

The task force shall also consider other approaches to structure standards, for example:

- a. general disclosure requirements applicable to all enterprises, for example the description of their governance, business model (including the role of intangibles), risk management system, or due diligence;
  - b. thematic disclosure requirements, for example the environment, including the climate; social and employee rights; human rights; and
  - c. potential additional disclosures requirements applicable to certain economic sectors justified by the sustainability-related risks and dependencies specific to those sectors.
- iii. Assess whether sectoral non-financial reporting standards should be developed for financial institutions, in particular credit institutions and insurance undertakings, taking into account the specific role they play as investors. For example, many of the impacts of financial institutions on the environment and society are indirect, arising via their lending portfolios, financial products and investment decisions, rather than directly via their own operations.

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<sup>5</sup> This shall include but need not be limited to the standards/frameworks produced by the Global Reporting Initiative (GRI), the practice statement on management commentary of the International Accounting Standards Board (IASB), the recommendations of the Task force on Climate-related Financial Disclosures (TCFD), Carbon Disclosure Standards Board (CDSB), the Carbon Disclosure Project (CDP), the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC). Organisation Environmental Footprint. Other potentially relevant initiatives include the European Eco-Management and Audit scheme, Natural Capital Protocol and ISO 14000 series of standards

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Any recommendations applicable to financial entities shall be consistent with the disclosure requirements set out in relevant EU legislation, including:

- (a) the Regulation 2019/2088 on sustainability-related disclosures in the financial sector (SFDR), pursuant to which the Joint Committee of the European Supervisory Authorities is currently consulting about draft Regulatory Technical Standards<sup>6</sup>, and
- (b) the Regulation on the establishment of a framework to facilitate sustainable investment (the Taxonomy Regulation), pursuant to which the Commission is developing Delegated Acts.
- (c) Other relevant EU law, e.g. in the field of corporate governance and environmental protection.

This assessment shall also consider the possibility of integrating relevant non-financial disclosure requirements foreseen in EU prudential legislation in non-financial reporting standards applicable to banks and insurance companies. This includes any relevant requirements applicable to Pillar III reports disclosed by banks pursuant to the EU Capital Requirement Regulation and Solvency and Financial Condition Reports (SFCRs) disclosed by insurance undertakings pursuant to Solvency II, including relevant technical standards and guidelines developed by the European Supervisory Authorities.

The Task Force shall consider that one of the objectives of any future European non-financial reporting standards will be to ensure that companies subject to the (revised) NFRD shall disclose information necessary to allow financial market participants to meet the requirements of at least the above-mentioned taxonomy regulation and SFDR.

- iv. Assess how future EU non-financial reporting standards could ensure a more integrated view of the performance, development, position and risks of companies, ensuring connectivity between the financial and non-financial statements contained in company periodic reports.
- v. Consider the possible non-financial information taxonomy and structured data standards enabling non-financial information to be provided in a digital,

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<sup>6</sup> See <https://www.esma.europa.eu/press-news/esma-news/esas-consult-environmental-social-and-governance-disclosure-rules>.

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computer-readable format. In light of the fact that non-financial information may be disclosed in the management report, which is part of the annual financial report, the task force shall consider the possible linkage with the requirements of the European Single Electronic Format (ESEF) that is already applicable to annual financial reports of companies listed on EU regulated markets.

- vi. Assess whether future standards should be developed in a staged or progressive manner to ensure that companies shall quickly be able to provide at least a basic level of disclosures, including potential Key Performance Indicators (KPIs).
  - vii. Assess whether a simplified standard or set of standards, possibly applied on a voluntary basis, could be appropriate to promote and facilitate cost-effective disclosure of non-financial information by Small and Medium-sized Enterprises (SMEs).
10. The Task Force shall take into account relevant EU legislation when preparing its proposals in order to ensure the consistency and alignment of future non-financial reporting standards with EU law. Relevant EU legislation includes but is not necessarily limited to the Accounting Directive, as amended, the Regulation on International Accounting Standards, as well as the Taxonomy Regulation and the SFDR mentioned above, together with relevant implementing measures adopted pursuant to these legal acts.

The Task Force shall also aim at ensuring the consistency of its recommendations with EU legislative initiatives that are being developed which may result in disclosure obligations for companies on sustainability-related matters, in particular in the company law and corporate governance field where corporate due diligence and board duties regarding the integration of sustainability into corporate strategy are being considered; and in the field of green claims. Due consideration should also be given to EU and international environmental and social policy.

