



EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES

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Comments: *Consultation document on the Ad personam mandate on potential need for changes to the governance and funding of EFRAG*

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January 13, 2021

Dear Jean Paul,

EFFAS is very pleased to comment on the Consultation Document (“CD”) on the *Ad personam* mandate on the potential need for changes to the governance and funding of EFRAG.

While EFFAS supports this initiative, we would like to suggest clarifying and defining a framework where current initiatives can coexist or be consolidated. Entities such as IIRC (SASB), FSB (TCFD), GRI and others, plus the IFRS Foundation new undertaking are working on similar projects. The objective of having European standards has to be well-defined to avoid overlapping and unwarranted costs.

EFFAS would like to stress how important it is for users, both investment professionals and investors, to have homogeneous standards that are reliable and offer comparable data. Global and regional institutions, regulators and standard setters, have to be consistent avoiding overlapping and not increasing unneeded information.

Users, both investment professionals and investors, need high-quality, relevant and structured information. Quantity is not the purpose, quality and relevance are the key drivers of this project. We are also in favour of a strict consistency between NFR standards and FR endorsement, therefore coordination between the two is a must.

Since the function of standard setting is very different from the current EFRAG’s endorsement function, we support the proposed organization which should over time evolve into a more simplified structure.

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?

A clear and well-defined due process would be a key element for the success of non-financial standards. As already implemented in financial reporting, defining a work plan along with an appropriate agenda and regular field tests plus publication of exposure drafts will be important aspects to be considered when setting up a modified EFRAG structure to issue NFR standards.



Based on the work plan and public consultation approach depicted on page 3 of the Consultation Document, we support EFRAG's approach.

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?*

First, we would like to draw the remark that as mentioned in the CD, a consultation of Member States about their representation is currently taking place.

As we are not aware of any national NFR standard setter in Europe, we do not know who the relevant national authorities are. Consequently, we cannot answer the question at what level they should be involved and which role they should play.

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 agree. When the relevant national authorities are identified, it would be effective to create such an advisory committee for the Member States and national public authorities to explore and reach a common objective.

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?*

European institutions and agencies should be involved at different levels as observers. Based on the current European governance structure, this is the most appropriate way forward.



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?

No, we think that those Agencies should work through the different Boards as observers. We should have European institutions and agencies represented at both Boards: FR and NFR. We should have the European Commission represented at the Governing Board as a member and as an observer in the financial and non-financial Boards.

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*

Regarding the civil society representation, we think that they should be represented as observers through the European Commission. NGO's and other members of civil society, if appropriate, could participate in the discussions of the working groups.

As far as the private sector is concerned, it should be present in all Boards (as mentioned below), next to national standard setters for non-financial reporting.

Caution is needed. As mentioned in the paper, the size of the bodies should be workable. However, to have enough support the private sector and civil society should participate in a well-defined role.

The main consideration in this is that the parties involved bring expertise to the table (e.g., investors, auditors, listed entities, academics, existing frameworks,...).

Question 5 - SMEs

Considering the proposed governance structure (see section 5), 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?

We should first consider having a better definition of what exactly an SME is. To our knowledge, there is no European organization that is responsible for SMEs. There is of course the definition in the accounting directive (small, medium-sized entities). However, to put this into perspective, this approach does not work in certain countries where most entities are “very small”. Hence caution is needed.

But:

- *It is quite clear that the interests of SMEs should be taken into account.*

Indeed, NFR for SMEs makes a lot of sense (cf. IFRS for SMEs).

- *That aspect should be taken up by the auditors*

Are there audit firms that are specialized in SMEs?

- *How has the Accounting Directive taken the SMEs into account?*

There will have to be a link between the Accounting Directive and NFRD... in terms of definition.

It should indeed be sufficient to seek input of SMEs in the public consultation and outreaches rather than to involve them in the governance bodies. A working group on SMEs is a must in order to provide them with a standard that is sustainable at an acceptable cost at their level.

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?

This is a tricky point as existing initiatives will most likely try “to defend” their own views. However, they cannot be neglected. A few of them might take up a seat in the NFR Board or the NFR TEG.

Perhaps certain of these entities have their own focus (e.g. environment).

That being said, it is quite clear that existing initiatives should get involved. They have already a certain expertise that should be acknowledged. One or two prominent organizations could be incorporated on the non-financial reporting Board. They should certainly be represented in the non-financial reporting TEG.

Question 7 - EFRAG Board

Since the FR function and the NFR function are completely different, we suggest clarifying the missions of the Governing Board and of the General Assembly.



What in your view should be the maximum size of the new EFRAG Board?

- A maximum of between 8 and 10 members. This should be a bottom-up exercise taking into account the mission of this Governing Board.

Which stakeholders should be represented and in which proportion?

- Users, preparers, EC standard setters, ...
- The exchange of information between the financial and the non-financial board must be organized at this level.
- The nomination of TEG members must be performed by the FR Board and the NFR Board respectively.

Should there be observers?

- The observers are on the financial reporting board and the non-financial reporting board. Those observers would be for instance the ECB, and jointly the ESAs:EIOPA, ESMA and EBA.

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?

- No one from the financial and non-financial should be represented in the overall EFRAG Board, except for the Chairperson of the FR Board and the NFR 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)?

