

9^{èmes} États Généraux DE LA RECHERCHE COMPTABLE

19 décembre 2019

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AVEC LE SOUTIEN DE :



Proposal for pillars on non-financial reporting

Report extract

« Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe »

4.3 Relevance and quality of non-financial reporting are based on four pillars: principles, content, presentation and governance (accountability, control and supervision)

Based on the key principles selected to conduct the summary report stage, the task force suggests establishing the relevance and the reliability of the extra-financial information on the basis of four pillars:

- ✓ **The first pillar defining the general framework;**
- ✓ **The second pillar proposing content for Sustainability standards;**
- ✓ **The third pillar proposing presentation standards (Sustainability reporting standards);**
- ✓ **The fourth pillar defining the responsibility framework (Accountability principles).**

Pillar 1: the general framework: general quality principles of the extra-financial information

The task force feels that it is possible to garner consensus on the quality guidelines that should apply to all financial information:

- ✓ They are all broadly based on the guidelines generally applied for accounting and financing information (IASB, FASB, Accounting Directive in particular) and their extension, *mutatis mutandis*, to extra-financial reporting appears both possible and advisable;
- ✓ There may be terminological differences, but the task force believes that they can be addressed. The set of generally recognised quality guidelines, which are sometimes classified into the most used groups, is based on the following **six aspects**, whether for individual pieces of information or for the entire organised body of overall information:
 - **Faithful representation**, sometimes also referred to as reliability: information must accurately reflect the reality it describes. This aspect can be likened to the principle of neutrality, which is sometimes used: information must not be distorted, but rather it must enable the reader to draw his/her own conclusions. It can also be equated with the principle of completeness when it refers to an organised set of information: faithful representation can only be achieved when information is complete;
 - **Relevance**: information must be adequate in terms of both quality and scope so that the reader can make an informed decision. Information must be meaningful on all aspects required for both understanding and decision-making, and in this respect, this principle can be likened to the issue of materiality, which is applied to the content of the information (not the selection of information). It is also similar to the principle of decision usefulness, which is sometimes used. Relevance should not only be static, it should also be assessed dynamically and present information on future activities and performance (*forward looking*), even if this is more difficult;

- **Understandability:** information must be understandable for any reader with reasonable knowledge; it must be expressed and presented in a clear way, with no bias or ambiguity; this is similar to the principle of clarity that is sometimes used;
- **Comparability:** information must allow for comparison of the company from one reporting period to another i.e. over time: it must also allow for peer-to-peer benchmarking i.e. compared with the same type of information from other companies. This is similar to the idea of consistency, which is sometimes used to mean comparability over time;
- **Verifiability:** information must be able to be compared to supporting evidence;
- **Timeliness:** information must be prepared and made available swiftly i.e. within the timeframe required for recipients' decision-making.
- ✓ Looking beyond these six aspects, there are also some specific aspects of extra-financial information that should be mentioned here:
 - **Inclusiveness:** this is the issue of **relevance for whom**; it means deciding who are the recipients or users of the information on the company: are they investors only or also all stakeholders? Discussions on this issue have changed as financial information is now considered to be primarily intended – although not exclusively – for investors, who are known as primary users, while also useful for other stakeholders.

However, this shift is not enough to address all stakeholders' information requirements. The task force notes that a great deal of information is useful for all recipients, but some information may be primarily intended for non-investor stakeholders. In this case, the task force recommends mentioning under the required "relevance" guideline that this means relevance for both investors and other stakeholders: those in charge of implementing quality guidelines should then add to information aimed at both user categories by providing information deemed useful primarily for the second category. The choice should of course be made clear via classification and/or nomenclature.

- **Connectivity:** in some respects, extra-financial reporting is still emerging, and it adds to financial reporting practices where the practices for drafting and reporting information are already well established. The task force feels that corporate information is a comprehensive whole and that it is vital to develop and present extra-financial information in very close connection with financial information, in keeping with the concepts of connectivity, integrated thinking and integrated reporting promoted by the IIRC.
- ✓ Overall, there are seven quality guidelines – six along with the issue of connectivity – that may be summarised as follows: "extra-financial information must provide faithful representation, and be relevant (for investors and other stakeholders), understandable, comparable, verifiable, timely and connected to financial information."

