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Mr Jean-Paul GAUZÈS
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Dear Mr Gauzès,

I am writing to you on an ad personam basis, taking into account your current roles as Chairman of the Board of the European Financial Reporting Advisory Group (EFRAG) and as Chairman of the Steering Group of the European Corporate Reporting Lab @ EFRAG (European Lab). I have also considered your former role as member of the European Parliament, in which role you negotiated several important legislative proposals and acted as group coordinator in the Committee on Economic and Monetary Affairs.

In a speech that I delivered on 28 January,¹ I announced my intention to request the launch of technical preparatory work on non-financial reporting, in accordance with the conclusions of the Economic and Financial Affairs (ECOFIN) Council of 5 December 2019 on the deepening of the Capital Markets Union. 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).”²

I have written to you, under separate cover, concerning the launch of this technical preparatory work so as to assess the possible content and structure of any future European non-financial reporting standard. The preparatory work will feed into the Commission’s impact assessment related to the forthcoming revision of the Non-Financial Reporting Directive (NFRD), as a European non-financial reporting standard is one option to be considered in this context.

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

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

EFRAG is recognised by market players as the European centre of expertise on corporate reporting. It has a proven record and expertise in financial reporting. Following the establishment of the European Lab in 2018, as requested in the Commission's Sustainable Finance Action Plan, EFRAG has demonstrated the ability to mobilise quickly expertise in non-financial reporting. This led to the publication in February 2020 of the European Lab's first report on good practices in climate-related reporting. I welcome the fact that the European Lab has since launched a second project on the identification of good practices in the reporting of sustainability risks and opportunities.

Notwithstanding the European Lab's success to date, it was not intended as a permanent vehicle to develop European standards. I therefore invite you to consider the potential need for changes to the governance and financing of EFRAG if the latter were entrusted with the development of European non-financial reporting standards in a revised NFRD. In particular, I would like you to assess the involvement of the European Supervisory Authorities, as they play an important role in setting standards for sustainable finance disclosures and transparency, and should be closely involved in developing potential EU non-financial reporting standards. Given the timing of the ongoing impact assessment work, I would welcome your initial input by 30 October 2020, in order to allow sufficient time to consider it as part of the preparation of the Commission's proposal to revise the NFRD. I would welcome your final, detailed proposals by 31 January 2021 so that these can be considered as part of the legislative process.

You will find in the annex a list of considerations that were already identified as key for any eventual European reporting standard system under the NFRD and which appear relevant when considering the governance of any standard setting mechanism.

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), who heads DG FISMA's corporate reporting unit, the contact point for this file in DG FISMA.

Yours sincerely,



Valdis Dombrovskis

Annex: Context in which the question of possible European reporting standard under the NFRD is being considered

General considerations:

- Standards need to be developed in public interest and no individual category of stakeholder may exercise undue influence over, nor be able to block, the development of the standards. To this end, future governance arrangements in the EU shall ensure that standards are developed based on an inclusive and transparent due process.
- Any future European standards must build on existing reporting standards and frameworks to the greatest possible extent. To this end, relevant standard-setting organisations shall be closely associated in any future standardisation work.
- The European Securities and Markets Authority (ESMA) has a key role to play in this area.
- Relevant European institutions and agencies shall be invited to be fully involved in the development of any future standards. The EEA and the Platform on Sustainable Finance¹ to be established pursuant to the Taxonomy Regulation shall participate as full members in any future standardisation work in order to guarantee consistency between any future standards and relevant EU legislation.
- Any considerations linked to governance of a possible European reporting standard setting mechanism shall be consistent with the recommendations arising in the technical preparatory work about the development of future standards requested by the Commission from EFRAG's European Reporting Lab. This should include the question of appropriate coordination between the financial and non-financial reporting, with a view to ensuring that financial and non-financial reporting provide an integrated view of the performance, position, development and impacts of reporting companies.

Specific considerations:

- Relevant national public authorities should be included in the governance of the non-financial reporting pillar to permit these national authorities to provide input about whether any future standards are responsive to the public interest. If so, which authorities would be most relevant and how should they be involved?
- Should the representation of national authorities in the non-financial pillar governance mirror the current participation of national standard-setters in EFRAG's current Board, and if so, should the relevant national authority necessarily be the national accounting standard-setters currently represented in EFRAG's Board. Moreover, should the role of national authorities in two pillars be necessarily the same?

¹ The Technical Expert Group on Sustainable Finance is fulfilling this role ad interim until the Platform is effectively in place.

- There is need to ensure consistency with the Regulation on sustainability-related disclosures in the financial sector (SFDR) and the Taxonomy Regulation, including related implementing and delegated acts, as well as EU rules on environmental, employment and fundamental rights matters.
- How to establish cooperation with existing public and/or private initiatives producing international standards and frameworks (GRI, TCFD, CDP, SASB, IIRC, the Capitals Coalition (previously known as Natural Capital Coalition, now including Social and Human impacts and dependencies as per respective protocols), the Value Balancing Alliance, UN SEEA, etc.) to ensure that any future non-financial reporting standards applying in the EU builds to the greatest extent possible on existing standards and frameworks. Consider in this context how the EU standard setting could have impact globally?
- Should private sector and civil society representative be involved in the standard-setting work, and if so, what would be suitable options for doing so in a balanced way? Relevant stakeholders might include:
 - Non-Financial Corporations with securities listed on EU regulated markets.
 - Large non-listed companies.
 - 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 providers of ESG-related indices or benchmarks.
 - Non-Governmental Organisations active in the areas covered by the (revised) NFRD.
 - Trade unions.
 - Academics specialising in the field of corporate reporting, in particular in sustainability or ESG reporting including environment; social and employee matters; human rights; bribery and corruption.
- The open public consultation that the Commission is currently carrying out on the NFRD review (with deadline for replies by 11 June), might be an additional useful source of information.