



# FESE response EFRAG consultation on governance and funding

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FESE welcomes the opportunity to provide input on potential changes to the governance and financing of EFRAG in case it were to be entrusted with the development of EU non-financial reporting standards. However, considering that the discussion about a potential new set-up for EFRAG is taking place in parallel with many other developments related to ESG-reporting, we consider that further clarity regarding the proposal and its place within the overall framework would be necessary to perform a full assessment and provide concrete input.

Recent developments, including the Commission's preparations for a proposal for an updated Non-financial Reporting Directive, the creation of the Platform on Sustainable Finance and international developments within IFRS and IOSCO need to be considered holistically. Since the discussion regarding EFRAG's potential future governance and funding is dependent on the nature of the mandate that it might be given, the substance of the upcoming legislative proposals on an EU framework for ESG reporting and its potential role within the overall institutional framework for development of ESG reporting. Having said this, we would still like to take the opportunity to provide our high-level views on ESG-reporting for EFRAG's consideration.

FESE recently launched the 'FESE Introduction and Guiding Principles to ESG reporting' available [here](#), which promotes and informs companies about ESG reporting. As companies are increasingly looking to meet the demands of ESG-conscious investors they struggle to find the relevant approaches and methodologies. This document promotes and informs companies about ESG reporting by consolidating and incorporating a methodology on how to approach the topic of sustainability.

We consider that there is a need for European and international cooperation and alignment of standards. Further global consistency would be best achieved by working together with existing stakeholders. In this vein, we refer to the recent initiatives taken by IFRS on ESG-reporting.

FESE believes that the scope of the NFRD should not be limited to public-interest entities and it should be extended to all non-listed companies with more than 500 employees. Whether a company is listed or not is not a relevant factor regarding whether its sustainability risks and impacts are high or low.

SMEs play an important role which makes it necessary to encourage SMEs to disclose ESG data. Financial market players engaged in promoting SMEs should support these to continuously broaden their disclosures of sustainability data. Although we recognise the need to avoid increasing the overall regulatory burden on SMEs, non-financial matters may pose material risks and opportunities to businesses irrespective of their size. Better sustainability-related performance could lead to lower funding costs, fewer and less significant business interruptions, stronger consumer loyalty and better relations with stakeholders. We believe that any extension of reporting requirements targeting SMEs needs to be carefully assessed and followed by a cost-benefit analysis. We would support the introduction of voluntary specific simplified standards for SMEs (as defined in MiFID). This would cater to investors' need for transparency but place a more proportionate burden in terms of further

administrative costs for SMEs. In principle, requirements should include all companies but we also recognise the need for flexibility in order not to overburden small companies and therefore believe that size and complexity of undertakings should be considered when developing such requirements.

As highlighted in the beginning of this paper, we look forward to following up on this topic as EFRAG's potential new role within the overall framework is clarified. We would welcome a continued inclusive and transparent process and the opportunity to provide further input at a later stage.

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At the end of November 2020, FESE members had 8,385 companies listed on their markets, of which 15% are foreign companies contributing towards the European integration and providing broad and liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access the capital markets; 1,222 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their RM and MTF operations, FESE members are keen to support the European Commission's objective of creating a Capital Markets Union.

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