- ✓ The task force notes that these aspects may seem obvious or lack ambition, but they actually involve relatively demanding requirements. The task force believes that these quality guidelines could be put forward for implementation worldwide, and this would provide a strong qualitative foundation, of a public nature, for developing extra-financial information.

Pillar 1: the general framework - a classification of information

The task force feels that **it is important to put an end to the frequent confusion on the type of extra-financial information by applying a clear classification of this information based on its characteristics:**

- ✓ Unlike financial information, which relies on solely monetary information, extra-financial information has very varied characteristics, which have different meanings. The recipients of this type of information are often confused as to the characteristics of the information they receive, and different types of information are mixed up together. This confusion also makes it difficult to digitalise information correctly, and makes information difficult to verify, as those in charge of this process must adapt the type of opinion they issue to the type of the information they verify.
- ✓ The task force believes that there should be an initial degree of clarification and assurance for extra-financial information. This could involve reasoned classification, which would make it easier to standardise content, establish nomenclatures, and facilitate the work of preparers as well as verification, analysis, processing, digitalisation and assessment of volumes for each category.
- ✓ By way of example, classification could be based on the following distinctions:
 - An initial distinction should be made between qualitative information (**narrative**- N) and quantitative information (**quantitative** –Q);
 - Further distinctions could be made in the narrative information category as follows:
 - Distinctions in terms of subject i.e. **governance**-G, **strategy**-S, **policies**-P, **methodology**-M,
 - A distinction based on the time period covered is probably not required;
 - Further distinctions in the quantitative information category could be made as follows:
 - Distinction on the unit of measurement: **monetary**-Mo, **non-monetary**-nMo,
 - Distinction based on type of information: position at a given date, resources used, target (Position-P, resources-R, Targets-T).
- ✓ This process would lead to a set of ten standardised categories:
 - NG, NS, NP, NM
 - QMoP, QMoR, QMoT
 - QnMoP, QnMoR, QnMoT¹
- ✓ This classification should probably also state which pieces of information are primarily intended for other stakeholders to help users analyse and process information documents. This involves information where the financial impact cannot necessarily be projected on a

¹ N/narrative, G/governance, S/strategy, P/policy, M/methodology
Q/quantitative, Mo/monetary, nMo/non-monetary, P/position, R/resources, T/target

predictable timeframe, but that is deemed to be vital by some or all non-investor stakeholders and can therefore be included in frameworks i.e. applying the inclusiveness criterion outlined above. The issue of this type of detail is somewhat complex and the task force considers that further analysis should be conducted during the summary phase, particularly as regards feasibility.

- ✓ This classification, applied to each aspect of information, could also allow for qualification of information during the external control process and therefore provide a level of assurance.²
- ✓ This classification may appear to be just a detail, or perhaps too precise or not precise enough. However, once it is finalised, this set-up would act as a powerful resource to support extra-financial information and the task force thinks that it could be put forward as a proposal for application worldwide. This type of classification offers the necessary framework for an extra-financial information taxonomy.

Pillar 2: content standardisation – definition of a general framework

The task force believes that **it is key to draft and adopt an initial harmonised set of standards for general extra-financial information.**

- ✓ Each company faces a general range of challenges – and extra-financial information is designed to clarify these aspects – so the task force firmly believes that a general broad-based approach is therefore required. A purely sector-based approach may be useful, but it is insufficient (see details below on complementary sector-specific guidelines).
- ✓ A general set of standards should be comprehensive:
 - It should cover all the relevant information categories i.e. traditional ESG aspects (environment, social, governance) and intangible categories where possible;
 - The task force is aware that ESG categories have now achieved a much greater degree of maturity than intangible categories. It believes that it is also important to make progress on developing intangible categories with the aim of promoting faithful representation. The actual principle of providing information on these categories, as well as the inclusion of sections in frameworks and related nomenclatures are a major step, even if detailed content initially – and perhaps inherently – lacks standardisation and is broadly left to each sector or company to define;
 - The set of standards should cover all indicators deemed relevant for each category, based on the classification put forward.
- ✓ Readers should not be put off by the idea of a comprehensive framework as long as this extensive aspect includes on the one hand application of the principle of materiality and on the other hand, a carefully considered scope of mandatory information. A framework must be designed like a library where there are mandatory aspects or “must haves”, recommended aspects or “good to have” and possible aspects, or “interesting to consider”. Within the range of standardised information, it seems useful to establish a common core as outlined below, to establish the degree of usefulness and hence the potential mandatory aspect for each piece of information.

