



A CONSTRUCTIVE TWO-WAY COOPERATION TO SUSTAINABILITY REPORTING STANDARD-SETTING

STATE OF PLAY

The European Commission (EC) issued on 21 April 2021 a proposal for a Corporate Sustainability Reporting Directive (CSRD). The proposal introduces a requirement for companies in scope to apply European sustainability reporting standards based on the double materiality principle.

The European Financial Reporting Advisory Group (EFRAG) has been invited to start developing these standards for the EC, which will adopt them via delegated acts.¹ A first set of standards should be ready by 31 October 2022, and a second one by 31 October 2023. EFRAG is currently consulting on the due process procedures on EU sustainability reporting standard-setting.

EFRAG will transform its governance structure and set up a sustainability reporting standards pillar to comply with this new mandate. A robust European sustainability reporting standards structure within the EFRAG will entail:

- a widened membership General Assembly, to include both financial and sustainability reporting players, from the public and private sectors

[1] Delegated acts are legally binding acts that enable the EC to supplement or amend non essential parts of EU legislative acts, for example, in order to define detailed measures. For further details, see: https://ec.europa.eu/info/law/law-making-process/types-eu-law_en

- an EFRAG Administrative Board in charge of governance and oversight of both pillars
- a Sustainability Reporting Board (EFRAG SRB) tasked with approving the Technical Advice (draft sustainability reporting standards to the EC)
- a Sustainability Reporting Technical Expert Group (EFRAG SR TEG) responsible for drafting and proposing to the EFRAG SRB the sustainability reporting standards built on the double-materiality principle
- advisory groups established by the EFRAG SR TEG to advise and provide technical input on specific matters
- a Consultative Forum, composed of national authorities, sustainability reporting standard and framework setters, to advise the EFRAG SRB and the EFRAG SR TEG on the draft sustainability reporting standards.

In parallel, the International Financial Reporting Standards (IFRS) Foundation is proposing changes to its *Constitution* to accommodate the creation of an International Sustainability Standards Board (ISSB). The key sustainability reporting standard bodies at the IFRS Foundation level will be the:

- ISSB, to develop sustainability reporting standards material to enterprise value
- Multi-stakeholder Expert Consultative Group, to advise the ISSB on relevant sustainability topics and promote consistency with wider impacts and jurisdictional sustainability reporting requirements
- Technical Readiness Working Group, to undertake technical preparation of sustainability reporting standards focused on enterprise value for the ISSB.

COOPERATION IS ESSENTIAL

The EFRAG and the IFRS Foundation should coordinate and work together as early as possible to produce aligned standards. This would avoid duplications and unnecessary costs, whilst meeting the ambitious timeline. To this end, robust standard-setting

processes are needed, as well as coordination mechanisms embedded in the respective due processes.

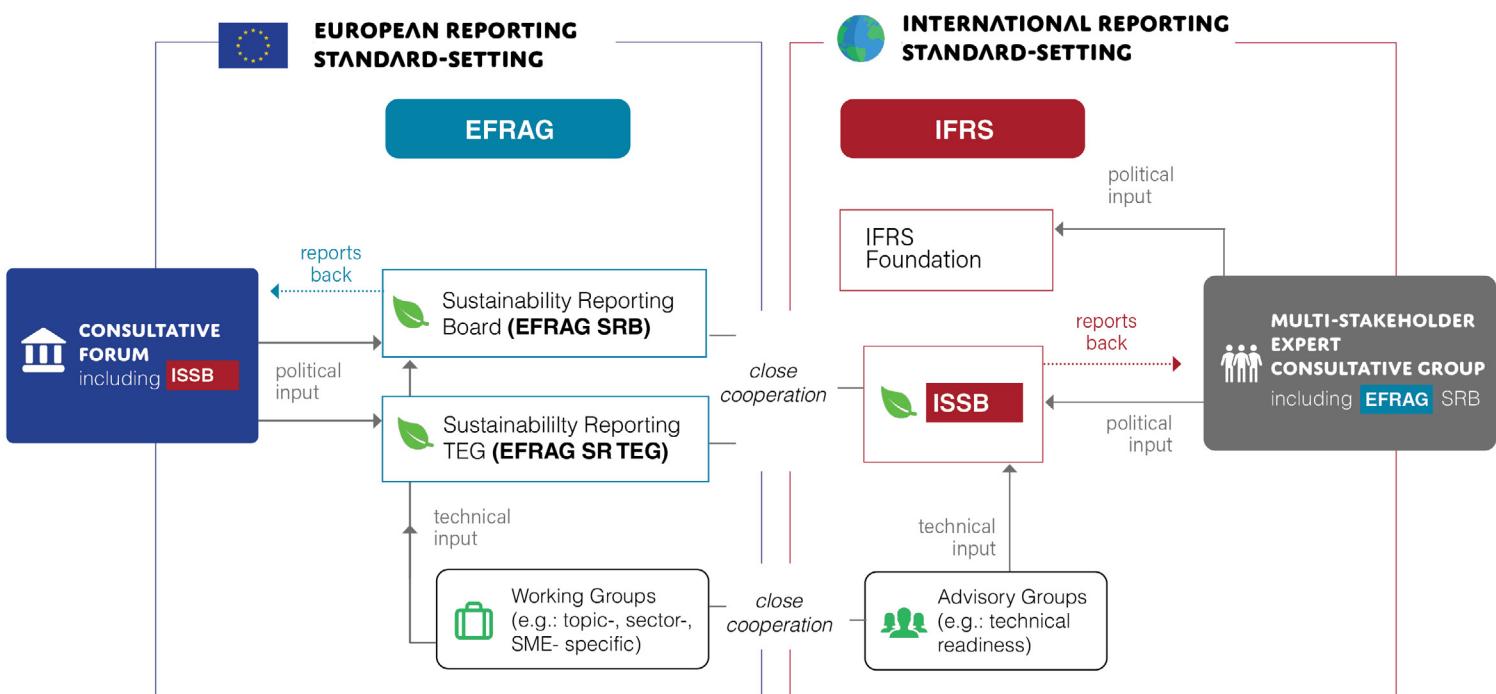
The EC, EFRAG, and the IFRS Foundation with its International Accounting Standards Board (IASB) have been working together on the financial reporting agenda since 2002. As EFRAG is now expanding its role to standard-setting, this cooperation should be extended to sustainability reporting standard-setting. We put forward proposals below to combine efforts between the EFRAG and IFRS Foundation and enable a constructive two-way cooperation approach to standard-setting.

