

SUMMARY OF THE COMMENTS RECEIVED IN RESPONSE TO

EFRAG'S PUBLIC CONSULTATION ON ITS
DUE PROCESS PROCEDURES FOR
EU SUSTAINABILITY REPORTING
STANDARD-SETTING

November 2021



European Financial Reporting Advisory Group

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MESSAGE FROM THE EFRAG BOARD PRESIDENT



A transparent and robust due process is essential to ensure that future EU sustainability reporting standards (ESRS) are credible and developed in the public interest and underpin EFRAG's legitimacy in its future role. The due process should allow all stakeholders to put forward their views for consideration by EFRAG and ensure that the diversity of and stakeholder views are considered in an inclusive way in developing ESRS.

I would like to thank the wide range of organisations and individuals that have provided input on the proposed Due Process Procedures (DPP) for EU sustainability reporting standard-setting. I appreciate the richness and quality of the input received. The number of comment letters (38) received in the public consultation on the proposed DPP for EU sustainability reporting standard-setting is indicative of the importance attached to a proper due process.

This report summarises the comments received but it is not a formal feedback statement indicating how the comments have been taken into account. A feedback statement will be published when the EFRAG Administrative Board supported by its due process committee has reviewed all comments received and decided on the DPP for EU sustainability reporting standard-setting after having considered and taken into account the suggestions received.

The respondents expressed overall support for the DPP. Based on the comments received, I would like to make a few observations on issues that have been raised by several respondents.

Interim work by the PTF-ESRS (Project Task Force on European sustainability reporting standards)

It was underlined by many respondents that proper due process and transparency during the interim work phase was very important. Reference was made to the letter of Commissioner McGuinness of 12 May asking to ensure transparency and due process in the standard-setting process from the beginning. Transparency and due process enhance the credibility of the ESRS. In the spirit of transparency, similar to that applied in EFRAG's financial reporting activities including making Secretariat working papers publicly available on the EFRAG website, the working papers from Cluster 2 Environment on the climate standard prototype and the related basis for conclusions were published. Further prototypes are to follow. However, these working papers were only published for transparency reasons and they were not for public consultation.

The [status report](#) on the work of the PTF-ESRS published on 16 November outlines the interim due process followed during the interim work phase including the publication of Exposure Drafts (ED) for public consultation. This public consultation on the ED of a draft standard will start during the interim phase and will be launched by the PTF ESRS in the coming months and finalised by the new governing bodies, the EFRAG Sustainability Reporting Board (SRB) and the EFRAG Sustainability Reporting TEG (SR TEG). It will ultimately result in the technical advice that will be submitted to the European Commission.

Transition from the PTF ESRS to the new governance structure

EFRAG is working on its governance reform to integrate the sustainability reporting pillar into its structure in parallel with the standard-setting work conducted by the PTF -ESRS. The aim is to hand over the PTF -ESRS work to the new governing bodies of EFRAG by the end of March 2022. On the legal side, the EFRAG Statutes and EFRAG Internal Rules are in the process of being revised in implementing the recommendations of my final report of 8 March. In parallel, we are working on extending the membership of EFRAG to include civil society. Thereafter, the EFRAG Administrative Board and its committees will be established followed by calls for candidates for the EFRAG SRB, and then for experts for the EFRAG SR TEG and its working groups and panels. These calls will be published on the EFRAG website. You can subscribe to the EFRAG news items [here](#).

Due process financial reporting pillar

In my final report of 8 March 2021, I have indicated that the financial reporting pillar and financial reporting activities of EFRAG would not be impacted by EFRAG's sustainability reporting activities and by the integration of the sustainability reporting pillar into the EFRAG structure. Moreover, the sustainability standard-setting activities are different in nature from the financial reporting activities including endorsement advice. Therefore, separate DPP have been developed for the sustainability reporting standard-setting work whereas the due process for EFRAG's financial reporting work is covered by the [EFRAG Internal Rules](#).

Global standards and initiatives

Vice-President Dombrovskis in his sustainability reporting mandates provided to EFRAG, and Commissioner McGuinness in her communication and letters to EFRAG, and the proposal for a Corporate Sustainability Reporting Directive (CSRD); make it very clear that EU sustainability reporting standards should be developed in constructive two-way cooperation with leading international initiatives, and they should align with those initiatives as far as possible while taking into account of the European specificities. As part of this co-construction approach, the PTF-ESRS already entered into statements of cooperation with GRI, Shift and WICI, and has since July been cooperating with the Technical Readiness Working Group of the IFRS Foundation and will continue to exchange views with the IFRS Foundation's ISSB. In the new governance structure, the EFRAG Administrative Board will ensure that the EFRAG SRB and EFRAG SR TEG establish appropriate cooperation arrangements with global and other relevant standard-setting initiatives.