² A/audited , R/reviewed

- ✓ The task force believes that the target framework should be a combination of existing frameworks, particularly the GRI (the SASB framework is addressed from a sector standpoint below). This summary combination would involve the following approach, based on due process:
 - Critical review of existing frameworks:
 - Classify information based on characteristics, as outlined above
 - Assess relevance and analyse based on usefulness
 - Potentially eliminate information not deemed useful where appropriate
 - Enhance standards on potentially mandatory information
 - Identification of any potential shortcomings:
 - Add categories where necessary
 - Identify and draft additional standards
 - Develop summary
 - Consultation
 - Implementation.

- ✓ On the basis of the aspects outlined above, the task force is clearly not in favour of mass implementation of any particular standard framework without the technical assessment outlined above and without the legal process and policy options discussed below. The task force considers that the summary work should be conducted in conjunction with private standard-setting bodies based on the terms outlined above.

Pillar 2: content standardisation – complementary sector-specific guidelines

The task force believes that **it is appropriate to draft and adopt sector-specific guidelines**:

- ✓ The task force thinks that the sector aspect of extra-financial information is key to ensuring that it is relevant. One of the most vital aspects for information is comparability, yet this is difficult to ensure and there is widespread acknowledgement that there are three stages of comparability:
 - Comparability of a company’s performances between one time period and another, which ensures quality of the performance assessment system
 - Peer-to-peer comparability within the same sector, to conduct best-in-class comparisons and choices
 - Comparability across all sectors, to conduct broad-based best-in-universe comparisons and choices

Peer-to-peer benchmarking within the same sector is vital and provides an extensive range of information, so the SASB’s approach is laudable in this respect. However, as often mentioned, other stages are required, so the SASB’s work must be included as a contribution within a broader overall summary approach.

- ✓ The task force’s suggestions on developing and adopting sector-specific standards alongside general standards are, mutatis mutandis, the same as those expressed for general standards, although some additional aspects should be mentioned:

- A careful analysis must be conducted of professional or general frameworks that could be used, in order to avoid an excessive geographical slant by providing a more comprehensive view.
- The same applies to information and indicators required to characterise any given sector.
- Setting aside considerations on general information or the common core, the sector view must not be overly simplistic, and it must take on board both narrative and forward-looking aspects, i.e. targets and scenarios.

Pillar 3: standardisation of presentation – definition of a taxonomy

The task force believes that **comprehensive corporate information can be better organised as part of a broader international standardisation effort.**

In light of the extensive and diverse range of regulation and practices, the task force purposely focuses here on principles, while also putting forward practical proposals.

The overall structure of information provided by companies is too complex:

- ✓ It is important to distinguish the following for companies, as they constantly issue a range of information:
 - Summary information that is published on a regular basis to comply with regulatory requirements, after approval by the highest governance bodies within the company;
 - All other information that is published by companies on a daily basis:
 - To various recipients
 - In several circumstances
 - On several issues
 - By managers with varying degrees of responsibility
 - Via several channels.

Summary information must comply with very stringent quality requirements, but rules for drafting and publishing other information vary from one company to another in terms of procedures and internal control.

- ✓ We can list three categories for information that must comply with very stringent quality requirements and is generally subject to regulatory conditions:
 - Financial statements
 - Mandatory information outside financial statements: mandatory information can involve either general themes or sections (where content most often does not have to comply with a specific structure), specific themes (where content does not have to comply with a specific structure or content is relatively limited and defined), or specific information
 - Additional information provided at the company's behest, which can take various forms, and hinges on each company's communication policy
- ✓ The last two categories of information are published in the management report or in separate reports, and are often combined within one or several broad-based documents i.e. annual report, registration document, integrated report, etc. They can have various different designations, which makes the situation unclear.

- ✓ The connection between the financial statements and the management report is generally deemed to be vital, but it is not easy to establish the relationship between very standardised information (accounting and financial information) and other much less standardised information i.e. information in the management report. In light of this, there are many alternative performance measurements and sui generis indicators, although bodies such as the IASB endeavour to define some of them.
- ✓ Successive series of regulation have led to a wide range of information building up, ranging from the most general to the most detailed, as well as highly diverse structures from one country to another, depending on each area's traditional approaches. It is therefore particularly difficult to make comparative assessments for audiences who are not familiar with the history and practices in each country. It is challenging to achieve an overview of the overall structure for information, which leads to difficulties in both analysis and processing.
- ✓ Extra-financial information has to fit into this already complex structure, making analysis even more difficult. However, there is a degree of agreement on certain decisive issues:
 - Extra-financial information cannot be an integral part of financial statements, due to the fact that the different pieces of information in question are of different types and have different status, so it is important to avoid the risk of compromising accounting and financial information, which provides a well-understood foundation that must be maintained. The task force shares this view.
 - Extra-financial information should a priori be included in information that is provided outside the financial statements, either directly or via references made in this section.
 - If extra-financial information is standardised and/or mandatory and/or verified, it should be flagged as such.
 - The task force feels that integration and identification are important, but this requires a minimum degree of “generally accepted” structure.
- ✓ Analysis of European regulation (outlined in Section 3.2 above) provides an initial approach on the standard content for management reports by way of example (with the different related reports where appropriate). To take this approach a step further, it is important to:
 - Ensure the compatibility of information required for the management report, Statement on extra-financial performance, and corporate governance report, and organise it into one single document
 - Round out this consolidated view and provide greater detail by factoring in regulatory progress and best practices based on the completeness approach
- ✓ The task force believes that this type of standard content can be enhanced by providing sections or information reflecting intangible aspects that are discussed throughout the report:
 - There has been less progress on considering these issues, as work has focused more on risks than on positive progress or opportunities, but intangible aspects are an integral part of comprehensive corporate information.
 - Capital classifications that allow for an assessment of complex intangible aspects, such as those put forward by the IIRC for example, can act as a basis to enhance content and help organise it.

- Some of these aspects are open-ended areas as defined by the task force below. This enables companies to present their view of the situation and their prospects as they see fit, by moving beyond sets of standards. These areas cannot be subject to standardisation, at least initially, although it is important to remember that some currently mandatory or recommended information that is designed to be included in frameworks, is inherently ambivalent, depending on whether it is relative or absolute: it can express a risk, but can also reflect progress on intangible issues.

Against this backdrop, the task force thinks that **three areas for action** can be suggested, and these could work together to ultimately provide an intelligible and modern reporting structure that is suited to today's digital world.

The first area for action is to develop and adopt a taxonomy (nomenclature) for extra-financial information:

- ✓ The very concept of a taxonomy is a longstanding one. It applies in several fields i.e. natural sciences, chemistry, etc., and reflects a determination to implement a carefully thought-out classification. Taxonomies have proven to be highly effective.
- ✓ Two examples can be mentioned in the accounting field:
 - IFRS taxonomy: IFRS are principles-based rather than prescriptive in terms of presentation format. This leads to variations in formats, which are often based on previous national systems developed via tried-and-tested practices. This makes national and international comparison more difficult and increases the number of alternative performance measurements. This situation has been seen as problematic for the sustainability of the set-up, with the IASB reacting over recent years and developing a taxonomy that provides for classification and tags for accounting information, whether figures or narrative, to make it accessible via a simple system, which in this case is XBRL. On the basis of this, the ESMA has been developing a central data system for financial information for listed companies, starting off with the balance sheet and P&L, with the appendix to be addressed at a later date. The FASB in the US took a similar approach a few years ago.
 - The French General Chart of Accounts: the idea of developing and implementing a nomenclature and a mandatory financial statement format (*plan comptable général*, or general chart of accounts) has existed in France for a long time. This aspect had even taken a substantial role, even from a sector standpoint, to the detriment of the actual content to a certain extent. So to rebalance this situation, the *Conseil national de la comptabilité* (CNC, French National Accounting Board), and later the *Autorité des Normes Comptables* (ANC, French Accounting Standards Authority) focused on the content, but somewhat overlooked classification aspects. A more balanced approach is now being applied, and the ANC has embarked on an initiative to streamline and modernise nomenclature and formats in order to better address the requirements created by digitalisation.

