



Attn Jean-Paul Gauzès
European Financial Reporting Advisory Group (EFRAG)
1000 Bruxelles
Belgium

15 September 2021

Subject: EFRAG Public Consultation: Due Process procedures on EU sustainability reporting standard-setting

Dear Mr Gauzès,

PwC International Ltd (PwC), on behalf of the PwC network, welcomes the opportunity to respond to the consultation on EFRAG Due Process Procedures on EU Sustainability Reporting Standard-Setting. We welcome the proposed Corporate Sustainability Reporting Directive (CSRD) as a fundamental step towards achieving a sustainable economy. There is an urgent need for sustainability information to be reported in a way that is globally consistent, comparable and reliable. Strong governance and quality processes and controls are necessary for sustainability reporting standards to become generally accepted and to serve the public interest.

Due process

We agree with the principles and overall structure of the process described in the consultation paper. In order to meet the envisaged CSRD ambitious timeline, we agree with the necessity to clearly define an agile and efficient accelerated due process, including a set of core processes and shorter consultation periods, while ensuring appropriate governance and a high degree of transparency, particularly during the current transition phase.

With regard to the governance of the standard setting, and the consultation process, we would like to stress the importance of balancing the representation of stakeholders, both in terms of the types of entities that are consulted, but also in terms of geographical representation, both within the EU and outside of the EU. We also recommend that when consulting on a draft, specific questions are asked, rather than an open invitation to comment, which would help keep the focus and make results easier to analyse. The consultation process should encompass specific

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feedback on whether EFRAG's technical advice complies with the requirements of the CSRD, including meeting the characteristics of suitable criteria for assurance engagements.

We would also like to underline that the taxonomy for digital tagging needs to be developed in parallel to the reporting framework so that it is available to the market in a timely manner. It will be important, especially in the first reporting years, to accompany the cross-cutting standards with industry-focused application guidance, to drive consistency in the short term. Key industry groups will be important partners to drive widespread adoption.

International convergence

We strongly support efforts to move towards a globally aligned system that ensures that sustainability reporting has the same robustness as financial reporting. We support EFRAG's role as a leading authority in the transition to more coordination and cohesion at the international level, leveraging the leading role of the EU in sustainable finance.

EFRAG and the IFRS Foundation should coordinate and work together as early as possible to agree on an international global baseline for sustainability reporting. This should be reflected by a coordination mechanism embedded in the respective due processes of both institutions. We support the development of a Memorandum of Understanding to coordinate work whenever possible, and the participation of EFRAG and the yet to be established International Sustainability Standards Board in the respective consultative groups.

In our view, these efforts, including EFRAG's role in this, should be considered as part of a transitory journey towards globally aligned high-quality sustainability reporting standards in the medium- to long-term. These globally aligned standards could then form a baseline that could be supplemented by additional guidance where there are significant information gaps to meet the needs of European legislation. International convergence of reporting standards will not only reduce cost and complexity, but also ensure that the reporting gives a meaningful and holistic view of the sustainability profile of an undertaking's global operations.

Collaboration with existing initiatives

We strongly agree with the CSRD proposal and the PTF report that EFRAG's technical advice must build on existing reporting standards and frameworks to the greatest possible extent and leverage the best of existing standards. The short-term goal should be to define certain base metrics key to the policy objectives and then link these metrics to those that have already been used and tested in practice. This will help promote convergence and consistency over time and align globally. Adhering to this approach, we believe that globally harmonised and EU-specific standardisation are complementary to each other in the short and mid-term and not in contradiction.



It needs to be ensured that well established initiatives are adequately reflected in the governance structure in order to be able to contribute meaningfully. Robust working relationships with these initiatives and willingness to make use of their experience and skills will be fundamental so that the standards can gain widespread acceptance on a timely basis. To this end, we welcome the joint statements of cooperation signed by EFRAG with the Global Reporting Initiative and with Shift, and we call for active engagement with all the initiatives identified in Jean-Paul Gauzès' report on changes to EFRAG's governance.