Jean-Paul Gauzès
EFRAG Board President

INTRODUCTION

The European Commission's proposal for a CSRD envisages the adoption of EU sustainability reporting standards (ESRS).

In this context, EFRAG is requested to provide Technical Advice to the European Commission in the form of fully prepared draft ESRS and/or draft amendments to ESRS. The proposal for a CSRD requires that EFRAG's Technical Advice is prepared with 'proper due process, public oversight and transparency, and with the expertise of relevant stakeholders, and it is accompanied by cost-benefit analyses that include analyses of the impacts of the Technical Advice on sustainability matters', contributing to the delegated acts through which the ESRS will be adopted in the EU.

In this context, in June 2021, EFRAG launched a public consultation on the proposed Due Process Procedures (DPP) for EU Sustainability Reporting Standard-Setting, which stipulate the requirements to be followed in its role as technical advisor to the European Commission in the preparation of draft ESRS or draft amendments to ESRS. The proposed DPP build on the recommendations about potential governance changes contained in the report of Jean-Paul Gauzès on his ad personam mandate on [Potential need for changes to the governance and funding of EFRAG](#) published on 8 March 2021.

EFRAG has received 38 comment letters which have all been made publicly available on EFRAG's website ([here](#)). The comment letters received came from a broad range of constituents including national, European and global organisations, ESG organisations, National Standard Setters, preparer organisations, professional organisations, listed companies, EU authorities and individuals.

RESPONDENTS BY COUNTRY		RESPONDENT BY TYPES	
Denmark	1	Academic organisation	1
France	2	Accountancy organisation	8
Finland	1	Civil society	2
Germany	3	ESG organisation	2
Italy	2	Individual	1
Norway	1	Preparer organisation	13
Malta	2	Standard setter	6
Spain	1	User organisation	2
Sweden	2	Other	3
The Netherlands	2		
Europe	11		
Global	10		
Total	38	Total	38

This statement summarises the main comments received from the public consultation. The EFRAG Administrative Board and its due process committee that may be established in the new governance of EFRAG integrating the sustainability pillar, when in place, will consider the comments received in finalising the DPP and publish a feedback statement indicating how the comments have been taken into account in the DPP for EU Sustainability Reporting Standard-Setting. Therefore, this report only reflects the comments received but does not address possible changes to the proposed due process.

Some respondents provided input on topics that were not part of the DPP consultation (such as the composition of the future governance bodies, the voting rules and rights or the priorities that the first sets of ESRS should address). This input will be duly considered by EFRAG as a contribution to the governance reform but is not part of this summary report.

The list of respondents is included in the Appendix to this summary of comments received.

CHAPTER 1: OBJECTIVE

- 1.1 Respondents generally supported the stated objective of the Due Process Procedures (DPP) described in Chapter 1 of the DPP of a rigorous and transparent due process with minimum mandatory steps and additional non-mandatory steps.
- 1.2 Some respondents however noted that it was difficult to form a definitive view on the DPP proposed because:
 - a) EFRAG's new governance structure is not yet in place and some aspects for that future governance still need to be clarified or will be addressed in the future EFRAG Internal Rules which were not part of the public consultation.
 - b) Ongoing political discussions on the proposal for a CSRD may require adaptation of the future ESRS, and this should be considered in adapting the due process. The timetable for new legislation should enable adequate public consultations on the draft ESRS, an impact assessment, comments from stakeholders, analysis of feedback, and changes to the ESRS based on the feedback when necessary.
- 1.3 Some respondents considered that the DPP sometimes describes the due process at a high-level using language such as "may" or "can". They suggested that EFRAG should use more prescriptive language and be as clear as possible in prescribing the due process for ESRS to ensure all stakeholders have confidence in the process.
- 1.4 A few respondents considered that the objective set out in Chapter 1 would need to be enhanced to ensure that standards are developed to meet the needs of stakeholders. This would also need to be reflected in the composition of the various governance bodies, their operations and the consultation mechanisms as part of the due process to ensure a full and fair consultation of those stakeholders.
- 1.5 Several respondents outlined that criteria for an 'accelerated due process' should be defined to clarify under what circumstances it is used, the governance safeguards supporting the decision and the type of consultation activities conducted (including holding roundtables, expert groups and discussions with relevant groups).
- 1.6 These respondents generally suggested strictly limiting the circumstances in which an 'accelerated due process' can be applied to situations when it cannot be avoided. This is because limiting stakeholders' involvement might have a detrimental effect on the quality and the acceptance of the ESRS. Deviations from the DPP must be justified and approved beforehand. One respondent suggested that this could either be done by the existing EFRAG Board or by an EFRAG General Assembly until the new governance would be in place and EFRAG Administrative Board and its Due Process Committee (DPC) will assume the oversight in that respect.
- 1.7 Another respondent noted that the development of ESRS is linked to the development of the European Single Access Point. Content-wise, the two projects should be consistent. As a result, regular exchanges would be expected ensuring this consistency as well as reaping synergies in the process of developing the future ESRS.

