

22 December 2020

Jean-Paul Gauzes
EFRAG Board President

nominations@efrag.org

cc: jean-paul.gauzes@efrag.org

Dear Jean-Paul,

**RESPONSE FROM THE INTERNATIONAL INTEGRATED REPORTING COUNCIL (IIRC) TO
EFRAG'S CONSULTATION DOCUMENT ON THE AD PERSONAM MANDATE ON THE
POTENTIAL NEED FOR CHANGES TO THE GOVERNANCE AND FUNDING OF EFRAG**

The IIRC is pleased to respond to this important consultation which will influence the future governance of standard-setting for non-financial reporting in the European Union. We believe this work has significant implications for the development of a comprehensive global system of corporate reporting and everything we say in this response is aimed at driving complementarity between global developments and bold action at a European level.

Both in the content and governance of the standards system we wish to see the adoption of a 'building blocks' approach, recognising the information needs of investors and broader stakeholders, and critically, the structural connectivity between the two. We believe that a baseline of global standards, complemented by regional or jurisdictional elements will both avoid market fragmentation and accelerate progress towards achieving global goals such as the SDGs and European ambitions, most notably the EU Green Deal.

The IIRC is willing to play a full part in bringing this vision to fruition and look forward to our continuing dialogue with EFRAG, the European Commission and other stakeholders. Our submission is consistent with the joint [letter](#) from the CEOs of the IIRC and SASB to EFRAG and D-G FISMA of 18 December 2020.

We hope that our responses to the specific consultation questions below are helpful.

Yours sincerely,



Charles Tilley OBE
Chief Executive Officer, International Integrated Reporting Council

QUESTIONS RAISED IN THE CONSULTATION DOCUMENT

QUESTION 1 - DUE PROCESS

Do you agree that the above reflects the key due process steps for open and transparent non-financial standard setting? If not, which other steps would you advise me to consider or to remove?

The IIRC supports the importance EFRAG has attached to establishing robust due process to provide legitimacy and trust in non-financial reporting standard setting and we believe this should reflect EFRAG's new mission.

We note and support EFRAG's commitment to public transparency. We support the high level of proposed engagement, especially with other standard-setters. We would encourage an explicit commitment to engaging with international corporate reporting organisations to ensure compatibility of standards throughout the ecosystem and especially the integration and interoperability between standards to bring about greater efficiency in the reporting process.

QUESTION 2 - MEMBER STATES AND NATIONAL PUBLIC AUTHORITIES

Considering the proposed new governance structure (see section 5 EFRAG proposed new core structure) at what level do you consider that the relevant national authorities should be involved and should they be members or observers: EFRAG General Assembly? The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)? The Non-Financial Reporting Board? TEG for Non-Financial Reporting? Should a Consultative Forum (similar to the Consultative Forum of Standard Setters in the Financial Reporting pillar) or any other form of advisory committee; be created for the Member States and national public authorities?

We believe that relevant national bodies should be involved at a strategic level to enable consistency and confer political legitimacy over the process. A Consultative Forum could complement this approach to enable more technical input.

QUESTION 3 - EUROPEAN INSTITUTIONS AND AGENCIES

Considering the proposed new governance structure (see section 5 EFRAG proposed new core structure) at which level do you consider European institutions and agencies should have representatives and should they be members or observers: The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)? The Non-Financial Reporting Board? TEG for Non-Financial Reporting? The Working Groups? Should a Consultative Forum or any other form of advisory committee; be created for European Institutions and Agencies to provide input to the TEG for Non-Financial Reporting and the Non-Financial Reporting Board?

It is important for European institutions and agencies to be involved throughout the process to enable consistency with public policy priorities. In addition to the IASB, observer status for international organisations with relevant technical expertise should also be

considered to inform the technical development of standards and ensure consistency and compatibility with global corporate reporting developments, concepts and standards.

QUESTION 4 - PRIVATE SECTOR AND CIVIL SOCIETY

Considering the proposed governance structure (see section 5), at which level do you consider private sector and civil society ought to have representatives: The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)? The Non-Financial Reporting Board? TEG for Non-Financial Reporting? The Working Groups?

