



**Feedback statement on Eumedion's Green paper
'Towards a global standard setter for non-financial reporting'
24 July 2020**

1. Introduction

On 6 July 2020 Eumedion presented its position paper 'Towards a global, investor focused standard setter for corporate non-financial reporting' ('Position paper').¹ The Position paper was preceded by Eumedion's Green paper 'Towards a global standard setter for non-financial reporting' ('Green paper') which was published on 31 October 2019². This document provides an overview of the feedback received on the Green paper, and highlights some key dilemmas that arose and how these affected the final Position paper. It concludes with recent developments up until end of June 2020 and an insight in the process that led to the publication of the Position paper.

Eumedion is most grateful to all the stakeholders from whom we received input following the publication of the Green paper, and throughout the drafting thereof.

2. Overview of feedback received on the Green paper

The feedback received comprised of written responses to the Green paper, comments made during the joint round table organised together with Accountancy Europe on 9 March 2020, and comments made during the targeted dialogues that the secretariat of Eumedion held with several key stakeholders.

2.1. Written responses to the Green paper

Please find below an overview of the key messages identified in the nine written responses we received up until the beginning of March 2020. All responses are publicly available on Eumedion's website.³

ABP

- A global authoritative independent standard setting board for NFR will contribute to an effective and efficient reporting process and will enhance comparability.
- Should include some mandatory disclosures.

¹ <https://www.eumedion.nl/clientdata/215/media/clientimages/2019-10-green-paper-international-non-financial-information-standard-setter.pdf?v=191128110859>

² <https://en.eumedion.nl/Latest-news/News/eumedion-calls-for-establishment-of-an-international-nonfinancial-reporting-standards-board.html>

³ <https://www.eumedion.nl/actueel/nieuws/eumedion-publiceert-green-paper-toekomst-nietfinancile-verslaggeving.html>

- Build on intellectual capital of existing frameworks.
- Independence of an International Non-Financial reporting Standards Board ('INSB'), embedded in a well-designed governance structure is a precondition for credibility.
- Apart from the IFRS Foundation, also European Financial Reporting Advisory Group ('EFRAG'), the United States' Financial Accounting Standards Board ('FASB') and Sustainable Accounting Standards Board ('SASB') should be considered as standard setter, in line with BlackRock's support for SASB.
- Ultimately, one independent standard setting body for both financial reporting and NFR.

Dutch Accounting Standards Board

- The Green paper raises an important topic that is discussed in many countries and is gaining urgency.
- Support for international best practices, in due time may evolve to global standards.
- Support by national & international stakeholders is essential.
- The success of International Financial Reporting Standards ('IFRS') started with backing of International Organization of Securities Commissions ('IOSCO'), whereas it is 'not obvious' that IOSCO would support setting standards for non-financial reporting ('NFR') requirements.
- A European start with NFR standard setting is second best to a global initiative.
- A European initiative should not pose an obstacle to a subsequent move to global standards.

Dutch Investors' Association VEB

- Support for an INSB as part of the IFRS Foundation.
- In favour of mandatory reporting standards.
- Highlights sense of urgency, in particular on CO2 emissions.
- Fast track solution for the European Union ('EU') on carbon related disclosures using existing structures.

Federation of the Dutch Pension Funds

- Support for an INSB.
- Importance of interconnectedness of financial reporting and NFR, in the light of the proposed two separate standard setting boards within the IFRS Foundation.

Global Reporting Initiative

- Global Reporting Initiative ('GRI') is already a widely used global independent standard setter for NFR.
- GRI has a multi-stakeholder approach in line with double materiality perspective of Non-Financial Reporting Directive ('NFRD'), unlike SASB which has an investor focus.
- There are only two major global standard setters: SASB and GRI; not 'hundreds'.

- The frameworks of GRI and SASB are complementary.
- An INSB should have a multi-stakeholder focus.
- GRI's governance structure already mirrors the IFRS Foundation's governance structure.
- Essential that an INSB requires both Key Performance Indicators ('KPIs') and narrative, like GRI already does.
- Support for sector approach.
- GRI's 'materiality assessment' supports relevance of NFR.

John Hughes (private individual)

- The IFRS Foundation is unwilling to get involved.
- It will take years to set up an INSB. NFR standards by 2030 would be quick and still too late.