CHAPTER 2: PRINCIPLES

- 2.1 Most respondents supported the proposals in Chapter 2 regarding the principles of transparency, public consultation and impacts as well as the adoption of an outward-looking perspective, and working closely with other regulatory bodies and initiatives on sustainability reporting.
- 2.2 Respondents generally agreed that steps suggested in the Consultation Document reflected the key due process steps for open and transparent sustainability reporting standard-setting. Some underlined that a proper due process is critical for the long-term credibility of a sustainability reporting standard setter.
- 2.3 Some respondents, while supporting the proposals, indicated that the actual level of detail of due process steps will depend on the mandate that EFRAG would receive from the European Commission and the recommendations of EFRAG's Project Task Force European sustainability reporting standards (PTF-ESRS), and how they would be considered by the European Commission.
- 2.4 Some respondents suggested that to establish a clear technical underpinning for EFRAG's works, the following could be considered:
 - a) A clearly defined mission statement would be needed as a basis for the EFRAG Sustainability Reporting Board (SRB) and Sustainability Reporting Technical Expert Group (SR TEG) to determine whether to prioritise a proposal that supports reporting transparency over one that is designed to promote behavioural change.
 - b) A conceptual framework is needed to support the technical integrity of EFRAG's work and provide a basis for assessing the EFRAG SRB's proposals.

TRANSPARENCY AND PUBLIC CONSULTATIONS

- 2.5 Respondents generally supported the transparency principles enumerated in the DPP. The following suggestions were made by some respondents to improve transparency:
 - a) Meetings of working groups should follow the same transparency principles and should be held in public (as opposed to paragraph 2.7). This is because SR TEG cannot be expected to have comprehensive knowledge of all the sustainability-related topics and will need to rely heavily on input from the different Working Groups.
 - b) There shall be, as a principle, no exception for public technical discussions and all agenda papers should also be publicly available. However, it is acknowledged that in some cases it may be harmful to certain parties to have discussions in public. In such cases, it was recommended that:
 - (i) Meeting agendas should always be made publicly available on EFRAG's website.
 - (ii) There should a reporting to the EFRAG Administrative Board with an explanation as to why such an agenda paper is not being published or technical session was not held in public.
 - c) Agendas of Working Groups and (Advisory) Panels should also be made public even when such meetings are held in private.
 - d) Dissenting views (at EFRAG SRB and EFRAG SRTEG) and the reasons for dissent, if any, should be made public so that the due process is fully transparent. Dissenting views should also be included in the material submitted to the European Commission (this is envisaged in the proposed DPP).
 - e) All comment letters should be visible. It is possible that such comments could be anonymised to protect the identity of the person commenting if so requested (this is envisaged in the proposed DPP).

- f) Statement of cooperation with other standard setters and initiatives (such as the one with GRI) are welcome but EFRAG should elaborate on transparent principles that will guide such collaborations and any future Memorandum of Understandings (MoU) with other organisations.
- 2.6 Some respondents suggested clarification of the notion of 'relevant stakeholders'. They suggested that EFRAG should consult at least with:
- a) Key stakeholder groups directly involved in the sustainability reporting value chain who can provide valuable perspectives based on practical experience (e.g. investors, companies/preparers, auditors/accountants). In this regard, it will be important to seek diverse perspectives across multiple sectors.
 - b) Other groups (e.g., civil society representatives/NGOs, academics, trade unions, local authorities, etc.) so that the development of standards on topics, such as environment, social matters, human rights, ethics and corruption, can benefit from broad perspectives.
 - c) Specialists in the different sustainability areas who can provide expert input and contributions on specific matters.
- 2.7 Suggestions from respondents regarding transparency included the following:
- a) Ensure sufficient robust outreach to preparers and other practitioners to ensure the initial standards are operational.
 - b) Allow for sufficient consultation periods including considering when multiple consultations are occurring at the same time. Several respondents suggested a minimum of 120 days for such consultations. Other respondents suggested a 90- 120 days standard period and that the consultation period should only be reduced to a minimum of 60 days if there are no available options, and this would need to be approved by the EFRAG Administrative Board.
 - c) EFRAG would need to consider the phasing of consultations on exposure drafts of the initial standards so that a reasonable gap between them is allowed and not all are required to be responded to in the same period.
 - d) Some noted that a 60-day consultation could be appropriate for smaller and urgent amendments, or when stakeholders have been appropriately informed in advance of the subject matter and potential contents of the ED/due process document? A shorter consultation may not be feasible if no documents or information on the project and its contents have been made public in advance.
- 2.8 Some respondents suggested keeping audio and video recordings of public meetings of EFRAG SRB and EFRAG SR TEG available for a longer period than proposed in the DPP. Furthermore,
- a) Some suggested keeping the recordings available until the end of the process of setting the standard (not just for one year as proposed). Once the standard is set, these can be archived and made available on request.
 - b) Several respondents suggested having recordings available for at least two years after the implementation of the respective standard.

