

**To the attention of Mr Jean-Paul
Gauzès, EFRAG Board President**

European Financial Reporting
Advisory Group (EFRAG)
Square de Meeûs 35
BE 1000 Bruxelles
E-mail : Nominations@efrag.org
Cc.: jean-paul.gauzès@efrag.org

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

(Ref. : GT4 LC 001/21)

Dear President Gauzès,
Dear Jean-Paul,

With reference to your e-mail of December 1st, 2020, in which you invited CNC Luxembourg to provide additional input on a number of matters that were not or not fully addressed in the first consultation, we are pleased to provide you with our answers to your public consultation on potential need for changes to the governance and funding of EFRAG.

We thank you for the opportunity to comment and remain at your disposal for any questions or comments you may have.

Yours sincerely,



Alphonse Kugeler
Président

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?

ANSWER TO QUESTION 1

Yes, we do agree with the proposals included in the consultation document. As mentioned in our previous contribution (GT4 LC 001/20 of Oct. 30th, 2020), it is our view that EFRAG has accumulated significant experience over the past 20 years in the areas of due process and that such experience developed in the field of financial reporting can be used to a large extent in the field of non-financial reporting. We consider that the proposed steps identified in the consultation document are both adequate and exhaustive covering all aspects of the NFR standard setting due process from agenda consultation to post-implementation reviews with a focus on transparency, public accessibility, wide stakeholders' consultation and other outreach activities. We have no further comments at this stage.

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?

ANSWER TO QUESTION 2

Consistent with our previous contribution (GT4 LC 001/20 of Oct. 30th, 2020), we consider that the EFRAG General Assembly (EFRAG GA) should be as inclusive as possible. While there is a case for involving the relevant national authorities at the EFRAG GA level as members or as observers, recent history shows that this may not be fully realistic nor practicable for a variety of reasons including the fact that membership in the EFRAG GA is currently conditioned to members financially contributing to support EFRAG's activities. Based on precedents, it seems clear that committing to a recurring financial contribution is something that only a few relevant national authorities will be able to do. Such relevant national authorities – able to financially contribute to EFRAG's budget – should obviously be allowed and even strongly encouraged to become members of the EFRAG GA.

The question remains open as to the involvement of the other relevant national authorities i.e. those that are not able to commit to a recurring financial contribution. Involvement within the EFRAG Board seems again unrealistic as the number of EFRAG Board Members is limited and appointment of the EFRAG Board Members lies within the EFRAG GA. As a result, even though this is theoretically possible, it is nonetheless highly unlikely for a relevant national authority that is not a member of the EFRAG GA to have one of its representatives appointed by the EFRAG GA at the EFRAG Board. The same conclusions hold probably true for the Non-Financial Reporting Board and to a lesser extent to the TEG for Non-Financial Reporting. While relevant national authorities will obviously have the ability to apply for membership to the TEG for Non-Financial Reporting, a seat cannot be reasonably guaranteed. Indeed, appointment to the TEG for Non-Financial Reporting implies a high degree of expertise that not all relevant national authorities will possess and is also very competitive in nature as the number of seats is limited for practical reasons.

That leaves us with the most realistic and practicable alternative consisting of the creation of a Consultative Forum similar to the CFSS in the Financial Reporting pillar. Membership to the Consultative Forum should be automatic for all Member States and relevant national organisations and no conditions should be attached to the participation in terms of financial contribution or expertise as we do not share the concerns relating the so-called “free rider” problem. We therefore express our support for such a solution (open CF for NFR).

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?

ANSWER TO QUESTION 3

In line with our previous contribution (GT4 LC 001/20 of Oct. 30th, 2020), it is our opinion that European institutions and agencies with significant expertise and/or interest in Non-Financial Reporting should be substantially involved within the new EFRAG structure, ideally as Member Organisations within the EFRAG GA (see answer to question 7) but – if not possible – at least in an Observer capacity in the all major EFRAG Bodies (e.g. EFRAG Board, FR and NFR Boards, TEG FR and TEG NFR).