Norges Bank Investment Management

- Green paper is an important contribution to the debate on the future of sustainability reporting.
- Support for mandatory, global reporting requirements.
- Support for 'an independent organisation and robust process'. However this is a long term and complex process.
- Build on the complementary work of the SASB and the GRI. SASB has sector-specific standards and uses the investor perspective for judging materiality. GRI issues generic standards (i.e. not sector-specific standards) and takes a multi-stakeholder perspective.
- Starting point: information that is financially material for investors. The interests of a broader set of stakeholders may be better catered for by other institutions.
- Over time, assurance of Environmental Social & Governance ('ESG') reporting will become the norm.

Norges Bank Investment Management subsequently issued two more detailed positions on this topic.⁴

Royal Netherlands Institute of Chartered Accountants ('NBA')

- Support for the IFRS Foundation to establish an INSB.
- It would be beneficial for the interconnectedness of financial reporting and NFR if both standard setting bodies are established under umbrella of the IFRS Foundation.
- NFR is essential in meeting global ambitions like the Paris Climate Agreement and the United Nations Sustainable Development Goals ('SDGs').
- There is an urgent need for convergence.
- Support for standards and not just guidance.

⁴ <https://www.nbim.no/en/publications/asset-manager-perspectives/2020/corporate-sustainability-reporting/>, and <https://www.nbim.no/contentassets/a26a8ce9ff2e4ecd8f101fe84776f920/position-corporate-sustainability-reporting.pdf>

- Initiatives to align and converge frameworks have so far been insufficiently successful due to a lack of leadership and a lack of a sense of urgency.
- Very different from financial reporting: different expertise required, NFR is multi-stakeholder.
- NFR will need its own conceptual framework.
- Accountancy Europe's 'Core & More' reporting concept can help to address multi-stakeholder needs.
- Decreasing distinction between financial and non-financial information.
- Judging materiality is a challenge if the perspective of multi-stakeholder is taken. A multi-stakeholder materiality lens heightens the risk of disclosure overload.
- Do aspire legal embedding (adoption by companies on a voluntary basis does not set a level playing field).
- Review board nomination process of the IFRS Foundation Trustees to broaden expertise.
- Develop a taxonomy.
- Expand scope of the standard setter to Small and Medium sized Entities and non-listed entities, this is also beneficial for allowing 'broad-based funding model' of the standard setter.
- NFR standards important for allowing reasonable assurance and 'integrated assurance' by the external auditor.

TIAS School for Business & Society (24 students)

- Consensus that there are too many frameworks now.
- The IASB is not suitable since they failed in becoming the worldwide accepted financial accounting standard setter.
- An INSB should be established from a joint effort by the IASB and the FASB.
- Build on the work already done by SASB and GRI.
- Comply or explain approach.
- Support for industry- and company-specific KPIs.
- Support for reasonable assurance on NFR.

2.2. Comments made in targeted dialogues

The secretariat of Eumedion engaged with several key stakeholders related to standard setting. The anonymised key messages from these engagements were:

- The target audience of the IFRS Foundation are investors. It is difficult to imagine that the IFRS Foundation would be willing and would effectively be able to expand its target audience beyond investors.
- A standard setter for NFR needs democratic legitimacy and political accountability.
- The EU already is the leading jurisdiction in the world with regard to NFR.
- Other organisations with a global reach, like the United Nations ('UN') and the Organisation of the Organisation for Economic Co-operation and Development ('OECD'), should be considered as an alternative for the IFRS Foundation to host an INSB.

2.3. Feedback during the joint round table

On 9 March 2020, Accountancy Europe and Eumedion hosted a joint round table 'Towards a global standard setter for non-financial reporting'. The 19 participants and five observers to the debate represented a wide range of stakeholders including investors, financial reporting and NFR standard setters, the audit firms, supervisory bodies, European and national institutes and related organisations. Listed entities and their representatives were invited, but were not able to participate due to the emerging coronavirus travel restrictions. The debate was moderated by Kris Douma, former director of UN PRI. The debate evolved around the following two main topics: 'What is needed?' and 'How to achieve it?' We refer to the key-takeaways of the event that were published.⁵

3. Recent developments

A number of notable developments have taken place after the Green paper was published since 31 October 2019 up until Eumedion's General Board meeting where the position paper was determined on 16 June 2020:

- The Trustees of the IFRS Foundation formed a special committee to explore the IFRS Foundation's possible involvement in setting standards beyond financial reporting. This was later confirmed in a speech by Trustee Theresa Ko in May 2020.⁶
- The World Economic Forum International Business Council published its white paper 'Toward Common Metrics and Consistent Reporting of Sustainable Value Creation' on 22 January 2020.⁷

⁵ <https://www.eumedion.nl/clientdata/215/media/clientimages/Green-Paper---summary-round-table-9-March-2020.pdf?v=200330170351>

⁶ <https://www.ifrs.org/news-and-events/2020/05/sustainability-reporting-and-its-relevance-to-the-ifsrs-foundation/>

⁷ <https://www.weforum.org/whitepapers/toward-common-metrics-and-consistent-reporting-of-sustainable-value-creation>.