TRANSPARENCY AND DUE PROCESS DURING THE INTERIM PHASE

- 2.9 Several respondents noted that there was currently a perceived lack of clarity on the due process currently being followed in the interim phase, how the decision-making process is and how long the interim phase will last. It was noted that preparers and users should be well involved in the interim technical work and decision making.
- 2.10 These respondents while appreciating the urgency of issuing the first set of standards, stated that this should not be done at the expense of a rigorous and transparent due process during the interim phase. They expressed concerns that the timetable set out for the first sets of standards could make it very difficult to follow the proposed thorough due process and that there might be significant risks to the credibility of the ESRS as a result.

- 2.11 Some respondents noted that the first set(s) of standards EFRAG issues are likely to establish both the 'tone' for its future work and based on that the acceptance of the standards. Therefore, the due process to be applied especially to the first set of sustainability standards must be impeccable, despite the very tight deadlines. In particular:
- a) All meetings of the PTF-ESRS should be open to the public and that all preparatory materials (i.e., agenda papers etc.) should be made publicly available.
 - b) The first set of ESRS should give the maximum possible time to stakeholders to familiarise themselves with the topics being discussed. In that regard, some respondents welcomed the recent approach adopted by the PTF-ESRS of sharing some working documents.
 - c) Extreme caution should be applied towards shortening the time frame of the envisaged public consultations. This should be reviewed by Administrative Board and its Due Process Committee to ensure that fast-track or simplified due process solutions are appropriate and that there is broad agreement. Cases where an accelerated process is used should be justified.
 - d) Followed due process needs to be consistent with Commissioner McGuinness' letter to EFRAG stating that it was necessary 'to ensure transparency and due process in the standard-setting process from the beginning'.
 - e) Use of field-tests to test the impact during the development of the draft ESRS in the interim phase.
- 2.12 Regarding the handover to the new governance structure, the following suggestions were made:
- a) The new governance bodies (EFRAG SRB and EFRAG SR TEG) should scrutinise the recommendations made by the PTF-ESRS and, if necessary, consult again on basis of a revised exposure draft. Not all the recommendations of the PTF-ESRS need to be followed by the EFRAG SRB (in particular where new findings or developments suggest otherwise, or relevant circumstances have changed).
 - b) Encourage the EFRAG PTF-ESRS and the EFRAG SRB and EFRAG SR TEG to not only build on the recommendations of the (previous) EFRAG PTF-NFRS (which were not based on a robust due process), 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. IFRS Foundation's establishment of the ISSB).
 - c) Incorporate timely post-implementation review of any standards issued for which full due process has not been followed.

IMPACT ASSESSMENT

- 2.13 Most respondents agreed with the importance of timely conducting of impact assessments during the standard-setting process to assess the potential implications of new requirements. This would also apply for SMEs, as proportionality and feasibility are of key importance.
- 2.14 Some noted that doing a cost-benefit analysis is essential but that consultations in this aspect should not be done by outreach event only nor should it be run under tightened deadlines. It was noted that, in order to be efficient, the impact analysis should be carried out in a rigorous way and with a transparent due process and that impact assessment should start early in the process and not at the end (to allow time for stakeholders to provide cost and benefits feedback).
- 2.15 One respondent considered that understanding the impacts is not sufficient and that it is also necessary to be able to measure them. The respondent observed that, currently, many stakeholders did not clearly indicate how the impacts are measured.
- 2.16 A few respondents suggested clarification of the nature of the work that EFRAG will have to carry out to meet the CSRD's requirements in terms of impact analyses. It is essential that this work be precisely defined (in terms of objectives and content) in order to ensure its relevance and so as not to jeopardise the timetable for the adoption of the first set of standards.