- TEG appointments must be made by the respective non-financial and financial reporting board and their respective Nominating Committees.

Question 8 -The Non-Financial Reporting Board

EFFAS supports establishing a Non-Financial Reporting Board reflecting the diversity of the issue and stakeholders. However, as stated in the CD “ NFR is of significant interest to a much wider range of stakeholders than financial reporting. Therefore, we would recommend limiting the NFRB to stakeholders directly involved in reporting as investors, preparers, auditors and regulators. Other stakeholders as NGOs, trade unions could be represented through a consultative group (see answer to Q2).

What in your view should be the maximum size of the new Non-Financial Reporting Board?

- We believe that an efficient Board should be composed of maximum 16 members, including the Chair.
- Key market participants such as preparers, investors and auditors (it should be proposed that an EU representative joins the board in light of the “public good”) should be represented and as in the current EFRAG Board other stakeholders could participate as observers. (i.e., EBA, ESMA, EIOPA, IFRS)



Which stakeholders and in which proportion?

- We think that stakeholders should be represented by 3 preparers and investors each, in addition to 2 auditors and National Standard Setters, each as well.
- Also banking representatives (1), Better Finance (1) 1 EU 2-4 more members.
- The Chair should be elected based on the same principle as in the FRB.

Should there be observers? If so, who should be the observers?

- International and regulatory entities such as ESMA, EBA, EIOPA, IOSCO, IFRS, and other agencies such as IIRC and GRI (UNFI), could be represented as observers.
- The current Board observers should be used as a reference.

Should the NFRB, members be appointed by the EFRAG GA on recommendation of the EFRAG Board or directly by the EFRAG Board?

- Based on the recommendation of the Nominating Committee members should be appointed by the EFRAG NFR Board.
- The Nominating Committee is a specific NFR committee reporting to the NFR Board.

How can the interconnectivity between the FRB and the NFRB be ensured?

- Interconnectivity could be monitored through the Governing Board (see our answer to Q7). Technical interconnectivity should be ensured through working groups on the TEG level. It could be done by cross review of agendas and key issues. *Ad hoc* mixed TEG working groups should be organized.
- Scheduled meetings between both boards should be held (quarterly). Moreover, a working group at TEG level (liaison) should be established to review and discuss both agendas and address key issues. This WG should meet regularly with both the TEG groups and members of this working group should probably participate as needed in TEG meetings. This will be monitored by the Governing Board.
- This working group should be very efficient and agile. Between 6-8 members maximum. Maybe a spin-off of the Corporate Lab plus other members from the financial reporting side should be considered for its composition (for discussion: 2 TEG chairpersons, ...).



Question 9 - TEG for NFR

The NFR TEG should also be balanced in terms of background, geography and gender as are other managing and technical groups in EFRAG.

What in your view should be the maximum size of the new Non-Financial Reporting TEG?

- The composition of the NFR TEG should be between 12-14 including the Chair.
- This will be similar to the current TEG.

Who should be represented?

- The TEG should be represented similarly to the Board although academics should be incorporated. (2-3 preparers, 2-3 users, 2-3 academics, 2 auditors, 2 NSS (or similar), 1-2 other NFR entities).

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?

- TEG Members should be proposed by the Nominating Committee and approved by the NFSB. EFRAG board should be informed and “confirm” the appointments.

How can the interconnectivity between the FR TEG and NFR TEG be ensured?

- As mentioned in Question- 8.

Question 10 - Activities of the European Lab

Do you agree that there is a need for the European Lab activity in the revised EFRAG governance structure?

- We think that in the new EFRAG structure, it is key to redefine the role of the Corporate Lab.
- Based on this, a simplified structure should also be outlined. The different groups could be consolidated in a single “group” and probably be sized down.
- Depending on the issues to address, a reduced structure could set up working groups for specific projects.
- The new structure has to be efficient and avoid “overlapping” with similar issues addressed by the other TEGs.

Do you agree that the European Lab (EL) could address both NFR and FR?

- As previously noted, we think that the EL could address both NFR and FR issues avoiding overlapping with TEG issues.
- A redefined Lab could address cross cutting issues and other current issues related to financial markets and affecting stakeholders not covered by the TEGs. See answer to next question



Do you have other comments or suggestion regarding the activities of the European Lab?

- Better Communication (Non-GAAP, MD&A), Digitalization, Taxonomy Regulation 2020/852, Regulation 2088/2019 (SFDR or new currencies are examples of topics that could be addressed by the EL.
- Anticipation and pre-work in the issues should be an important element of the EL.
- As mentioned in question 8, The European Lab on corporate reporting could work on cross cutting issues and a working group (spin-off?) of the European Lab on corporate reporting could be the liaison between both TEG groups.

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?*

Yes, but not in a fixed % that changes when private funding changes. It is important that the provision of financial and intellectual resources do not harm EFRAG's independence.

- *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?*

A PPP model is a must, but mechanics must be reviewed. The model should also be reflected in the funding.

- *Would a levy at national or European level be feasible?*

We consider it difficult to implement a levy.

- *What alternative financing mechanism would you suggest being considered?*

See above.

If you would like to further discuss the views expressed in this letter, please contact us

Yours sincerely,

On behalf of EFFAS

Jesus Zaballos Lopez

EFFAS, Chairman