- EU Commissioner Dombrovskis announced on 28 January 2020 ‘So today, I can tell you that the European Commission will support a process to develop European non-financial reporting standards. This is in line with the Council conclusions on the Capital Markets Union at the end of last year. I will soon invite the European Financial Reporting Advisory Group to begin preparatory work for these standards as quickly as possible.’ ... ‘The EU is well placed to address this situation – and show leadership in building consensus for a set of standards that can be widely accepted.’⁸
- European Securities and Markets Authority chair Steven Maijor stated on 12 February 2020 ‘On the one hand, the co-existence of multiple disclosure standards and frameworks requires consolidation, to achieve, in the medium-term, a single set of standards which will also be the basis for digitalisation of ESG information. Given the global reach of the challenges posed by the transition to sustainability, Europe can play a leading role in promoting this consolidation at international level. **It would not only be short-sighted but also detrimental for investors – who typically operate in global financial markets – to build a set of corporate ESG disclosure standards that is only regional.** The European Commission’s international platform on sustainable finance can help launch such a consolidation process and create the basis for European standards that are truly international. On the other hand, while we pursue this vision, there is also an immediate need in Europe for more specific rules for corporate disclosure principles, and requirements which could constitute a stop-gap measure to reduce the divergence in practice that we currently observe in the market. Such measures should take into account internationally recognised standards, to the extent possible, to pave the way for a more complete global harmonisation in the medium term and allow Europe to show leadership in this area.’⁹
- 19 February 2020: EFRAG and the IFRS Foundation Trustees jointly organised a dinner meeting where EU Commissioner Dombrovskis rephrased his request to EFRAG to ‘start preparatory work on non-financial reporting standards as quickly as possible’ ... ‘However, companies and investors operate globally. They do not want to deal with a host of incompatible reporting requirements or standards. It is far too costly, time-consuming and inefficient. **Our work on sustainable finance must take this global aspect into account.** The EU cannot do this alone. Given that today’s event is co-organised by the International Financial Reporting Standards Foundation, let me reiterate that. The EU is happy, of course, to take the lead. But: we are also open to working with all organisations that have advanced the cause of sustainability and non-financial reporting.’ ... ‘Last but not least: the International Platform on Sustainable Finance¹⁰. This was set up by the Commission late last year to work

⁸ https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_139

⁹ file:///C:/Users/Martijn%20Bos/Downloads/esma32-67-642_european_financial_forum_2020_-_12_february_2020_-_speech_steven.pdf

¹⁰ <https://www.marketsmedia.com/european-union-launches-international-platform-on-sustainable-finance/>

*with like-minded countries around the world. It aims to promote policy coordination on green finance and scale it up globally, including on sustainability disclosures.*¹¹

- 14 April 2020: IOSCO issued a statement that a Board-level task force on sustainable finance was established. The chair of the task force was quoted: *'Global problems require global solutions; facilitating an orderly transition and simultaneously safeguarding the conditions for cross-border financial activity are important issues for financial firms and IOSCO's members. One of our main objectives is to improve the quality of climate-related disclosures. We are looking forward to engaging with other relevant stakeholders and standard-setters to discuss the best approaches for taking this work forward.'*¹²

4. Dilemmas and modifications in the final position paper

The input of stakeholders resulted in (re-)assessing a number of dilemmas by Eumedion.

*Dilemma 1: Should investors embrace a 'Core & more' approach as highlighted by Accountancy Europe?*¹³

The 'Core' contains reporting that is relevant for all stakeholders and the 'More' report is stakeholder specific. A rather complicating factor is that the reporting that is truly relevant for all the key stakeholder groups combined is likely to have little overlap. This could result in a rather superficial or even meaningless 'Core' report.¹⁴ Eumedion therefore is not in favour of such Core & more approach.

Dilemma 2: Should the scope of a global standard setter for NFR be limited to investors, or should it include all stakeholders?

Eumedion fully subscribes to the Dutch Corporate Governance Code where the objective of a company is to create long term value for all stakeholders. This does not necessarily imply that individual stakeholder groups are best informed by combining all the reporting that is relevant for each of them into a single corporate report. Each stakeholder would be confronted with large quantities of irrelevant information. Besides that, nearly all companies communicate with their employees and customers through very different means than the corporate annual report. While for investors and non-governmental organisations the corporate annual report is, respectively may be, a primary source of information.