- 2.17 One respondent noted the specificity of impact assessment in sustainability reporting that required to consider the double-materiality principle: He noted that the application of costs and benefits assessments is more straightforward in the case of financially material matters. Conversely, if a company's activities lead to severe negative impacts on sustainability, the related information – should be reported independent of the cost of gathering related data.
- 2.18 One respondent noted that impact assessment should be a stakeholder-centred consideration and include the views coming from NGOs, consumer organisations and trade unions, on par with the cost-benefit analyses which are done for the impact on companies and industry.
- 2.19 Several drafting suggestions were made by some respondents and will be considered in the final DPP.

CHAPTER 3: DUE PROCESS OVERSIGHT

- 3.1 Respondents generally agreed with the proposed due process oversight and in the EFRAG Administrative being responsible for the due process and oversight of all EFRAG bodies.
- 3.2 Some respondents however considered that the establishment of a Due Process Committee (DPC) from amongst the EFRAG Administrative Board's members should be required and implemented from the start of the new governance and not left to a future decision of the EFRAG Administrative Board.
- 3.3 Some suggested that the DPC could be modelled on the IFRS Foundation Trustees Due Process Oversight Committee (DPOC) and that a short due process handbook be developed that would clarify the following:
 - a) The role and remit of each respective body, the voting system for each type of decision (agenda-setting, exposure drafts, approving the Technical Advice), and the interactions between the different bodies.
 - b) The steps required to be followed in the standard-setting process including the transparency requirements and consultation steps at the different stages of the process.
 - c) Clear identification of the role and responsibilities of the DPC and its interactions with the EFRAG Administrative Board.
 - d) A timeline for action throughout the entire duration of the standard-setting process, including in the current project mode phase.
- 3.4 Some suggested clarification that the DPC:
 - a) Operates in a timely manner and strives to promote and support the timely development of the ESRS. The area of responsibilities of the DPC should not be extended beyond the topics concerning the due process oversight.
 - b) Reports a summary of any matters raised about due process, the extent of stakeholder engagement, and the areas in a proposed standard that are likely to be controversial to and operates under the authority of the EFRAG Administrative Board.
 - c) Has no decision power and only advises the EFRAG Administrative Board.
 - d) Operates on a consensus basis, or at least a qualified majority and not a simple majority basis. If no consensus is reached, the DPC should inform the EFRAG Administrative Board.
 - e) Has a role in relation to the consultative groups including the monitoring activities and with clarification of what this role is.
 - f) A few respondents suggested that the DPP should also address the activity of the Financial Reporting pillar in one single document and that the EFRAG Administrative Board and its DPC comprehensively and consistently address the due process and governance of all of its bodies in both pillars.

3.5 A number of respondents suggested the following improvements:

- a) Better delineation of the respective roles of the DPC and the EFRAG Administrative Board. Clarify that the DPC should not have any decision-making power. It should only advise the Administrative Board, which should be the only decision-making body on any due process matters.
- b) One respondent suggested clarifying paragraph 3.5 as it creates confusion on whether the EFRAG Administrative Board would consult on agenda-setting and post-implementation reviews (PiR) for standards or the due process. This respondent considered that the EFRAG FRB and EFRAG SRB should consult on their respective agendas.
- c) Clarify when EFRAG will consult again on its DPP (one respondent suggest every 3 to 5 years). Reviewing the DPP on a regular basis is important considering the (expected) developments regarding ESRS and the wider (global) standard-setting environment.
- d) DPC meetings, as well as sessions of the EFRAG Administrative Board in which due process oversight issues are discussed, should be held in public.

