

Mr Jean-Paul Gauzès
Board President
European Financial Reporting Advisory Group
By-Email

Friday 30 October 2020

Dear Mr Gauzès,

IIRC response to your ad personam mandate on Non-Financial Reporting Standard Setting Questionnaire

Thank you for the invitation to contribute the views of the International Integrated Reporting Council (IIRC) on the future governance and funding mechanisms of the European Financial Reporting Advisory Group (EFRAG), as you prepare for the revisions of the Non-Financial Reporting Directive (NFDR).

1. Governance – Structure and due process

1.1 Standards need to be developed in the public interest and no individual category of stakeholder may exercise undue influence: How can it be best ensured that standards are developed based on an inclusive and transparent due process? What should be the characteristics of such a due process?

Standards should be subject to well-defined development and approval procedures, which reflect and support their authority. This should be grounded in an inclusive and transparent development process, with rigorous market consultation and oversight.

The qualities of standard-setting that we believe to be important are:

- Globally applicable standards, based on global participation
- High-quality independent due process
- Legitimacy from public oversight
- Appropriate stakeholder representation to ensure that standards are fit-for-purpose.

This would include:

- Formalized consultative groups that reflect the views of report preparers, investors, the accounting profession, academia, civil society, local regulators, other standard setters, framework providers
- Full transparency including a public schedule of activities, periodic updates on progress, published agenda papers, recordings or written summaries of meetings, and consultation responses treated as public documents
- Robust public consultation, followed by the publication of a summary of significant issues and basis for conclusions.

We would encourage EFRAG to follow a due process similar to that set out by the IASB:
<https://www.iasplus.com/en/resources/ifrsf/due-process/iasb-due-process>

1.2 Relevant European institutions and agencies shall be invited to be fully involved in the development of future standards, including the European Securities and Markets Authority (ESMA): How can these European Institutions and agencies be involved in the development of future standards and in the standard setter? Should there a particular role for ESMA?

European (and international) institutions and agencies deemed important should be invited to join relevant consultative groups as a reporting system is developed.

We have already set out in an [open letter to IOSCO](#) the crucial role we envision IOSCO having in the development of a holistic, comprehensive corporate reporting system and as an observer to IOSCO, the role of ESMA is similarly vital.

1.3 To permit relevant national public authorities to provide input about whether any future standards are responsive to the public interest, how can these authorities be included in the governance of the non-financial reporting pillar? Which authorities would be the most relevant and how should they be involved?

An advisory group of national public authorities, such as national accounting standard setters, should be formed, either as a standalone consultative group, or joining a larger main consultative group.

They should also be targeted for ensuring consultation is done effectively within markets, by engaging them to run market outreach and roundtables to fully reflect the views from national jurisdictions in the process.

The main consideration in identifying these bodies should be those national public authorities that will be in charge of implementing the requirements of the standards.

1.4 Should private sector and civil society representatives be involved in the standard setting work? If so, what would be suitable options for doing so in a balanced way? Which stakeholders should be involved? Should the standard setting pillar be a public-private partnership like in the financial reporting pillar?

There is a tradition of blending public and private interests that lead to standards that have both legitimacy and are fit for purpose. Financial accounting standards use a public-private model, i.e. public oversight of private standard setting with an independent consultative due process. Modelling global sustainability standard setting after this structure would seem sensible.

Key stakeholder constituents from across the private sector and civil society should be identified, with a cross section then included in the development of the standard. Representation should be proportionate and balanced.

1.5 If there were to be SME standards derived from the future EU non-financial reporting standards, how should the SME angle be addressed in the governance and in the standard setting process?

SMEs represent the majority of business and therefore are a vital stakeholder in the development of any non-financial reporting standards. Given the demands for high quality reporting within supply chains, they are often already affected by reporting demands on larger companies, if not directly. They should therefore be included in the list of stakeholders consulted in the overall process, as well consulted on any light-touch SME appropriate implementation of the standard.

1.6 Which governance structure would you foresee for the EFRAG EU non-financial reporting standard setting pillar? How would this fit in the overall EFRAG governance structure? What relation would there be with the financial reporting pillar, if any?

See our response to question 2.1 which covers this.

2. Governance – Cooperation with standard setters and other initiatives

2.1 Any future possible EU non-financial reporting standards must be built on existing reporting standards and frameworks to the greatest possible extent:

- **How can the relevant existing standard-setting organisations be closely associated in future standardisation work? How would you see cooperation and involvement?**
- **More broadly, how should cooperation with existing public and/or private initiatives producing international standards and framework be established, to ensure that any future non-financial reporting standards applying in the EU build to the greatest extent possible on existing standards and frameworks?**
- **How can the EU non-financial reporting standard setting have a global impact?**

The European Commission can be credited with driving forward the quality of corporate reporting internationally over many years. The Commission should continue to demonstrate this international leadership as steps towards the advancement of a holistic, comprehensive corporate reporting system are advanced. However, the IIRC believes that the system that is developed should be global – albeit with the appropriate influence of leaders in the field such as the European Commission and participants of the G20, who will be vital to providing public oversight and legitimacy.

This will involve providing appropriate oversight, ensuring that the system developed follows a rigorous due process, as set out in response to question 1.1 of this consultation.

