

EFRAG's public consultation paper Due process procedures for EU sustainability reporting standard-setting

CDSB welcomes the opportunity to submit our written response to EFRAG's public consultation paper on due process procedures for EU sustainability reporting standard-setting.

CDSB is an international consortium of nine business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We do this by offering companies a framework for reporting environmental and climate information (the CDSB Framework) with the same rigour as financial information. In turn, this helps companies to provide investors with decision-useful environmental and climate information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials. To that extend, the CDSB Framework has been referenced in the Guidelines on non-financial reporting: Supplement on reporting climate-related information to the NFRD. Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems.

CDSB is committed to the current global and European efforts towards a set of harmonised sustainability reporting standards, which are part of the solution to ensure that sustainability information disclosed by businesses is decision-useful, consistent and comparable. Based on our experience and expertise in the standard setting space, we believe that a sound and robust due process, following the highest standards of quality, independence, transparency and inclusiveness, is required to ensure the legitimacy and credibility of both the standard setting process and the final set of standards developed as a result of it.

Our comments are built on our own due process as well as the due process features of the IFRS Foundation's Due Process Handbook. They complement the feedback we gave in the two [public consultations](#) held on the changes to EFRAG's governance and funding structure. These comments are intended to be constructive, to support EFRAG in the development of a robust and credible set of sustainability reporting standards, both in the current project mode phase and after the formalisation of the new governance structure in 2022.

Please find our comments to the public consultation in full below and do not hesitate to contact me, or CDSB's Policy Manager, Axelle Blanchard (axelle.blanchard@cdsb.net) if we can be of further assistance.

Best Regards,

Michael Zimonyi
Policy & External Affairs Director
Climate Disclosure Standards Board

As suggested in the consultation paper, our comments are targeted to the relevant chapters and paragraphs of the paper.

Chapter 1 Objective

We support **EFRAG applying rigorous due process procedures from the beginning of the work and before the official changes to its governance**. We therefore encourage EFRAG to provide more details on the due process in place in the interim phase.

We commend the urgency shown in the consultation paper that is reflected in the proposal to create a robust, yet agile and adaptable, due process. However, we are concerned that such approach may create unintended consequences if it is not **balanced with sufficient stakeholders' consultation**. A long-standing concern in the sustainability field is the fragmentation caused by the multiplicity of reporting standards that are not aligned to each other. This fragmentation compromises the usefulness of the information and creates additional burden on entities that are required to implement multiple standards.

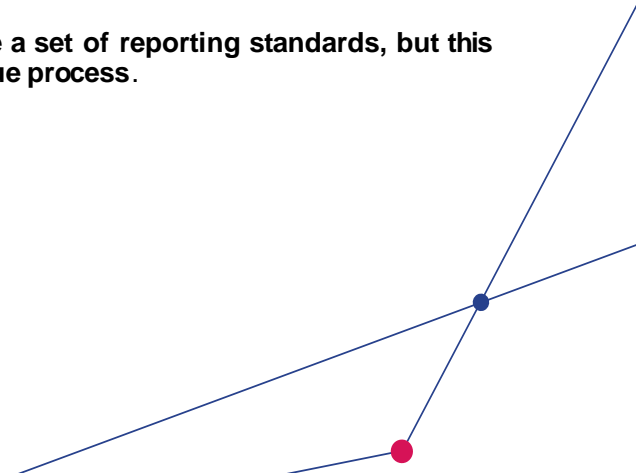
Recent effort to align the different reporting standards initiated by the 'Group of Five' is intended to counter this concern. A related effort by the IFRS Foundation to create an International Sustainability Standards Board (ISSB) building on the Group of Five Prototype for a climate-related financial disclosure standard is also initiated with a similar objective in mind, although its scope will be limited to sustainability reporting from an enterprise value perspective. We believe that **the proposed EFRAG Sustainability Reporting Board can play an important role in complementing the aforementioned efforts** due to its wider remit (as explained in Paragraph 4.2). We urge EFRAG to explicitly consider these recent developments and **balance the stated objective of the due process against the concern on the fragmentation of sustainability reporting**. This would ensure that the outcome of the standard setting process benefits report preparers and users alike by reducing reporting burden and improving the usability, consistency and comparability of the sustainability information.