CHAPTER 4: AGENDA SETTING

DEFINING THE WORK PLAN

- 4.1 Respondents generally expressed support for the procedures described in Chapter 4 regarding the work plan for sustainability reporting standard-setting and research.
- 4.2 However, several respondents noted that the procedures in the DPP should better outline how EFRAG's work plan reflects:
- a) *the alignment with the requirements of the proposal for a CSRD*: in particular, regarding the consistency, of both timing and content with the reporting requirements of financial market participants.
 - b) *Building on existing standards and frameworks for sustainability reporting and accounting* where appropriate (international developments, including at the IFRS Foundation, should be considered when determining the work plan) and contributing to convergence of sustainability reporting standards at the global level. A few respondents suggested regular discussion with the IFRS Foundation's ISSB to avoid duplication and conflicting standards. Stakeholders should have clarity on when and how global standards will be considered so that they can understand the rationale for inclusion or exclusion of global standards in the work of EFRAG.
 - c) *Ensuring connectivity* between sustainability reporting and financial reporting.
- 4.3 A few respondents identified the need to clarify the criteria for adopting new projects which should not be left to the EFRAG Administrative Board's discretion. They suggested a more rigorous basis and process explaining in the DPP in particular how EFRAG's research programme (see below) is directed to support its standard-setting work, and the process for determining whether a proposed project is consistent with the scope of the proposal for a CSRD.
- 4.4 Only a few respondents considered that setting the agenda is a political decision that should stem from the European Commission.
- 4.5 Other suggestions also included the following:
- a) As the IASB does for its work plan, EFRAG should make available on its website its work plan and a precise progress report for each active project.
 - b) Work plans and project plans should specify how they will take account of global sustainability reporting standard development and contribute to convergence at a global level. Convergence should be acknowledged among the objectives for the development of technical advice, and not just as part of the post-implementation review process.
 - c) Given that sustainability reporting is a less mature field than financial reporting and that EFRAG is just taking on this new role, consultations on the sustainability reporting work plan every three years may not be sufficient before a reasonable level of maturity has been reached. EFRAG should have more flexibility in amending its work plan to adapt to policy developments.
 - d) Paragraph 4.4 of the DPP creates confusion on whether the EFRAG SRB, in consultation with the EFRAG Administrative Board, will review the due process or the contents of the first set of sustainability standards.
 - e) The EC should be consulted on the results of workplan and agenda consultation and the resulting workplan should be approved by the European Commission.
- 4.6 Some respondents also suggested clarifying the meaning of 3-year agenda consultation (is it 3 years from the last agenda consultation, from when the comment letter period finished or from when EFRAG started to consider the work on the last agenda consultation?).

- 4.7 Some respondents suggested clarification in relation to paragraph 4.7 that the importance of field-testing should not be restricted to the SME standard but should be a factor in deciding the agenda for ESRS for larger entities as well.

RESEARCH PROGRAMME

- 4.8 Few direct comments were made on the proposals regarding the research activities. Those who commented on the matter generally agreed with the proposals.
- a) A few respondents noted that research is important to define the standard-setting work plan and should be given appropriate weight.
 - b) One respondent, in consideration of time and budget constraints, suggested focussing the resources in the first phase on the minimum set of standards to be required by the proposal for a CSRD.

IDENTIFYING GOOD PRACTICES

- 4.9 Few direct comments were received on the proposals in the DPP that EFRAG may use the European Lab function to identify and select good practices to stimulate innovation in sustainability reporting. Those who commented supported the proposal.
- 4.10 One respondent indicated that it was unclear whether the European Lab function would continue to be a formal body within EFRAG and what the role of this body would be (either to identify good practice in a project task force mode or ensure connectivity between financial and sustainability reporting in which case a stable platform and funding would be needed). This respondent
- a) Recommended clarification that the European Lab's role is to stimulate innovation and debate and allow for experimentation to develop good practices in corporate reporting, which includes both financial and sustainability reporting.
 - b) Urged EFRAG to address connectivity between financial reporting and sustainability reporting more specifically than currently done in the DPP. It was noted that is important to ensure interconnected standards due to the impact-dependency relationship between sustainability topics and financial performance. In addition, it was observed that the PTF-NFRS lists connectivity as a conceptual guideline to be considered when developing ESRS.

CHAPTER 5: STANDARD-SETTING

- 5.1 Respondents generally expressed overall support for the mandatory and optional steps for standard-setting proposed in the consultation document.
- 5.2 Some respondents suggested that it should be specified that cases, where the mandatory steps may not be conducted, are rare and one-off. In such cases, deviations should be approved by the EFRAG Administrative Board upon the advice of the Due Process Committee (DPC) to ensure that the principles of the due process are met either way.
- 5.3 Several respondents also suggested that the due process steps should explicitly and clearly embed the objectives contained in the proposal for a CSRD. In particular, the requirements contained in items 1-3 of Article 19a and Article 29a, and in particular:
- a) The alignment with / building on international standards. One respondent noted that it should be considered that it is not enough to monitor the developments of the ISSB but that dialogue with IFRS Foundation ISSB must be included in the due process steps.
 - b) The consideration of other existing EU legislation (for both timing and content), e.g., requirements of financial market participants (in particular consider the financial sector's extensive EU sustainability reporting requirements to meet their requirements under SFDR).
 - c) The connectivity between financial and sustainability reporting should be a recurring focus point throughout the various steps in the due process.
- 5.4 As a way forward some suggested that the DPP could better articulate:
- a) How article 19b of the proposal for a CSRD (requiring taking into account relevant developments, including developments with regard to international standards) will be addressed by EFRAG's due process.
 - b) The procedures for considering alignment with international standards, including consultation on which standards should be taken into consideration.
 - c) Provide an objective basis for the EFRAG SRB and EFRAG SR TEG to determine whether deviation from internationally accepted approaches is appropriate (For example, by specifying the weight that should be given to achieving consistency/ interoperability with other standards).
 - d) The basis for conclusions should explain the cost-benefit of deviations from international standards and post-implementation reviews should consider global developments.
 - e) Establish a mechanism for reviewing EFRAG's published standards after taking account of future developments in international standards.
- 5.5 Some respondents suggested clarifying and improving the proposed procedures in the following main areas:
- a) *Addressing feedback to consultations:* for the European Commission to carefully assess EFRAG's technical advice, it needs to see all the comments submitted by third parties, as well as EFRAG's detailed, reasoned responses to those comments.
 - b) *Decision to re-expose or not:*
 - (i) To make explicit the criteria to decide to re-expose or not. If the criteria are met and the EFRAG SRB suggests that there is no need for re-exposure, approval of this decision by the EFRAG Administrative Board is critical. A few respondents did not agree with the proposals to consider re-exposure only if 'either fundamental changes have occurred' or "where something new is likely to be learned from re-exposure". If EFRAG receives feedback,