11. In carrying out the tasks referred to above, the task force shall take into account that periodic non-financial reports disclosed to the public may in future be subject to appropriate assurance and/or audit procedures, whether on a voluntary or statutory basis, pursuant to the revised NFRD.
12. The Task Force shall ensure that its recommendations for mandatory elements of any future standards do not exceed the requirements of the (revised) NFRD, although

it may recommend a combination of mandatory elements intended to comply with the NFRD requirements and voluntary elements that companies may use if they wish to provide more detailed or extensive information.

13. The Task Force shall consider the relevance of both qualitative and quantitative disclosure requirements, including KPIs, in future standards. Regarding both types of information, the Task Force shall consider the need for comparability and relevance of non-financial information.

### **III. COMPOSITION OF THE TASK FORCE**

13. The composition of the Task Force shall include representatives of a broad range of stakeholders with a legitimate interest in non-financial information. It shall include, as a minimum, representatives from the following categories of stakeholder organisations:

- ✓ Non-Financial Corporations (NFCs) with securities listed on EU regulated markets.
- ✓ Unlisted NFCs and Small and Medium-Sized Enterprises (SMEs).
- ✓ Financial Institutions, in particular banks and insurance companies, including both listed and non-listed institutions.
- ✓ Other categories of financial market participants as defined in Article 2(1) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.
- ✓ Auditors, assurance providers and accountants.
- ✓ Sustainability rating agencies and index providers.
- ✓ Non-Governmental Organisations active in the areas covered by the NFRD, including consumer organisations.
- ✓ Trade Unions.
- ✓ Academics specialising in the field of corporate reporting, in particular in sustainability or ESG reporting.

13. The members of the task force shall collectively have relevant and broad-based expertise in the different matters covered by the NFRD (environment; social and employee matters; human rights; bribery and corruption) in order to accomplish the tasks listed in section II. The membership of the task force shall ensure a balanced representation of the different categories listed above (this does not necessarily require that there should be exactly the same number of members from each category). The task force composition shall ensure appropriate geographic and

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gender diversity. Only nationals of countries that are members of the European Economic Area shall be eligible to be members of the task force.

14. The Steering Group of EFRAG's European Reporting Lab shall approve a call for applications and oversee the selection process for the members of the task force. It shall appoint a Nominating Committee consisting of the Chairman and Vice-Chairman of the Steering Group, and no more than three other members of the Steering Group. The Steering Group shall appoint a Chair(wo)man of the task force on the proposal and with the agreement of the Steering Group Chairman and Vice-Chairman.
15. The Committee of European Audit Oversight Bodies (CEAOB), the European Central Bank (ECB), the European Investment Bank (EIB), the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Securities Market Authority (ESMA), the European Environmental Agency (EEA) and the EU Agency on Fundamental Rights (FRA) shall each be invited to nominate one member of the Task Force.
16. Until the establishment of the Platform on Sustainable Finance, a member of the Technical Expert Group (TEG) on Sustainable Finance nominated by the TEG's plenary shall be a member of the task force. In addition, the Chair(wo)man of task force shall make him or herself available to participate in meetings of the TEG to report on the progress made by the task force especially as regards the consistency of the latter's proposals with the taxonomy of sustainable economic activities developed by the TEG. The provisions of this paragraph shall apply *mutatis mutandis* following the creation of the Platform on Sustainable Finance.
17. The Chair(wo)man of the task force shall also liaise with and report the progress achieved by the task force to the appropriate standing committee(s) of EBA, EIOPA and ESMA.
18. The task force will invite representatives of the standard-setting initiatives and organisations identified in section II to participate in and contribute to its work, with a view towards ensuring to the greatest extent possible the compatibility of future EU non-financial reporting standards with the key private sector standards and frameworks used in the market.  
The Task Force shall consult widely with stakeholders and shall operate in an inclusive and transparent manner.
19. The Chair(wo)man of the task force shall liaise with the person designated by the European Commission's Executive Vice-President for an economy that works for

the people to prepare recommendations about possible governance changes in EFRAG.

#### **IV. DELIVERABLES**

20. The task force shall agree a report with recommendations covering the issues referred to in section II, and about other matters that the task force may determine are relevant to the development of future EU non-financial reporting standards.
21. The task force Chair(wo)man, with the agreement of the Chairman and Vice-Chairman of the Steering Group of the European Lab, shall deliver to the European Commission's Executive Vice-President for an economy that works for the people:
  - a progress report no later than 31 October 2020;
  - the final report of the task force no later than 31 January 2021.
22. The report of the task force shall be accompanied by a tentative work programme for the development of EU non-financial reporting standards. This work programme shall ensure the delivery of a first standard or set of draft standards to the European Commission no later June 2022.