

CONSULTATION RESPONSE

EFrag AD PERSONAM MANDATE

ON POTENTIAL NEED FOR CHANGES TO THE GOVERNANCE AND FUNDING OF EFRAG

January 2021

THE PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

This consultation response represents the view of the PRI Association and not necessarily the views of its individual members.

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CONSULTATION RESPONSE

The PRI welcomes the opportunity to provide its views on the proposals for changes to the governance structure of EFRAG, in case it will be entrusted with the development of possible EU non-financial reporting standards.

Given that the PRI already responded to the first consultation on the *ad personam mandate* in October 2020, this response is limited to additional aspects that were not, or not fully, addressed in the first consultation and that are of interest to PRI.

QUESTION 4

Considering the proposed governance structure (see section 5), at which level do you consider private sector and civil society ought to have representatives:

- The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board?
- The Non-Financial Reporting Board?
- TEG for Non-Financial Reporting?
- The Working Groups?

PRI RESPONSE:

In order to deliver decision-useful information, it is crucial that the standard setting process involves both users and preparers of non-financial information. Therefore, the private sector – including investors – and civil society should be represented throughout the various levels of the governance structure. Selected representatives should have an interest in developing and promoting transparency in sustainability reporting and, considering the expertise required for each level of the governance structure, should have relevant professional experience and knowledge of non-financial reporting.

QUESTION 6

What do you see as main features of cooperation with the (global) reporting initiatives? What kind of involvement could you consider?

PRI RESPONSE:

The renewed efforts by public and private reporting initiatives toward alignment and consolidation of non-financial reporting standards are an important moment and a clear opportunity to improve consistency, comparability and quality of corporate reporting in order to support investment decision-making that prioritizes and incentivizes sustainable investment and outcomes.

To make the most of this opportunity, it is critical that the EU and EFRAG adopt an outward-looking perspective and consider and respond to relevant developments in the regulatory and voluntary corporate sustainability reporting space. Global financial markets need the EU as part of global standard setting, not separate from it. In this context, PRI recommends that EFRAG works closely with other regulatory bodies and initiatives on sustainability reporting and that future EU non-financial reporting standards adopt those that are already understood and well used by companies and investors. Principal among these are:

- The recommendations from the Taskforce on Climate-Related Financial Disclosures (TCFD);

- The International Financial Reporting Standards (IFRS) Foundation's proposal to create a Sustainability Standards Board (SSB)¹;
- The International Organization of Securities Commissions (IOSCO)'s efforts to determine which non-financial information is decision-useful for the investors, and its ambitions to use that information to develop a framework for principles-based guidance for future standard setters²;
- Voluntary frameworks and standards such as CDP, CDSB, GRI, IIRC and SASB.

In order to ensure close cooperation, representatives of these bodies and initiatives could be included in EFRAG's governance structure as observers. At a minimum, a formal dialogue between EFRAG and these bodies and initiatives should be established, and PRI strongly encourages the EU's representation and active participation in international initiatives and bodies, including through EFRAG where appropriate.

At the same time, it is important to recognise that the EU is leading the world with the scope of its ambition on corporate sustainability reporting, captured through the concept of 'double materiality'. PRI fully supports this approach, as a company's sustainability performance increasingly influences financial materiality and both dimensions matter to a company's value. Ultimately, we need corporate reporting that treats financial risks and opportunities and sustainability performance on a continuum, not as independent tracks.

Where there seems to be momentum to converge globally on reporting standards for financial materiality, this is not (yet) the case for corporate reporting on sustainability performance (environmental and social materiality). This is illustrated by the fact that the IFRS Foundations' proposal, IOSCO's ongoing work and the recent paper by CDP, CDSB, GRI, IIRC and SASB with a 'prototype climate-related financial disclosure standard'³ all focus on financial materiality only. Consequently, the EU will need to fulfil a leadership role and should provide an approach for setting sustainability reporting standards the world can learn from and build on. To this end, EFRAG will hold a pivotal role in maintaining an open dialogue on its work with other reporting initiatives and bodies, even if they start from a different perspective or move at a different pace.

To achieve a globally coherent and consistent corporate sustainability reporting system, the various public and private reporting initiatives need to contribute to a larger picture, even though they may play different roles. The PRI recognises and supports the EU's leadership role in developing standards for corporate reporting on sustainability performance, but recommends that these standards are not developed in isolation. Similarly, we recommend that the EU and EFRAG actively participate in international standard setting processes that focus on financial materiality and adopts those standards once developed.

¹ <https://cdn.ifrs.org/-/media/project/sustainability-reporting/consultation-paper-on-sustainability-reporting.pdf>

² <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD652.pdf>; see page 29.

³ https://29kjb3armds2q3gi4q2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf