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CFOF's response on EFRAG's public consultation paper on *Due Process Procedures for EU Sustainability Reporting Standard-Setting*

Dear Mr Jean-Paul Gauzès

The CFO Forum (CFOF) welcomes the opportunity to provide comments on EFRAG's public consultation paper on the *Due Process Procedures for EU Sustainability Reporting Standard-Setting*.

We fully support the launch of the technical work of EFRAG in project mode to prepare Technical Advice to the European Commission (EC) in the form of draft EU standards and / or draft amendments to sustainability reporting standards (ESRS) to achieve timely progress. We also strongly welcome EFRAG's efforts to define an adequate due process to underpin its standard-setting activity as this is critical to achieve acceptance and absolutely necessary to meet the high standard-setting needs in the moving landscape of Sustainability Reporting. In particular, independent standard-setting and an inclusive and transparent due process are key success factors to achieve high-quality Sustainability Reporting standards.

To this end, despite the admittedly urgent need for action, the interested public and stakeholders must be granted adequate possibilities and sufficient time to get involved in the standard-setting process via public consultation, both to ensure that Sustainability Reporting standards are oriented towards the information needs of the diverse stakeholder groups and to avoid insufficient short-term solutions, which would lead to numerous subsequent revisions and, thus, high uncertainty and complexity for both preparers and users. In many respects, especially regarding public consultation procedures, the due process as currently applied in the financial reporting context under IFRS can serve as a point of reference.

In addition, EFRAG needs to ensure sufficient funding and appropriate technical expertise from the beginning; this could be facilitated via the early involvement of (existing) standard-setting organizations and building on their expertise.

Moreover, it is key that EFRAG actively contributes to the development of global Sustainability Reporting standards by engaging in co-construction and collaborating with other relevant (international) Sustainability Reporting organizations. This would not only allow to respond to the market's demand for a global solution and to take advantage of the opportunity to participate in this important endeavor but is also essential to ensure compatibility for EU preparers.

Finally, we deem it as absolutely essential that the Due Process Procedures apply from the beginning, wherever relevant. This is of particular importance with regard to the interim work undertaken by EFRAG Project Task Force (PTF) as the foreseen EFRAG governance and oversight structure is not yet established, but it is likely that the development of the Technical Advice to the EC will to a significant extent rely on work conducted during this interim phase.

In what follows, we would like to bring to your attention to some further, yet more specific comments regarding the Due Process Principles, Work Plan, Due Process Oversight and Due Process Steps. However, we would like to note that we were not always able to conclusively determine if the current proposals can be considered as sufficient and the most appropriate options as they are in many instances of rather high-level nature and, thus, not sufficiently specific.

Due process principles

Transparency:

We fully support the proposed measures to ensure transparency and believe that they should be established and apply from the beginning, i.e., also during the current interim phase (see above).

As to public meetings, we welcome that the Chair of the SRB and the Chair of SR TEG are to be given the opportunity to invite other Sustainability Reporting standard setters. Given the EC's objectives as laid out in the CSRD proposal (e.g., building on existing Sustainability Reporting guidance or collaborating with international Sustainability Reporting initiatives), there should even be a requirement (and not just a possibility) to also involve other Sustainability Reporting standard setters. Moreover, we consider that outreaches to seek input from relevant stakeholders and standard setters should be conducted on a regular basis, as the case may be, and, at best, from the beginning (see above).

As to the availability of meeting documents and (other) material, we consider it necessary to implement a requirement to report to the EFRAG Administrative Board / Due Process Committee on the extent to which material discussed has not been made publicly available and the main reasons for doing so.

Finally, considering that the market calls for a global solution for Sustainability Reporting as well as considering EFRAG's commitment to support a building blocks approach, we believe that EFRAG should undertake concrete steps to ensure transparency on its contribution to a global solution and provide more details on how it will collaborate with international initiatives, including the envisaged timeline in this context.

Impact analyses:

We fully agree that impact analyses are of key importance to gain insights on costs and benefits for different stakeholders and regarding different dimensions. However, we would highly welcome if the Due Process Procedures included further specifications (e.g., on process steps and quantitative approaches) regarding the analyses of impacts on sustainability matters.

Furthermore, as other EU legislations also come along with Sustainability Reporting requirements with many interlinkages and dependencies (e.g., Sustainable Finance Disclosure Regulation, Taxonomy Regulation, expected changes to Solvency II QRT reporting), we believe that EFRAG's impact assessments should explicitly take any such interlinkages and dependencies into account.

Finally, we would like to highlight that as the ESRS will be new for all companies and also apply to those companies falling in the scope of the CSRD for the first time, impact analyses will not only be relevant for SMEs, but more generally for all preparers, as proportionality and feasibility are of key importance.