Document publication, automated processing (scoring for example), and tax declarations can all be developed on the basis of this single nomenclature, which makes for an efficient system.

- ✓ Certain extra-financial information issues can therefore be pre-empted by drawing on this experience of accounting taxonomies, by developing frameworks with the related nomenclature right from the beginning:
 - This means breaking down and tagging each piece of standardised information into consistent data portions;
 - The task force believes that the starting point could be the classification of extra-financial information (as put forward in Section 4.3 above) combined with standard management report content if necessary (format described below);
 - Each piece of information just needs to be provided with a rational digital identification, based on the major information categories.
- ✓ This type of taxonomy can provide consistency and clarity when an index is added to the presentation of each piece of standardised information, regardless of where it is located, particularly when information is inserted into more broad-based documents. A cross-reference table can also be added (depending on the template selected) to list mandatory information and its location. This applies even if the idea of a standard format, outlined below, is not adopted or if it is postponed.
- ✓ The task force's view is that this type of system would make for considerable simplification, clarity and relevance.

The second area for action is the development of a standard reporting structure (format) for organising company information using a common outline:

- ✓ The task force thinks that a standard structure or format is a very positive approach, as this enables users to read more easily, whether actual physical reading by users or in particular digital processing of information.
- ✓ A reporting format must not be restrictive to the extent that it hampers the meaning of the information. There is no reason not to have an open-ended format for the management report, or have fields where content can be included in any way. Unlike the financial statements, which include finite financial information that must be pinpointed at a given moment in time, the management report format can be infinitely incremental, and the only limitation is the reader's ability to absorb the information and computers' ability to process it.
- ✓ The aim here is not to define this kind of format, but rather take a technical approach, which can be based on regulatory content and best practices observed. The task force believes that this work can be conducted within the timeframes outlined for drafting the Phase 1 standards discussed above, alongside this process and in keeping with it. This is an appropriate place for extra-financial information.
- ✓ The task force's opinion is that there are two options as to the format:
 - Option 1: the standard format is left to the discretion of each company, trusting that each company will see this as a useful set-up and that users will also be in favour of this approach;
 - Option 2: the standard format is mandatory, as it is open-ended and enables companies to incorporate both their specific features and local legal specific aspects.

- ✓ In keeping with the principle of proportionality, the standard format could of course also include simplified versions.

For each jurisdiction, the third area for action involves modernising the corporate reporting structure:

- ✓ Whether as part of the application of a standard format or on countries' own initiative, national reporting regulations should in any event be modernised in order to adapt to fresh requirements, without leading to an excessive build-up of information, while also facilitating digitalisation of information.
- ✓ As part of this standard format process, it is important to set out national information and classify into the format's relevant sections (including in the open-ended sections if necessary) and qualify them based on the nomenclature for extra-financial information.
- ✓ In the absence of a standard format, it is important to conduct the same process on the basis of a clear national structure with the same goals.

The case for a minimum base of non-financial information

The task force raised the question of the promotion of a non-financial information base, while not coming to a clear conclusion at this stage. The task force believes that there should be two different approaches in this respect:

- ✓ An advanced model for countries or economic areas – such as the European Union – that have taken a political decision to adopt comprehensive information for their corporations;
- ✓ A core approach, which could be applied at a global level, along with quality guidelines or classification.

For companies under the **advanced model umbrella**, and in particular for the European Union, once the set of standards is developed and adopted, the task force suggests a **common core of mandatory information** as part of this framework, **while other information would remain optional and act as incremental levels for progress** in an effort to promote proportionality:

- ✓ It is important to reconcile the quality guidelines for extra-financial information with sufficiently straightforward and gradual application to ensure that standards are not dissuasive. The task force thinks that the idea of a common core of mandatory information is appropriate as part of the summary stage.
- ✓ An analysis of the content of the Statements on extra-financial performance, as transposed and applied, can act as a foundation to assess both the volume and type of extra-financial information reported. On the basis of this assessment, the task force puts forward two possibilities:
 - The first involves developing a single common core based on a summary of the highest levels of standards;
 - The second involves offering two alternative common cores, with one equating to the average observed during the assessment and the other equating to the highest levels of

standards, with additional information deemed important being added to comply with any recent changes e.g. application of work by the TCFD.

