



VALDIS DOMBROVSKIS

EXECUTIVE VICE-PRESIDENT OF THE EUROPEAN COMMISSION

Rue de la Loi, 200

B-1049 Brussels

Tel. +32-2 295 00 00

cab-dombrovskis-contact@ec.europa.eu

Mr Jean-Paul GAUZÈS
Chairman of the
EFRAG Corporate Reporting Lab
Square de Meeûs 35
1000 Brussels

jean-paul.gauzes@efrag.org

Brussels, 25. 06. 2020
AB//mp Ares(2020) S_ 3738002

Dear Mr Gauzès,

I am writing to you in your capacity as Chairman of the Steering Group of the European Corporate Reporting Lab @ EFRAG (European Lab), to invite the European Lab to provide me with recommendations about potential European non-financial reporting standards to support the implementation of the Non-Financial Reporting Directive (NFRD). I have written to you under separate cover requesting recommendations about possible changes to the governance of EFRAG in case the latter is designated in a revised NFRD as the organisation charged with developing European non-financial reporting standards.

I consider that the European Lab is well placed to carry out this technical preparatory work in light of the multi-stakeholder composition of its Steering Group, that extends beyond the more limited range of stakeholders that have traditionally dominated financial reporting, and the Lab's demonstrated ability to mobilise a broad range of expertise in the area of non-financial reporting.

To this end, I invite the European Lab to establish a task force specifically dedicated to the preparation of the technical advice, based on an open call for applications. The task force would have to incorporate a balanced representation of stakeholders from the public-sector, the private sector and civil society from across the EU. All members of the task force would have to have proven expertise across all areas of non-financial reporting and shall act in the public interest in their capacity as members of the task force. The latter would have to be chaired by a person with proven and policy-relevant expertise in the field of corporate reporting, in particular non-financial reporting, and related areas. The selected chairperson would have to have a demonstrated ability to deliver recommendations to a demanding schedule and to carry-out broad consultations. The composition of the task force would have to reflect an appropriate geographical and gender balance. The European Supervisory Authorities should be closely involved in developing potential EU non-financial reporting standards, as they play an important role in setting standards for sustainable finance disclosures and transparency.

Please note that 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 subject to 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, I consider it necessary to already launch technical preparatory work to allow for the swift 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.

I announced my intention to request this technical preparatory work in a speech I delivered on 28 January, in accordance with the conclusions on the deepening of the capital markets union agreed by the Economic and Financial Affairs (ECOFIN) Council on 5 December 2019. These conclusions invited the Commission to "consider the development of a 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)." In my speech, I stated that the EU cannot develop such standards alone, that the best and most widely accepted elements of existing standards and frameworks will be our starting point and that we will use expert assistance from those organisations and individuals who can best contribute to the process.

I reiterated these points in another speech I made on 19 February 2020, in which I also stated that the EU's work to develop any future European non-financial reporting standards would be open, transparent and inclusive, as we want to avoid fragmentation of global capital markets. Furthermore, I also set out the need to involve relevant European bodies, in particular the European Securities and Markets Authority (ESMA) and the European Environment Agency (EEA), to ensure consistency between, on the one hand, any future standards and, on the other hand, both the objectives of relevant EU policy and the requirements of relevant EU legislation.

I emphasise the importance of the two conditions set-out in the ECOFIN Council conclusions and in my speeches. In practice, these imply that:

- The technical advice I am inviting the European Lab to prepare must analyse and build on existing reporting standards and frameworks to the greatest possible extent. To this end, relevant standard-setting organisations shall be closely associated with the task force's technical preparatory work;
- ESMA, the EEA and the Platform on Sustainable Finance to be established pursuant to the Taxonomy Regulation shall be included as full members in the task force. The Technical Expert Group on Sustainable Finance established by the European Commission shall participate until the Platform is formally established. Other relevant European institutions and agencies shall be invited to participate as full members.

These points are addressed in more detail in the annexed mandate, which also lists a number of technical matters about which I am requesting the European Lab's technical advice.

Given the strong link between the technical preparatory work covered by this mandate and the ongoing work on the revision of the NFRD, I consider that the Commission's staff must participate in the abovementioned task force as an observer with a right to speak. To this end, I nominate Mr Alain Deckers, who heads DG FISMA's corporate reporting unit and who is currently the Vice-Chair of the European Lab's Steering Group. Mr Deckers will also act as a

liaison between the task force and other Commission services. The representation of the Commission services in the task force should ensure that the latter takes into account the conclusions of the abovementioned public consultation and the policy choices retained in the Commission's impact assessment.

I look forward to the European Lab's technical advice. Should you have any further questions about this matter, please address them to Mr Alain Deckers (contact details: +32 229 92 348, alain.deckers@ec.europa.eu).

Yours sincerely,

A handwritten signature in black ink, consisting of the letters 'V.' followed by a stylized 'D' and a long horizontal line extending to the right.

Valdis Dombrovskis

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 2021.¹
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.²
4. In a speech on 28 January 2020,³ 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 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

¹ https://ec.europa.eu/info/publications/2020-commission-work-programme-key-documents_en

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

³ See https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_139.

specific attention for climate-related disclosures (in order to promote Paris alignment of investment flows).”⁴

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 initiatives⁵ 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.

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

⁵ 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.

In carrying out this assessment, the Task Force will take into account at least the four non-financial matters currently covered by the NFRD (environment; social and employee matters; human rights; bribery and corruption) and the key categories of information currently required by the NFRD (business model; policies including due diligence processes; outcomes; principal risks and risk management; Key Performance Indicators).

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

- 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.

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 Standards⁶, 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, 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

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

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 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.

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 2021.¹
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.²
4. In a speech on 28 January 2020,³ 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 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

¹ https://ec.europa.eu/info/publications/2020-commission-work-programme-key-documents_en

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

³ See https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_139.

specific attention for climate-related disclosures (in order to promote Paris alignment of investment flows).”⁴

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 initiatives⁵ 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.

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

⁵ 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.

In carrying out this assessment, the Task Force will take into account at least the four non-financial matters currently covered by the NFRD (environment; social and employee matters; human rights; bribery and corruption) and the key categories of information currently required by the NFRD (business model; policies including due diligence processes; outcomes; principal risks and risk management; Key Performance Indicators).

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

- 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.

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 Standards⁶, 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, 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

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

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 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.