We therefore believe that **the objectives set out in Chapter 1 would need to be further specified to ensure that standards are developed to answer and meet the needs of stakeholders, including but not limited to investors**. This would also need to be **reflected in the composition of the various governance bodies, their operation and the consultation mechanisms** to ensure a full and fair consultation of stakeholders on the direction of travel so that standards fill their needs for decision-useful, consistent and comparable sustainability information. This could be done through a balanced representation of preparers and users of sustainability information in the upcoming governance of EFRAG, the set-up of dedicated consultative groups or the performance of additional consultation efforts as part of the standard setting process (surveys, private meetings, webcasts and meetings with representative groups...)

Paragraph 1.5

This paragraph, alongside some comments in the public consultation section at the beginning of the document about outreach to be done "to the extent feasible within the short timeframe", seems to suggest that because of tight deadlines set up in the regulatory framework, EFRAG could compromise on the steps and criteria of the due process described in the document. We caution against such an approach as it would limit stakeholder engagement and consultation and therefore jeopardise the robustness, credibility and acceptance of both the standard setting process and, more fundamentally, of the produced final set of standards.

We appreciate and commend the urgency to act and produce a set of reporting standards, but this should not be done to the detriment of the robustness of the due process.



We therefore believe the due process should include **detailed conditions to go for an accelerated due process system, with a mandatory involvement of the Committee in charge of the oversight of the due process (DPC)** suggested in chapter 3. This DPC would need to examine that there are valid reasons to go for an accelerated due process system to answer urgent needs of the markets rather than meeting regulatory deadlines.

Paragraph 1.8

The review of the due process should be done by the DPC to ensure it remains fit for purpose and reflect best practices. This review should be reflected in amendments to the due process handbook (see our comments on chapter 3).

Chapter 3 Due Process Oversight

Paragraphs 3.1 to 3.4

We support **the set-up on a mandatory basis of a committee in charge of the oversight of the due process** by the EFRAG Administrative Board and a clarification of the respective responsibilities of the Administrative Board and the DPC vis a vis due process requirements. The DPC would for example assess, following clear criteria established in the due process handbook, any request to shorten the usual comment period of 120 days (which in the consultation paper is now tied solely to the approval of the Administrative Board).

We believe the action of such committee would benefit from the following features:

- **The development of a short due process handbook** to support the work of the DPC. It would cover the steps required to be followed in the standard setting process including the transparency, consultation and voting requirements to be met at the different stages of the process;
- **A clear mandate for the DPC** where members would be separated from and accountable to the Administration Board, with an obligation to report any issue related to the due process; and
- **A timeline for action throughout the entire duration of the standard setting process**, including in the current project mode phase.

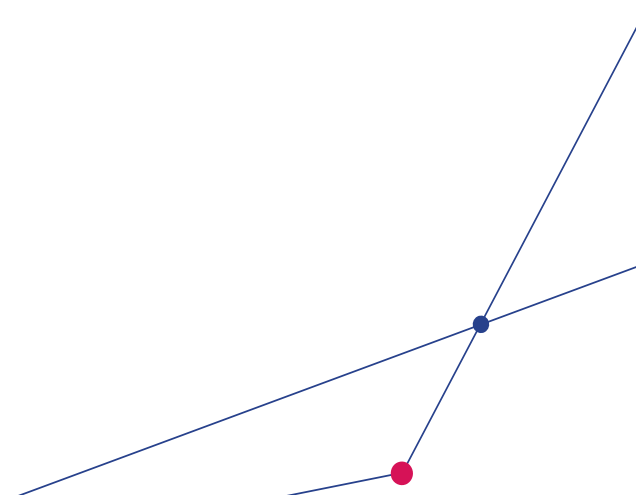
The DPC would for example assess- following clear criteria established in the due process handbook - any request to shorten the usual comment period of 120 days (which in the consultation paper is now tied solely to the approval of the Administrative Board).

Paragraph 3.10

In case some of the conditions of the due process are not to be met, a report should be provided to the DPC. It should be up to the DPC rather than the Administration Board to review the report and evaluate the evidence provided to ensure that such compromise to the due process is fully justified or require the entire steps of the due process to be followed.

Paragraph 3.14

The Administrative Board should refer to the DPC to address matters raised about the due process.