The IIRC support the International Federation of Accountants’ calls for a Sustainability Standards Board that would exist alongside the IASB and under the IFRS Foundation. The proposed Board would adopt the ‘building blocks’ approach set out by the IIRC, GRI, CDP, CDSB and SASB.

The European Commission has been both leader and powerful catalyst for all three of the building blocks proposed by IIRC, CDP, CDSB, GRI and SASB. We wish to work with the European Commission to achieve standard-setting that delivers these features and has global legitimacy.

Consistency between financial reporting and non-financial reporting will be absolutely vital to advance effective sustainable development and complete the eco-system. The two pillars of financial and non-financial reporting should therefore be connected via a conceptual framework, which we believe should embrace the principles of the International <IR> Framework given its widespread support and uptake to date.

EFRAG must play a leading role in the development of such a system, bringing together the key parties necessary from across the globe to ensure its success and legitimacy. The European Commission, with EFRAG, has been a consistent leader in the development of robust, effective reporting across financial and non-financial disclosure and they should use this knowledge and understanding to push for a global solution.

EFRAG would keep its current governance and mission but expanding its remit, to serve the European public interest by developing and promoting European views in the field of financial AND non-financial AND integrated reporting to ensure these views are properly considered in the Sustainability Standards Board, International Accounting Standards Board standard-setting process, as well as in the development of the connecting conceptual framework.

The building block approach presented by the IIRC, CDP, CDSB, GRI and SASB recognizes the importance of structural connectivity between reporting to providers of capital making economic decisions, reporting to meet the needs of a broad range of users, and reporting to meet the needs of specific jurisdictional requirements.

We recognize the importance of jurisdiction-level regulatory overlays, which can ensure that global standards are complemented by any additional disclosure requirements needed for achievement of local policy objectives (specific disclosures required for the EU taxonomy is a good example of this). A governance structure and process can be designed to acquire a level of EU ownership and reconcile international standards with EU requirements.

2.2. How to establish an appropriate coordination between the financial and non- financial reporting so as to ensure that financial and non-financial reporting provide an integrated view of the performance, position, development and impacts of reporting companies?

The IIRC provides the integrated reporting framework, already adopted by large numbers of companies across the European Union, that connects non-financial disclosure to reporting on financial and other capitals. Organizations in 22 EU countries are using the principles of the International <IR> Framework to inform their reporting, with adoption continuing to build, including 65% of the CAC40 currently producing integrated reports according to research by PwC. In Spain, 69% of the IBEX35 index are practicing integrated reporting, as well as 68% of the AEX Index in the Netherlands, and 36% of the FTSE MIB Index in Italy. Adoption is also strong in countries such as Sweden with 23 organizations practicing integrated reporting, and Poland where there are 15 organizations.

The principles of the integrated reporting framework would be used to develop a conceptual framework that would drive connectivity between the reporting strands.

This is necessary to demonstrate that the trade-offs and connectivity between non-financial and finance factors have been considered in regards to strategy, governance, performance and prospects.

The IIRC believes that to truly reflect the value creation of an organization, reporting needs to expand beyond traditional financial and non-financial (human, social, natural capital) reporting, to include reporting on intellectual capital and manufactured capital reporting. Standards for these capitals need to be developed.

Multi-capital reporting is becoming common place across Europe as a means of demonstrating the key resources and relationship an organization uses and effects to create value over time.

Materiality within an integrated report is determined based on value creation for the organization and for others. A key principle of integrated reporting is conciseness, meaning further details would be found within the financial or non-financial disclosure.

To ensure that connectivity between financial and non-financial reporting exists, it would be necessary to have an overarching board responsible for such connected/integrated reporting and the reporting system as a whole.

The system needs to be able to cater for the changing business and external environment and so the frameworks and standards will need to be subject to continuous review and regularly updated, identifying these evolving trends would be the responsibility of this overarching board. It will focus on what standards are required to fully reflect a businesses' value creation, and how evolving global trends (such as climate change, inequality, the SDGs) need to be reflected in reporting, as well as identifying future issues.

3. Possible changes to finance of EFRAG

3.1 What ideas do you have for financing of the non-financial reporting pillar? Should the financing reflect the public-private partnership?

Financing should reflect the public-private partnership. Stakeholders should contribute, but it must be ensured that private funding does not lead to undue influence. By having a balanced, multi-stakeholder approach with rigorous due process and accountability, reflecting a full range of voices, undue influence will not materialize.

The skillset and resourcing must also be considered and should reflect the necessity of having a wider skill base from across financial, non-financial and other capitals.

4. Do you have any other comments you want to share?

Developing non-financial reporting standards is necessary. However, it is not sufficient. In and of itself, it will not lead to a holistic reporting system that comprehensively captures value creation undertaken by a business, and its wider impacts.

To achieve this, there needs to integration and connectivity across financial, non-financial, and other capital (intellectual and manufactured) reporting.

Integration is fundamental to make sustainable development mainstream; to place these issues at the heart of business models and the strategy of organizations, and to ensure – from the Board down – issues such as climate change, infrastructure, and sustainable resource allocation – are taken into consideration during day-to-day business activities.

Should you have any questions or comments regarding our response to your consultation, I would be delighted to discuss them with you. We look forward to working closely with EFRAG towards our common goal of delivering robust, effective reporting.

Yours Sincerely,



Charles Tilley OBE
Chief Executive Officer