- ✓ Information would be classified using the classification outlined above, subject to the principle of materiality with appropriate explanations.
- ✓ This common core would act as **level 1** of requirements in terms of content (potentially 1A and 1B in the event of alternatives), and would be mandatory.
- ✓ Beyond this common core, the task force believes that a **gradual progression could be set out with increasing degrees of requirement** i.e. level 2, level 3, etc. It appears reasonable to provide for a restricted scale of requirements of 4 or 5 levels. Each level would have standardised content in accordance with the framework.
- ✓ Companies would obviously be able to decide to restrict their disclosure to level 1, or have the option to provide disclosure in accordance with a higher level of requirement. They could manage this progress over time and adapt their extra-financial information strategy to take on board the results observed and the resources required.
- ✓ We feel that this type of approach is “virtuous” in that it sets out a minimum mandatory core and then provides a number of optional levels of more demanding requirements. Exemplarity can play an important role, particularly due to the pressing nature of expectations and momentum already witnessed in this area.
- ✓ The task force has looked at the option of offering a simplified model for companies not subject to extra-financial disclosure requirements and thinks that this type of model – adopted as an optional measure – is advisable and could be similar to a simplified version of level 1 above, or the core consisting of the ten aspects outlined below.

As part of this **common core approach**, which could be coordinated at a global level, the task force believes that a very small number of extra-financial information components could be proposed for disclosure by all companies that are not covered by a more demanding regulatory framework:

- ✓ Following on from the task force’s various discussions, it outlines the following list of **ten aspects** as an illustration (including classification):
 - ESG governance (NG)
 - Identification and description of risks (and opportunities) related to ESG across the entire value chain (NP and NM)
 - Energy use and intensity (QnMoP)
 - Water use and related intensity (QnMoP)
 - Impact on biodiversity (NP)
 - Greenhouse gas emissions (QnMoP)
 - Health and safety monitoring (NP)
 - Average number of training hours per employee (QnMoP)
 - Ratio of starting wage to minimum wage and for each gender (QnMoP)
 - Disclosure systems set up in the company i.e. lobbying, anti-corruption, money laundering, etc. (NP).

- ✓ Information sought is primarily simple narrative or quantitative information, and not very forward-looking. Beyond the usefulness of this information in terms of communication, it also has an educational use for the company itself and acts as a resource for awareness and a reminder, as well as providing a potential source of action.

The accountability framework: defining governance rules

Strengthening governance (Pillar 4)

Governance on extra-financial data can be simplified:

- ✓ As has just been mentioned, extra-financial information should be included in comprehensive corporate information published after approval by each company's highest governance bodies.
- ✓ Some corporate governance codes have already added this type of provision, and these articles could be extended and enhanced to align with the best practices observed.
- ✓ The aim is for corporate governance bodies to take responsibility for extra-financial information:
 - It is therefore important to firstly agree that extra-financial information should be an integral part of the management report in all its various potential components;
 - In governance terms, this inclusion differentiates extra-financial information from accounting and financial information, which is subject to specific provisions;
 - It is also important to ensure that the management report is subject to appropriate due diligence from the corporate governance bodies from a regulatory standpoint;
 - From a practical point of view, three steps can be taken on extra-financial information:
 - Appoint at least one member of the board who acts as the official point of contact and is in charge of questions on this area and this information, and is responsible for reporting on the specific tasks to bodies responsible for approving the information,
 - Add updates on extra-financial information matters into the agenda for governance body meetings on a set basis, and at least systematically when the management report and accounts are being approved,
 - Make express mention of discussions and decisions from governance bodies on these issues in their meeting minutes.
 - These provisions should also be reconciled with those on the duty of vigilance, which is a positive measurement and useful practice when applied in a proportionate way and where widespread application on an international basis is possible.
- ✓ It is worth mentioning that the task force believes that the issue of responsibility mentioned here is not intended to unduly increase executives' legal responsibility:
 - A reference to fiduciary duty is already strong in itself;
 - There is already a duty of responsibility as regards the management report, which can be stipulated if necessary;
 - Corporate governance codes can be amended to better address this aspect if necessary;
 - Name and shame processes are very useful if they are applied in a stringent, measured and impartial manner;

- The terms of legal responsibility could of course be reviewed if any clearly inappropriate behaviour on extra-financial information is observed.