Eumedion notes that the investment community has evolved significantly over the past decade. Sustainability risks and opportunities are widely recognised as financially material. Taking the responsible investor as a starting point, we struggled to identify topics that are of paramount

¹¹ https://ec.europa.eu/commission/commissioners/2019-2024/dombrovskis/announcements/speech-executive-vice-president-valdis-dombrovskis-ifs-foundation-conference-financial-reporting_en

¹² <https://www.iosco.org/news/pdf/IOSCONEWS564.pdf>

¹³ https://www.accountancyeurope.eu/wp-content/uploads/FEECogitoPaper_-_FutureofCorporateReporting.pdf

¹⁴ <https://www.eumedion.nl/en/public/knowledgenetwork/consultations/2016-06-response-to-fee-consultation-future-of-corporate-reporting-.pdf>

importance for other key stakeholders of a company, and would not qualify as financially material for investors. We expect that corporate reporting from a responsible and engaged investor angle will prove to be quite comprehensive and will contain relevant information for many stakeholders. Insofar there is relevant, more detailed information for other stakeholders that does not meet the criteria of financially relevant for investors a company has the freedom to still include such information in a separate Corporate Responsibility Report. A single target audience is also pragmatic for the standard setter; it makes it easier to prioritise the agenda of topics to set standards on, it is conceptually less complex in drafting standards, it may prove to be easier to build momentum for worldwide adoption as a lower number of jurisdictions can be expected to support the multi-stakeholder target audience for reporting, and it may enhance enforcement as standards of an INSB could be regarded as financially material. The feedback during the round table highlighted the need for stakeholders to understand how a company judged financial materiality in the context of NFR. We expect that the materiality assessment standard as developed by GRI will inspire the INSB to set a similar standard.¹⁵ These new insights are reflected in the final position paper.

Dilemma 3: What alternative bodies, other than the IFRS Foundation, could establish the new global standard setter?

The Green paper explained that the IFRS Foundation should establish the new global standard setter for NFR. Few respondents disputed that the IFRS Foundation could potentially be a suitable host. The feedback did highlight the historic lack of willingness of the Foundation to get involved in NFR. The IASB's efforts to let financial statements reflect the economic substance of transactions in the (primary) financial statements is not welcomed by all stakeholders in Europe. It even caused calls to move away from global standards by suggesting to allow European-specific adjustments to IFRS. Despite the overwhelming evidence of the benefits of global standards¹⁶, the IASB and the IFRS Foundation currently find themselves in a politically sensitive European environment that may be reluctant to support the Foundation to take on this important role.

There are alternative global standard setting bodies that could also pick up this role:

- World Economic Forum
- IOSCO
- OECD
- UN
- SASB
- GRI

Eumedion re-evaluated each of these bodies in comparison with the IFRS Foundation and concluded

¹⁵ <https://www.globalreporting.org/standards/media/1036/gri-101-foundation-2016.pdf#page=%2010> pages 10, 11.

¹⁶ 2015 European Parliament report on IAS evaluation and the activities of the IFRS Foundation, EFRAG and the PIOB https://www.europarl.europa.eu/doceo/document/ECON-PR-575121_EN.pdf?redirect

that the IFRS Foundation remains the most suitable body to set global, investor focused standards for NFR. The IFRS Foundation already accomplished the most critical traits: it established a global and authoritative standard setter for financial reporting; it has a well-founded and proven governance structure that safeguards its independence; it oversees a state of the art due process; and it has a clear investor focus. Eumedion expects that these strengths will help overcome its current limited involvement in the subject matter of non-financial performance. In a way, its historic limited involvement in NFR could well prove to be a strength as well, in a sense that it can independently and more quickly make harmonising choices where the existing frameworks overlap and differ in their approaches. The lack of progress in the Corporate Reporting Dialogue demonstrates how difficult it for the existing frameworks is to accomplish harmonisation. Eumedion considers it a much bigger and more time consuming challenge for the existing frameworks to attain the critical traits, than it is for the IFRS Foundation to expand to NFR. Eumedion does reinforce its notion that the existing frameworks like the SASB, Task Force on Climate-related Financial Disclosures, International Integrated Reporting Council and GRI have accomplished excellent work over the years and that they provide a solid basis for the much needed harmonisation by an INSB. These insights therefore did not fundamentally alter the initial stances in the Green paper.