Chapter 4 Agenda-setting

Paragraph 4.2

Reiterating our comment on Chapter 1: Objective, we believe that it would be useful to **clarify how the two sets of Sustainability Reporting Standards as applicable in the EU (ESRS) are related to the ongoing work to align existing sustainability reporting standards.** Elements of the ESRS (Paragraph 4.2.a) are closely related to the sustainability reporting standards as envisaged by the IFRS Foundation in its proposal for creating the ISSB. We believe that a clear explanation of the complementary nature of the ESRS will provide reassurance to companies and also offer clarity on the key features of the ESRS.

Paragraph 4.8

We believe that this paragraph should read as “the European Commission shall, at least every three years after the application date, ask the EFRAG Sustainability Reporting Board to provide an advice to review the standard taking into consideration relevant developments, including developments with regard to international standards.” This is an example of the need to **clarify the responsibilities between EFRAG, in charge of providing an advice to ensure the technical robustness of the standards, and the European Commission, in charge of checking the alignment of standards with EU policy objectives.**

Related to this point, further clarity on the post implementation review described in paragraphs 5.34 to 5.36 should be provided about the steps taken if these reviews demonstrate the need for amendments to the standards.

Paragraph 4.12

Although we do agree that the EFRAG European Lab has a role to play in the sharing of best practices on sustainability reporting, we do think that its activities should now move on and look at the future of reporting, including the interconnectivity of financial and sustainability information, digitalisation and, as mentioned by the consultation document, the interconnectivity between financial and sustainability reporting, to support the implementation of the Corporate Sustainability Reporting Directive.

Chapter 5 Standard setting

Paragraph 5.1 b

The suggested possibility to reduce the consultation periods to 60 days is an example of the potential risk of some of the proposals to jeopardise the robustness of the due process. We therefore support **a standardised consultation period of 90 to 120 days, with few urgent cases where it could be reduced after examination and authorisation of the DPC.**

The process should ensure that stakeholders and constituencies have the possibility to provide feedback and that such feedback is properly reflected in amendments to the standards.

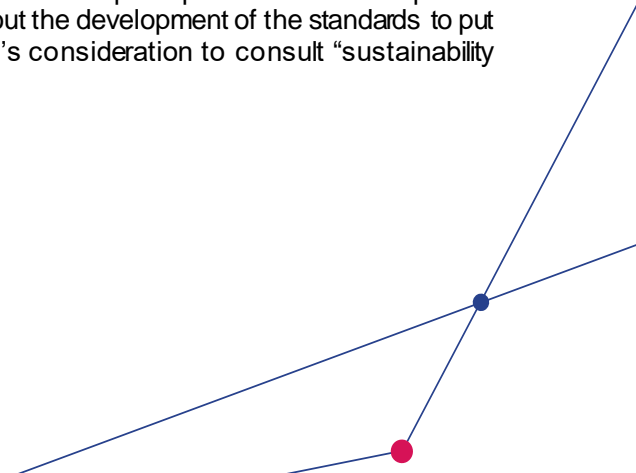
Paragraph 5.1 e

The consultation paper should further specify **the exact membership and the nature of the consultation of the “Consultative Forum of National Authorities and sustainability reporting standard setters”** as one of the mandatory steps of the due process.

This is an example of the need to ensure that the due process rules and principles include the aspect of international alignment of sustainability reporting standards throughout the development of the standards to put the co-construction approach into practice. We welcome EFRAG’s consideration to consult “sustainability

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reporting standard setters” which we believe should include, but not limited to the global sustainability reporting standards setters that are mentioned in our earlier comment on Chapter 1: Objective.

Paragraph 5.1 f and g

The final decision on the draft standards to the European Commission at the Sustainability Reporting Board should be done **in a public meeting and followed by a written ballot**. Board members should also be granted the right to express dissenting opinions in case they disagree with the final set of standards.

Paragraph 5.15 and 5.16

We believe that **the digital element of the sustainability reporting standards work will require additional due process and consultative working groups with the right expertise** to ensure the delivery of ad hoc technical documents to meet the needs of both report preparers and users.

Paragraphs 5.17 and 5.18

We believe that **the internal decision and voting procedures should be further specified, including on the minimum voting thresholds applicable**.

We support **a mandatory redeliberation on the proposed draft standards or draft amendments after the public consultation period** rather than it being optional.

We also believe that **EFRAG Sustainability Reporting Board would need to ask the Technical Expert Group to amend the draft standards or draft amendments if it considers that they are not complementing existing reporting standards and frameworks**. Further consultation of the EFRAG Consultative Forum of National Authorities and sustainability reporting standard setters should then be required.

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