We believe the public-private partnership model is an important principle to ensure standards are developed with the full involvement of business and civil society. We also believe it is important to avoid the risk of capital market fragmentation, especially if European multi-national company representatives are included. Such representation would be of most value on the Non-Financial Reporting Board and the Working Groups.

QUESTION 5 - SMEs

Considering the proposed governance structure, at which level do you consider SMEs (SMPs) should be represented: The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)? The Non-Financial Reporting Board? TEG for Non-Financial Reporting? A SME- focused Working Group? Would it be sufficient to seek input of SMEs/SMPs in the public consultation and outreaches rather than involve them in the governance bodies?

An increasing number of SMEs are using the International <IR> Framework to position their strategy, business model and future performance. This is particularly the case for SMEs in consumer-facing industries where the demand for transparency is greatest, those SMEs seeking capital to grow or SMEs that are part of complex supply chains. We therefore believe the needs of SMEs should be taken into consideration in the development of the standards and would recommend the creation of a specific SME Working Group and representation in the TEG for Non-Financial Reporting to enable connectivity.

QUESTION 6 - COOPERATION WITH OTHER STANDARD SETTERS AND INITIATIVES

What do you see as main features of cooperation with the (global) reporting initiatives? What kind of involvement could you consider?

It is important to recognise the progress that has been made to achieve a comprehensive corporate reporting system that allows for jurisdictional customization and European leadership, while achieving a baseline level of international consistency. We believe the EU's "double materiality" concept provides the ideal framework for achieving both of these goals.

The double materiality concept has been extremely influential in clarifying the sustainability disclosure field. As one example, this concept underpins the *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting* published by CDP, CDSB, GRI, IIRC and SASB, all of whom participated in creating the document.

We believe the “financial materiality” dimension in the EU’s double materiality concept should be supported by global standards, as this information would meet the needs of global investors and other providers of financial capital for a foundation of comparable, consistent, and reliable information across regions. Assuming the IFRS Foundation receives support for its proposal to create a new Sustainability Standards Board (SSB), the IFRS Foundation is ideally positioned to play this role.

We believe it is significantly more difficult to achieve global consensus for disclosure standards for the “environmental and social materiality” dimension in the double materiality concept, because of differing regulatory environments across jurisdictions, differing scope of ambition, and differing views on the role of corporate disclosure in furthering public policy objectives. Because the EU has already begun to establish requirements for the environmental and social materiality dimension through the EU Taxonomy for Sustainable Activities, the Sustainable Finance Disclosure Regulation (SFDR), and the Non-financial Reporting Directive (NFRD), the EU is ideally positioned to establish standards for the environmental and social materiality dimension.

We believe the EU is leading the world in the scope of its ambition and has been a significant catalyst for global progress on sustainability disclosure. By supporting a hybrid model—in which the IFRS Foundation plays the global role for financial materiality and EFRAG plays the leading role on environmental and social materiality—the EU could catalyze progress towards the coherent, comprehensive corporate reporting system the world so urgently needs and significantly accelerate progress both within the EU and globally.

The IIRC and SASB are strongly committed to simplifying the sustainability disclosure field and to the collaborative efforts of the “group of 5” standards-setters and frameworks to establish a more coherent and comprehensive corporate reporting system. Our joint commitment to simplification resulted in our recently announced intent to merge into the Value Reporting Foundation. By integrating two entities that are focused on enterprise value creation, this merger is a step forward in simplifying the corporate reporting landscape.

To maximise the effectiveness of the whole system the inclusion of representatives from the international standard setting organisations within EFRAG’s governance could be helpful in enabling the complementarity described above. An alternative approach might include establishing an International Advisory Board to coordinate between EU and global standard-setting initiatives. We would also strongly encourage the EU’s ongoing, and potentially strengthened, representation within international initiatives and we would be pleased to facilitate dialogue on this matter if this would be helpful.

