

Jean-Paul Gauzès
EFRAG Board President
EFRAG - European Financial Reporting Advisory Group
35 Square de Meeûs
B-1000 Brussels

Dear Mr Gauzès,

Thank you for the opportunity to provide recommendations for your proposal on the possible changes to the governance and funding of EFRAG with respect to undertaking the preparatory work for the elaboration of a possible EU non-financial reporting standard.

As the sustainability representative for over 200 leading businesses working together to accelerate the transition to a sustainable world, the World Business Council for Sustainable Development (WBCSD) is thankful for the opportunity to share our [demonstrated expertise](#) in [corporate sustainability reporting](#) and [disclosure](#) to offer several recommendations.

Firstly, and most importantly, WBCSD welcomes the efforts towards alignment and harmonization across the non-financial reporting landscape – and **(1.1)** underscores the need for a transparent and inclusive approach.

Our member companies come from all business sectors and all major economies, representing a combined revenue of more than USD \$8.5 trillion and 19 million employees. Our global network of almost 70 national business councils gives our members unparalleled reach across the globe. Because of this, we know that business faces mounting frustration around the complexity of non-financial reporting. Since 1992, there has been a ten-fold increase in the number of corporate reporting requirements related to environmental, social and governance (ESG) topics (Reporting Exchange, 2020). Clarity on the user and purpose of non-financial reporting, we believe, is essential in moving towards decision-useful information.

According to a recent survey conducted by McKinsey Co, a vast proportion of investors and corporations believe there should be fewer standards, or a single standard, for sustainability reporting. A majority also believe that corporates should be required to do sustainability reporting by law (The Future of Reporting, 2019).

As actors in the voluntary and mandatory non-financial reporting spaces push for alignment and consolidation, now is an important moment and a clear opportunity to reduce confusion, create alignment and utilize non-financial reporting to encourage better investment decision-making to prioritize and incentivize sustainable investment and outcomes.

(2.1 – 2.4) To make the most of this opportunity, it is critical that EFRAG – and others – take a careful and highly coordinated approach, considering relevant developments in the regulatory and voluntary spheres. Failure to do so could result in deeper fragmentation of this already complicated space which, as the Alliance of Corporate Transparency found, does not measure up to the existing requirements.

It is therefore, recommended that – in addition to consulting with the [voluntary standard setters and reviewing the content of their frameworks](#), – that EFRAG, on behalf of the Commission, makes a concerted effort to work closely with other regulatory bodies and initiatives that are also gaining traction. Principal among these are:

- Existing standard setters such as GRI and SASB - given that they form the basis of existing reporting and companies collect and report data in accordance with these frameworks;
- The International Financial Reporting Standards (IFRS) Foundation consultation on creating a sustainability standards board, with a view towards creating a global standard.
- The International Organization of Securities Commissions (IOSCO)'s efforts to determine which non-financial information is decision-useful for the investor, and its ambitions to use that information to develop a framework for principles-based guidance for future standard-setters.

(2.2) Coordinating with these groups will also help ensure alignment between typical methods of financial and non-financial reporting. It is our view that reporting should enhance transparency and accountability. A split between financial and non-financial reporting would overlook the changing nature of business models, missing the opportunity to demonstrate that successful companies are responding to the environmental and social challenges which pose an existential threat to business and society.

Regulatory involvement in the non-financial reporting space – as exemplified by EFRAG, IOSCO and IFRS – is critical for “leveling the playing field” and for encouraging transparency around information that may be useful for business strategy and investment decision-making. Setting rules alone will not lead to better reporting in the absence of guidance and effective enforcement by the regulator.

(1.4) For such efforts to be successful, they need to be informed by all levels and sectors of society – including the private sector. As corporates have obligations to report and investors have been identified as principal users, it is imperative that these groups be consulted – not only through a formal due process but in co-constructing how these arrangements should operate to be fit-for-purpose.

Through its collaboration with PRI, WBCSD would welcome the opportunity to bring the perspectives of corporates and investors to provide EFRAG with insight on what information is useful for decision-making, the feasibility behind obtaining that information and how certain nonfinancial information could encourage meaningful behavior change in favor of more sustainable outcomes.

(2.1ab) Any EU non-financial reporting standard should ideally be built on existing work to the greatest possible extent. However, it will be crucial that any effort to develop an EU standard considers the overarching goals and desired outcomes of such a standard first and attempts to align elements of existing standards second - as there may be important elements related to the use of non-financial information that are not necessarily reflected in existing standards and approaches.

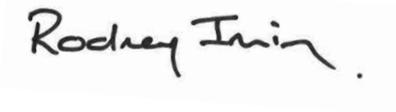
(2.1c) If the EU develops a mandatory non-financial reporting standard, it will likely have far-reaching impact, which is why it is crucial that creation of standards is done carefully and in collaboration with others. The more closely aligned it is with other international efforts, the greater possibility for international impact.

WBCSD welcomes the activity and interest of governing and regulatory bodies in moving toward more rationalized reporting requirements that encourages the disclosure of clear, comparable and decision-useful information that encourages investors to consider non-financial information in sustainability.

Though WBCSD remains agnostic on the institutional home for a sustainability reporting standard, wherever it is placed, it needs to be properly resourced both financially and in terms of expertise to be able to fulfill its remit, and needs to be acknowledged as contributing to a significant part of the value of companies today.

WBCSD remains open to supporting these efforts in whatever way we can.

Kind Regards,

A handwritten signature in black ink that reads "Rodney Irwin." The signature is written in a cursive style and is enclosed within a light gray rectangular border.

Rodney Irwin

Managing Director / Member of Senior Management Team

WBCSD

NOTE: This consultation response was released in the name of WBCSD. Like others, it is the result of collaborative efforts. It does not mean, however, that every member company agrees with every word.