Work plan

Taking into account that EFRAG is just starting its activities and that Sustainability Reporting is still in an early stage, we question whether consultations on the work plan every three years can adequately reflect the dynamic developments. Rather, we would expect more frequent consultations in the initial phase.

Also, as the CSRD proposal states that existing standards and frameworks for Sustainability Reporting and accounting should be taken into account where appropriate, we believe that it should be clearly specified in the Due Process Procedures that international developments shall be taken into account in each phase of the work plan as well. Moreover, we would recommend that EFRAG actively contributes to (and not only influences) the development of global Sustainability Reporting standards, especially by engaging in co-construction and collaborating with other relevant (international) Sustainability Reporting organizations.

As Sustainability Reporting is a quickly evolving area, we highly encourage the EFRAG PTF ESRS and the SRB to not only build on the recommendations of the (previous) EFRAG PTF NFRS, but to challenge them where relevant, e.g., in case of a lack of wide consensus, and to consider also further developments that occurred since the publication of these recommendations, e.g., the (potential) establishment of a standard-setting body by the IFRS Foundation.

Due process oversight

We would highly welcome if, as proposed, a dedicated Due Process Committee was set up from amongst the Administrative Board members which should, among other, have the following three key focus areas:

- to evaluate any proposed, fast-track or simplified due process solutions;
- to monitor the review of the Due Process Procedures in terms of timing and scope; and
- to monitor the compliance with / achievement of the EC's expectations / objectives as per the CSRD proposal.

As to the latter, more concretely, where the CSRD proposal specifies expectations or objectives that are also relevant for the ESRS, this should translate correspondingly into EFRAG's objectives and, accordingly, be clearly reflected in the Due Process Procedures and the Due Process Committee's tasks, especially that EFRAG shall take into account the CSRD requirements to a) ensure consistency with the reporting requirements of financial market participants and b) take account of existing Sustainability Reporting guidance, where appropriate, including "any sustainability reporting standards developed under the auspices of International Financial Reporting Standards Foundation" (recital 37).

Due process steps

Mandatory steps:

Given our above rationale on the need for an inclusive due process, we believe that the consultation period should only be reduced to no less than 60 days where this is absolutely necessary and approved by the Administrative Board.

As to re-exposure, we believe that the Due Process Procedures should include concrete criteria according to which the need for re-exposure should be considered. Additionally, if the criteria are met and the SRB suggests that there is no need for re-exposure, we would deem an approval of this decision by the Administrative Board as critical.

Also, we would suggest two additional mandatory steps to the Due Process Procedures:

- As we consider fieldwork to be a particularly valuable mechanism to gain insights on proportionality and feasibility, we believe it should be a mandatory step during the initial phase, with the option to not perform such fieldwork if there is a wide agreement by users and preparers.
- We would suggest, to add the need to issue interpretations as a mandatory step in order to ensure consistent application of any new standard or amendment.

Non-mandatory steps:

As we are currently in an early stage of Sustainability Reporting and as no ESRS exist yet, we believe that all projects could generally qualify as "major projects" during the initial phase; therefore, we believe that it should be specified for which projects this would apply.

To enhance transparency, any decision by the SRB to not perform one or more of the non-mandatory due process steps should be approved by the Administrative Board and publicly explained on the EFRAG website.

Other aspects

Finally, we would like to raise the following further aspects which are of key relevance in our view:

- To guarantee appropriate technical expertise and enhance legitimacy, we would recommend involving existing (international) standard-setting organizations directly as members or through working groups / task forces / advisory panels. This would also potentially have a positive repercussion on the funding and results.
- Upon handover, the SRB should thoroughly assess whether any proposals by the EFRAG PTF NFRS / ESRS should be exposed, even if they were subject to public consultation during the interim phase, to ensure robust governance and strengthen EFRAG's legitimacy.
- We fully support that the proposal should be reviewed on a regular basis, nevertheless we would appreciate if more details were provided, especially on how often this review would take place.

Members of the CFO Forum look forward to continuing to share their perspectives with EFRAG in this important initiative and to further discuss the abovementioned aspects around Sustainability Reporting.

Yours sincerely,

Delfin Rueda

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Chairman of the European Insurance CFO Forum

About the European Insurance CFO Forum and its work

The European Insurance CFO Forum ('CFO Forum') is a high-level discussion group formed and attended by the Chief Financial Officers of major European insurance companies. Its aim is to influence the development of financial reporting, value based reporting, and related regulatory developments for insurance enterprises on behalf of its members, who represent a significant part of the European insurance industry. The CFO Forum was created in 2002. More information on the CFO Forum is available at www.cfoforum.eu.