Furthermore, since the CSRD requires EFRAG to deliver standards that are capable of being assured, it will be important for EFRAG to maintain a relationship with the IAASB to monitor and evaluate the need for changes to assurance frameworks and standards to ensure assurance can be given on the reported information.

Funding

Businesses, investors, auditors, governments including regional government agencies, stock exchanges, regulators, standard setters, industry bodies and consumer associations and broader societal stakeholders all have a role to play and should be reflected accordingly in the appropriate governance bodies or in consultative functions.

The funding structure should reflect and contribute to the inclusiveness of the due process. Public funding should have an important role in order to preserve independence (in fact and appearance) and in consideration of the public good feature of technical standards. Having said so, it is also important to understand that high quality reporting standards require significant resources to develop, and it is therefore important that all stakeholders contribute. In light of the above, standard-setting should be funded by diverse sources.

Interpretation committee

We propose that an interpretation board should be established, with responsibility for technical questions related to European sustainability reporting, including also the reporting under art.8 of the Taxonomy. A formal channel to address such questions would ensure that disclosures remain consistent across entities and territories considering the different national accounting principles, and therefore comparable and more relevant to users. We refer to a committee such as the IFRS Interpretations Committee, responsible for issuing decisions with respect to the application of IFRS, as a possible example regarding structure, connectivity with the standard setting body and scope of work. In our view establishing such an interpretation committee under the EFRAG governance structure would strengthen connectivity and legitimacy of its work.



We look forward to working with EFRAG and the EU legislators and continuing to share our perspectives as the initiatives progress. If you have any questions regarding our response, please contact Peter Flick at peter.flick@pwc.com. Please see the appendix to this letter for detailed comments on the consultation paper.

Yours sincerely,

A handwritten signature in black ink that reads 'Gilly Lord'.

Gilly Lord
Global Leader, Public Policy and Regulation
PwC International Ltd

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Appendix: Detailed comments on the consultation paper

Paragraph	Comment
1.5 - 1.6 2.14	<p>We understand the need for a robust yet agile and adaptable due process to meet urgent standard-setting needs. However, we consider it important to clearly define and limit the circumstances where an accelerated due process would be appropriate. The Administrative Board, through the Due Process Oversight Committee, should be responsible for authorising the acceleration of the due process, providing a due justification.</p> <p>If the non-core due process is accelerated, for instance by omitting non-mandatory processes and shortening consultation periods (both necessary due to time frames), it may be advisable to give members more time to review the agenda papers.</p>
4.7	<p>It is not entirely clear what is meant by 'scientific review and adequacy with EU policy analysis'. This is not a well defined or existing procedure. Considering the importance of ensuring the information to be reported is based on science and supports EU sustainable finance policy, we believe it is important to better clarify and describe such a process.</p>
5.7	<p>We would not agree with developing a different process for the SME standard, since the same considerations on the need for due process apply also to the SME standard. Furthermore, the paper does not clarify why field testing would be more important for a SME than for large undertakings.</p>
5.17	<p>For a reporting ecosystem to be effective, financial and sustainability reporting need to co-exist and not operate in silos. In order to improve inter-connectivity between financial and sustainability reporting we believe it is important to establish a mechanism to address situations where the financial reporting standards or rules and the sustainability reporting standards overlap. In our view, such a mechanism could be incorporated in EFRAG's governance.</p>
5.27	<p>A crucial element of the process will be to consult Member State governments early in the process. This might help to avoid delays and political issues experienced with the technical criteria of the Taxonomy, which could arise from misperceptions or late involvement of governments in the process.</p>
App. 2	<p>We suggest clarifying that the Sustainability Reporting Board (SRB) is the decision-making body responsible for the Technical Advice to be submitted to the EC. This includes clarifying that in case of disagreements between the SRB and the Technical Expert Group (TEG), only what has been approved by the SRB will be submitted to the EC.</p> <p>In case the SRB does not reach consensus or a qualified majority, we suggest the split views be forwarded to the TEG for re-deliberation. The SRB will then vote again on the amended proposals.</p>