which requires material revisions to the draft ESRS, EFRAG should re-discuss the draft and submit a revised draft for a further round of public consultation.

- (ii) EFRAG should be explicitly required to conduct a detailed analysis of the consultation feedback (quantitative and qualitative) on the basis of different stakeholder categories with a particular view to suggested modifications, alternative approaches, and the impact on the draft ESRS. EFRAG should allow the affected stakeholders (who have the expertise) to respond to substantial changes to the draft ESRS.

c) Who is responsible for organising the public consultations on the exposure drafts and other consultation documents (as per paragraphs 5.1 and 5.2 of the DPP): Is it the EFRAG SR TEG or the EFRAG SRB?

5.6 Furthermore, a number of suggestions were made by some to improve the DPP:

a) Considering the lack of maturity of ESG reporting, some suggested that field testing should be mandatory (in particular during the interim phase) or, at least, that the need for field -testing should be systematically assessed and its absence duly justified.

- (i) Field-testing is essential to provide evidence on practicability, proportionality and feasibility. Some suggested that in case of doubt about the need for field testing, the views of users and preparers should be sought via public consultation.

- (ii) Conversely, a few respondents suggested a phase-in approach for field-testing. The first set of ESRS, as long as they rely on existing, well-established reporting requirements, could be drafted without conducting a field-test. Subsequent reporting requirements would be subject to field-tests as decided by the EFRAG SRB on a case-by-case basis.

b) Outreaches are indispensable and they should take place much earlier and, at best, from the outset of the project to develop a standard. Furthermore, ongoing engagement with preparers and users of reports outside of the strict standards-setting and revision processes would seem advisable and particularly relevant in the case of SMEs and during the early stages of implementation.

c) One respondent recommended that the mandate for the EFRAG SRB to develop non-binding guidelines should be addressed in the DPP.

d) One respondent suggested that a discussion paper should be kept as a mandatory part of the process, especially for major projects.

e) One respondent considered that post-implementation reviews should be a systematic step of the EFRAG SRB, unless there is a specific decision not to undertake it, which would need to be agreed upon by the EFRAG Administrative Board. The EFRAG SRB and EFRAG SR TEG should work with stakeholders or consultative groups to identify areas that need attention. Alternatively, the European Commission could request that the EFRAG SRB start developing a Post-implementation Review at the designated time.

f) EFRAG's submission of its technical advice to the European Commission must be accompanied by a feedback statement explaining how feedback received from stakeholders has been considered and how EFRAG has reached its conclusions.

g) Some supported consulting with the Consultative Forum as a mandatory step and suggested that not only the EFRAG SR TEG but also the EFRAG SRB should engage with the Consultative Forum.

h) Conversely, one respondent suggested that consulting with other sustainability reporting standard setters (paragraph 5.1 e) could be moved to non-mandatory procedures to avoid that international sustainability standard setters having the possibility to delay issuance of EFRAG's technical advice on draft EU sustainability reporting standards.

Standard-setting for SMEs

- 5.7 Most respondents who addressed the question, welcomed the proposed approach on Sustainability Reporting Standards for SMEs, as described in paragraph 5.7 of the Consultation Document.
- 5.8 Some suggested that EFRAG needs to give adequate representation to the needs of SMPs and SMEs through consultation mechanisms that are adapted to their particular needs and limits (limited technical resources and time to respond to or participate in consultation exercises). To facilitate and encourage their input, simple, quick, and easy ways of providing input are needed. These could include online micro surveys and exposure draft (ED) response templates.
- 5.9 One respondent suggested that a specific DPP should be developed for SMEs in consideration of their specificities and characteristics such as their governance model and resource constraints. This respondent suggested EFRAG should invest more in getting SMEs to adequately participate in the fieldwork on the SME sustainability reporting standards.