Due to the global nature of companies, investors, other stakeholders and the topics that fall within the scope of NFR, Eumedion sees the ambitions of individual jurisdictions to make progress on NFR as very positive, and in a sense needed and could be quite helpful in making the necessary progress towards global standards. However, as soon as a global NFR authority has emerged, the initiatives of individual jurisdictions need to fully incorporate the NFR standards as set by the global standard setter.

Dilemma 4: To what extent is investor relevant NFR so different from financial reporting that this justifies two separate standard setting boards?

Even though Eumedion did not receive feedback that a single board for both financial reporting and NFR would be preferred, we did evaluate a number of arguments. The key arguments in favour are that: financial reporting and NFR are interconnected so having a single board drafting standards for both would help safeguard interconnectedness; and that it may be cheaper and easier to initiate. However Eumedion sees stronger arguments against a single board:

- adding setting standards for NFR would attract way too much attention from the much needed further development and maintenance of financial reporting standards;
- we expect the conceptual framework for NFR to differ from financial reporting, the board members of the IASB can hardly be expected to work with two different conceptual frameworks;
- the IASB board member's expertise is financial reporting. Setting standards for NFR is a very different subject matter; and
- there is a huge difference in the maturity of standard setting for financial reporting and for NFR.

The IFRS Foundation will need to explore how the interconnectedness between financial reporting and NFR is best safeguarded.

Dilemma 5: How to address the immediate need for harmonisation of climate-related disclosures while such standard setter is not yet operational?

Many stakeholders indicated a need for immediate action on harmonising climate-related disclosures globally. Eumedion also already called on listed entities to include disclosures in accordance with the guidelines of the Task Force on Climate-related Financial Disclosures and in accordance with the European Commission's Guidelines on reporting climate-related information in our annual focus letter 2020.¹⁷ However, the focus of this position paper is not on providing scenarios how to address the short-term reporting challenges while the envisaged global standard setter for NFR still is absent, as such effort would distract attention from our key messages. However, we obviously would expect an INSB to consider incorporating these guidelines into its framework. Therefore these insights did not fundamentally alter the final position paper.

Dilemma 6: How to address the trade-off between materiality and comparability?

A potential trade-off between materiality and comparability was acknowledged by a number of participants of the round table. This seems a universal challenge for any standard setting. The Green paper addressed these trade-offs by suggesting three kinds of KPIs: generic, sector-specific and company-specific. Thereby Sector-specific KPIs might indeed hamper comparability across sectors. But the standard setter may also allow corporates to judge by themselves whether a particular KPI produces sufficient financially material information.

Dilemma 7: Monetisation of ESG performance

The concept of monetisation is still in its grass roots phase. We decline to express a request for setting standards on this highly judgmental topic, also in the light of the comments made during our round table. We therefore do not consider monetisation a priority for an INSB.

5. Process

In February 2019 the Reporting & Audit Committee of Eumedion decided that the secretariat of Eumedion should draft a memo on 'The future of corporate reporting'. The key reason for this initiative was the observation that there was a market failure in standard setting: the more time passed, the more frameworks emerged. There was no indication of effective harmonisation and no clear path towards global enforceable standards.

In May 2019 the Reporting & Audit Committee was presented with a first draft.

The Reporting & Audit Committee evaluated a second draft in September 2019.

¹⁷ <https://en.eumedion.nl/clientdata/217/media/pdf/2020-focus-letter.pdf>

The General Board of Eumedion evaluated the resulting draft in October 2019. The comments of the General Board were incorporated and the resulting draft Green paper was recirculated amongst the members of the General Board.

The Green paper was published on 31 October 2019.

On 3 November 2019 the Green paper was 'well received' at the Eumedion symposium by the speakers, including IASB Chair Hans Hoogervorst.¹⁸

The secretariat of Eumedion held several subsequent targeted dialogues with key stakeholders.

A representative of Eumedion participated in the joint dinner organised by EFRAG and the IFRS Trustees in Brussels in February 2020.

Joint round table with Accountancy Europe 'Towards a global standard setter for non-financial reporting' on 9 March 2020.

The Reporting & Audit Committee reviewed the first draft of the Position paper on 14 May 2020.

The General Board approved the Position paper on 16 June 2020.

¹⁸ <https://www.ifrs.org/news-and-events/2019/11/the-iasb-from-financial-to-integrated-standard-setter/>
<https://www.eumedion.nl/actueel/nieuws/dringende-noodzaak-van-consolidatie-in-de-huidige-wirwar-van-duurzaamheidsverslaggeving-verslag-van-het-eumedionsymposium-2019.html>