The generalisation of external control (Pillar 4)

Broader external control for extra-financial information should be considered and procedures should be specified:

- ✓ Feedback on the positive aspects of external control of the Statement of extra-financial performance suggests that widespread application of this approach could be considered for extra-financial information as a whole and geographically.
- ✓ According to the opinions heard, costs involved are low enough for the task force to take a positive view of the cost-benefit ratio.
- ✓ The task force notes the following points as regards procedures:
 - External control is particularly effective when there are standards on content;
 - External control is also particularly effective when there is a taxonomy as well as reporting formats;
 - Broader application could be introduced at the same time as implementation of Phase 1 standards;
 - From a technical standpoint, control standards can be outlined on the basis of work already conducted:
 - Assurance levels should be clarified,
 - This clarification can be based on the data classification put forward and the ensuing taxonomy,
 - An additional simple codification would help qualify the degree of assurance for each piece of information, which would make it easier for users to understand the information and would also ensure the feasibility of automatic processing: reasonable assurance for data produced alongside accounting information and retrospective quantitative non-monetary data, and moderate assurance for the rest;
 - The control report would be more simple as it could establish a direct connection with information that has been controlled, outline the degree of assurance for each type of information and where necessary draw observations with precise reference to the information in question.
 - The status of participants and their supervision must be organised specifically and appropriately, taking on board the specific features of the area being audited.

Activating supervision (Pillar 4)

Supervision of extra-financial information by the market authorities can be bolstered:

- ✓ The authorities met by the task force expressed their commitment to this aspect and their willingness to take action.
- ✓ Market authorities are obviously at the end of the information production chain and the effectiveness of their supervisory role depends on the following aspects:
 - Existence of frameworks (guidelines on quality, content, format)

- Legal value for frameworks
 - Clear outline of mandatory aspects, along with options and details on these
 - Applicable governance principles
 - Existence and quality of external control
- ✓ Against this backdrop, it looks feasible to bolster supervision for extra-financial information alongside the development of this information itself:
- The relevant authorities could initially contribute to an in-depth assessment of practices, as they already do or plan to do. In this respect, they could assess the best practices and inaccuracies observed. They could also contribute to the standardisation process and set up test-type structures that would enable companies to conduct initiatives that could be used as pilots or experiments.
 - After this initial stage, the relevant authorities' role and duties on extra-financial information should be specified where necessary.
 - Secondly, the authorities would take on their full responsibilities resulting from the first stage.
- ✓ In this context, the market authorities would move from a supporting and incentive role to a supervisory role, and also have the power to apply sanctions: these will need to be clearly outlined.

PROPOSALS

To conclude this section, the task force makes the following proposals:

PILLAR 1/ GENERAL FRAMEWORK

- P7** Define general quality principles for extra-financial information.
- P8** Determine a general classification scheme for extra-financial information.

GLOBAL LEVEL

PILLAR 2: SUSTAINABILITY STANDARDS

- P9** Define a general framework (including SDGs), according to three or four levels of requirements.
- P10** Define supplementary sector-specific frameworks.

EUROPEAN LEVEL & COOPERATIVE EFFORTS

PILLAR 3: SUSTAINABILITY REPORTING STANDARDS

- P11** Define a standard extra-financial reporting structure.
- P12** Define a taxonomy for extra-financial information.
- P13** Assess the possibility of establishing a minimum level of requirement with an eye to creating a base.

EUROPEAN & NATIONAL LEVEL

PILLAR 4: ACCOUNTABILITY PRINCIPLES

- P14** Define rules and a code of governance with respect to how extra-financial information is drafted.
- P15** Mainstream external controls for extra-financial information and define the conditions.
- P16** Bring supervisory mechanisms online.

EUROPEAN & NATIONAL LEVEL