Digital Reporting Guidance

- 5.10 Respondents generally supported the proposals in the DPP. It was however noted that the same high standards on transparency of the due process should apply to the development of Digital Reporting Guidance that should be included in the exposure draft for the draft standard for public consultation.
- 5.11 Some suggested clarifying the nature of the work that EFRAG is expected to do on digitalisation. Paragraph 5.16 was considered to be unclear on whether EFRAG would develop standards that are digitally friendly, or whether it is expected to develop a taxonomy as well.
- 5.12 Some suggested that collaboration with ESMA and leveraging its ESEF experience should be considered in this area. This would help the connectivity between the digitalisation of financial and sustainability reporting and further maximise resource efficiencies.
- 5.13 It was also noted 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.
- 5.14 One respondent questioned whether it is realistic – due to resource reasons – that EFRAG undertakes this role in relation to digital reporting.

Other comments and areas to clarify

- 5.15 Some respondents suggested to further clarify:
 - a) 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 and how its advice is considered.
 - b) the steps to be taken if and when Post-implementation Reviews demonstrate the need for amendments to standards.
 - c) the role of the EFRAG Secretariat in drafting the proposed Standards (compared to EFRAG SR TEG and working groups’ roles).
 - d) the non-binding nature of the other material published by EFRAG (which is educational in nature) and the status of the future interpretations.
 - e) how the coordination between the sustainability reporting and financial reporting activities will work in practice and the respective roles of the EFRAG Administrative Board, EFRAG SRB and EFRAG SR TEG beyond the remit of the European Lab (function).

- f) some noted an inconsistency between paragraph 5.18 and Appendix 2 (excerpts from the final report of Jean-Paul Gauzès) in the situation that EFRAG SRB and EFRAG SR TEG are unable to reach consensus and/or decides to adjust EFRAG SR TEG advice.
- g) one respondent suggested clarifying the notion of 'national authorities' and whether it encompasses national standard setters (for participation in the Consultative Forum in particular).

APPENDIX: LIST OF RESPONDENTS

(All the responses can be accessed on EFRAG's website [here](#)).

NAME	COUNTRY	TYPE
CL01 – ASCG	Germany	Standard setter
CL02 – EFAA	Europe	Accountancy organisation
CL03 – Liv Watson	Norway	Individual
CL04 – Danish National Funding Mechanism	Denmark	Other
CL05 – BUSINESSEUROPE	Europe	Preparer organisation
CL06 – Confederation of Swedish Enterprises	Sweden	Preparer organisation
CL07 – European Accounting Association	Europe	Academic organisation
CL08 – EUMEDION	Netherlands	User organisation
CL09 – ANIA	Italy	Preparer organisation
CL10 – Accountancy Europe	Europe	Accountancy organisation
CL11 – Fédération Française de l'Assurance	France	Preparer organisation
CL12 – GLEIF	Global	Other
CL13 – Allianz	Germany	Preparer organisation
CL14 – EY	Global	Accountancy organisation
CL15 – PRI	Global	ESG organisation
CL16 – AICPA	Global	Accountancy organisation
CL17 – AIAF	Global	User organisation
CL18 – Frank Bold	Europe	Civil society
CL19 – Acteo – AFEP- Medef	France	Preparer organisation
CL20 – SFRB	Sweden	Standard setter
CL21 – PensionEurope	Europe	Preparer organisation
CL22 – GDV (German Insurance Association)	Germany	Preparer organisation
CL23 – Finnish Energy	Finland	Preparer organisation
CL24 – EACB	Europe	Preparer organisation
CL25 – CDSB	Global	ESG organisation
CL26 – Insurance Europe	Europe	Preparer organisation
CL27 – UNI Europa Finance	Europe	Civil society
CL28 – DASB	Netherlands	Standard setter
CL29 – Deloitte	Global	Accountancy organisation
CL30 – ACCA	Global	Accountancy organisation
CL31 – European Insurance CFO Forum	Europe	Preparer organisation
CL32 – KPMG	Global	Accountancy organisation
CL33 – Malta Institute of Accountants	Malta	Standard setter
CL34 – EURELECTRIC	Europe	Preparer organisation
CL35 – ICAC	Spain	Standard setter
CL36 – Mazars	Global	Accountancy organisation
CL37 – OIC	Italy	Standard setter
CL38 – Malta Ministry for Foreign and European Affairs	Malta	Other



EFRAG receives financial support of the European Union – DG Financial Stability, Financial Services and Capital Markets Union. The content of this document is the sole responsibility of EFRAG and can under no circumstances be regarded as reflecting the position of the European Union.



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