QUESTION 7 - EFRAG BOARD

What in your view should be the maximum size the new EFRAG Board? Which stakeholders should be represented and in which proportion? Should there be observers? If so, who should be the observers? Do you foresee any obstacles that may arise were the EFRAG Board charged with oversight to include representatives of the Non-Financial Reporting Board and the Financial Reporting Board? Should the EFRAG Board appoint the members of both TEGs and the European Lab, or should this be done by their respective Boards (Non-Financial Reporting Board and the Financial Reporting Board)?

We believe it is important to have strong private sector representation on the EFRAG Board to ensure complementarity with other market initiatives. It is also important for EFRAG's governance to reflect international developments and therefore representation from individuals who could provide this perspective will be important to enhance both its effectiveness and relevance. We believe it is essential that the EFRAG Board includes representatives from the Non-Financial Reporting Board and Financial Reporting Board to promote connectivity between the two.

QUESTION 8 - NON-FINANCIAL REPORTING BOARD

What in your view should be the maximum size of the new Non-Financial Reporting Board? Which stakeholders should be represented and in which proportion? Should there be observers? If so, who should be the observers? Should the Non-Financial Reporting Board members be appointed by the EFRAG General Assembly on recommendation of the EFRAG Board or directly by the EFRAG Board? How can the interconnectivity between the Financial Reporting Board and the Non-Financial Reporting Board be ensured?

We believe there should be balanced representation between private sector and NGO stakeholders on the Non-Financial Reporting Board. We would also support representation, either as full members or observers, from the international standard-setting community. Where relevant, and subject to appropriate skills and experience, some overlap in membership between the Financial Reporting Board and Non-Financial Reporting Board could be helpful in driving connectivity. The European Lab (see question 10) could also have such a role.

QUESTION 9 - TEG FOR NON-FINANCIAL REPORTING

What in your view should be the maximum size of the new Non-Financial Reporting TEG? Which stakeholders should be represented and in which proportion? Should there be observers? If so, who should be the observers? Do you agree that EFRAG TEG members are recommended by the EFRAG Non-Financial Reporting Board but appointed by the EFRAG Board rather than be appointed by the EFRAG Non-Financial Reporting Board? How can the interconnectivity between the Financial Reporting TEG and the Non-Financial Reporting TEG be ensured?

Consistent with our responses to other questions, we believe there should be a balance of representation between private sector and NGO stakeholders on the TEG for non-financial reporting. We also support representation, either as full members or observers, from those with strong technical expertise from international standard-setters.

QUESTION 10 - ACTIVITIES OF THE EUROPEAN LAB

Do you agree that there is a need for a European Lab activity in the revised EFRAG governance structure? Do you agree that the European Lab could address both non-financial reporting and financial reporting activities? Do you have other comments or suggestions regarding the activities of the European Lab?

We believe the European Lab is a valuable concept, underscoring the importance of continuing innovation in corporate reporting to drive best practice and public interest outcomes. We believe the Lab has the potential to become an innovation hub for the EU, working across both the non-financial and financial reporting activities to harness potential linkages and overlaps. There are other long-term issues such as digitisation in corporate reporting and the Lab could take a thought leadership role in this area, as well as in the area of assurance. We would also encourage an expanded remit for the Lab to include sharing best practice from both within the EU and globally. The Lab should also have strong linkages with other centres for innovation in corporate reporting, including the international standard setters and framework developers to ensure complementarity of action and the sharing of ideas and best practice.

QUESTION 11 – FUNDING

Considering the proposed governance structure in this consultation document: Should the majority of the funding, or even all the funding, be provided by the European Commission and the Member States? Is it important that the private sector contributes to the funding and why? Should the public-private sector partnership model also be reflected in the funding? Would a levy at national or European level be feasible? What alternative financing mechanism would you suggest being considered?

If EFRAG's role is to be expanded substantially, funding sources that are adequate and sustainable will be required. It is critical that the funding structure used ensures the integrity of the standard-setting process which, together with stable long-term sources of funding, will help to achieve both market and public confidence.