PRINCIPLES TO OPERATIONALISE A CONSTRUCTIVE TWO-WAY COOPERATION APPROACH

The following principles can help operationalise a constructive two-way cooperation approach to sustainability standard-setting

between the EFRAG and the IFRS Foundation:

- strive for convergence where relevant, i.e., on matters that are global in scope and achievable at a reasonable cost
- develop a memorandum of understanding (MoU) between the ISSB and EFRAG SRB to coordinate work where necessary and possible, i.e., where it is the public interest and mutually beneficial to the different parties and their constituents. This coordination should also take place at all levels: boards, TEG and working groups, advisory groups, and staff
- share with the other party the exposure drafts before issuing publicly, and the outcomes of standard-setting activities, including working papers and results of field testing



- establish enhanced bilateral relationships with joint projects, e.g. on topic-specific ones.

The following sections provide how these principles can be put to practice in the respective bodies at the EFRAG and IFRS Foundation levels.

ENABLERS FOR A CONSTRUCTIVE TWO-WAY COOPERATION APPROACH

Collaboration at a political level: the EFRAG's Consultative Forum and IFRS Foundation's Multi-stakeholder Expert Consultative Group

Constructive two-way cooperation at a political level would promote consistency and progress towards global sustainability reporting standards.

An MoU for EFRAG and the ISSB should be the basis for a constructive two-way cooperation. It would include a commitment on both sides to coordinate their work where necessary and possible.²

The EFRAG Consultative Forum will be composed of national authorities and sustainability reporting standard and framework setters. The ISSB of the IFRS Foundation should be part of this Forum to facilitate global cohesion and convergence.

On the other hand, the IFRS Foundation's Multi-stakeholder Expert Consultative Group should include representatives

from global initiatives and key jurisdictions on the sustainability agenda. **The EU should be represented by the Chair of the EFRAG SRB in this forum.**

In addition, we suggest adopting a formalised way of working, with mandatory report back mechanisms:

- The EFRAG Consultative Forum will provide input to the EFRAG SRB. However, it should be mandatory that the EFRAG SRB reports back on conclusions on directions of standards and agenda priorities to the EFRAG Consultative Forum. This will ensure the EFRAG SRB's accountability and demonstrate how the input received has been considered and dealt with.
- The Multi-stakeholder Expert Consultative Group Conclusions' advice will feed into the ISSB. Similarly, the ISSB should report back to the Multi-stakeholder Expert Consultative Group. This will demonstrate ISSB's accountability, which is instrumental for endorsement from key jurisdictions

Collaboration at a technical level: the EFRAG SRB and the ISSB

A constructive two-way cooperation at a technical level between the ISSB and the EFRAG SRB would ensure developing consistent standards while maximising resource efficiency.

Working groups will contribute to the EFRAG SR TEG on specific matters to help develop sustainability reporting standards. The ISSB should be invited to the relevant working groups established by the EFRAG SR TEG.

In parallel, the Chair and/or the Vice-Chair of the ISSB (currently under recruitment) could be invited to the EFRAG project task force on EU sustainability reporting standards (PTF ESRS). The transitional PTF ESRS is currently developing the first set of EU sustainability reporting standards, until the EFRAG SRB and the EFRAG SR TEG are established to take over, expected early 2022.

On the other hand, the EFRAG SRB should be invited to the ISSB working groups, as soon as they are created. In the meantime and as soon as possible, representatives from the PTF ESRS should be invited to the Technical Readiness Working Group, which is developing the climate-related financial disclosures standard prototype.

LOOKING AHEAD

Accountancy Europe will continue participating to this strategic debate in the European public interest. Considering the current state of play, it is crucial to minimise the duplication of efforts and secure consistency between reporting requirements. We believe that the contribution of the European accountancy profession is indispensable to ensure developing robust and verifiable sustainability reporting standards.

[2] See Chapter 7 of the International Organization of Securities Commission's report: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD678.pdf>