We would support a solution where – similar to the Financial Reporting pillar – European institutions and agencies with significant expertise and/or interest in Non-Financial Reporting would be represented in an observer capacity within the EFRAG Board, the Non-Financial Reporting Board and the TEG for Non-Financial Reporting. It is also worth noting that the European institutions and agencies will often be able to convey the views of relevant national authorities that take part within the EU institutions and agencies’ working groups, steering committees and other task forces.

Should this preferred solution not be adopted, then the creation of a Consultative Forum of European Institutions and Agencies could provide for a fallback alternative.

Still, our view is that priority should be given to the representation – in an observer capacity (if full membership is not feasible) – of European Institutions and Agencies within the Non-Financial Reporting Board and the TEG for Non-Financial Reporting.

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?

ANSWER TO QUESTION 4

In accordance with our previous contribution (GT4 LC 001/20 of Oct. 30th, 2020), we consider that EFRAG – whatever the evolution of its missions and legal form – should remain a public-private partnership keeping intact its multi-stakeholders' approach.

As a result, it is clear that the private sector including civil society should be adequately represented. Similar to the Financial Reporting pillar, it is therefore of primary importance that preparers, auditors, users (including civil society and academia) of Non-Financial Reporting be associated and engaged in EFRAG's new mission.

In the area of Non-Financial Reporting (NFR), this would include:

- Preparers of NFR including representatives of listed entities (financial & non financial), non-listed entities (large and SME's) through their European Stakeholders Organisations ;
- Auditors including representatives of international audit firms & networks and of small & medium size practices (SMPs) as well as of other providers of assurance services in the area of NFR through their European Stakeholders Organisations ;
- Users of NFR including representatives of rating agencies, non-governmental organisations, trade unions as well as representatives of academia.

As far as the level at which the private sector including civil society should be represented, a “one size fits all” approach may not be practicable. Indeed and consistent with our answers to questions 2 and 4, we are of the view that representation within the EFRAG Board will necessarily depend upon the private sector and civil society organisations being members or not of the EFRAG GA as EFRAG Board Members are legally appointed by EFRAG GA Member Organisations and are therefore typically representatives of these member organisations. The same hold probably true for the Non-Financial Reporting Board.

Based on the above, it can be reasonably derived that only those private sector and civil society organisations that are members of the EFRAG GA will be able to successfully apply for an EFRAG Board seat. In practice, the current composition of the EFRAG GA already reflects and include many organisations that represents the private sector (including representatives of preparers, auditors and users), e.g. Accountancy Europe, Business Europe, Insurance Europe, EACB, EBF, ESBG, EFAA and EFFAS. Other organisations representative of the private sector including civil society organisations should be encouraged to become EFRAG GA Member Organisation, thus opening the doors to a representation within the EFRAG Board.

However, recent history shows again that attracting new EFRAG GA Member Organisations is not an easy task as this implies – for new member organisations – the ability to commit to a recurring financial contribution to support EFRAG's activities. It can be reasonably expected that most civil society organisations will not be able to do so.

Therefore, it is key that private sector and civil society organisations not able to commit to a recurring financial contribution, be nonetheless offered the opportunity to participate to EFRAG's activities in the area of Non-Financial Reporting i.e. at a different level within the EFRAG structure.

In this regard, it is our view that a representative of civil society organisations should be offered a seat within the TEG for Non-Financial Reporting in their capacity as users of NFR. We believe that civil society organisations have – within their teams – experts with a suitable degree of expertise in NFR. A process allowing these civil society organisations to identify and propose applicants to the TEG for NFR that will convey the views of all civil society organisations shall be adequately designed.

In addition, similar to the Consultative Forum of Standard Setters, a Consultative Forum of Civil Society Organisations could be created in the Non-Financial Reporting pillar. Such Consultative Forum could meet quarterly and no conditions would be attached to participation or membership other than being a civil society organisation. Again, we do not see any problem with the so-called “free rider” problem which we consider to be a non-issue.

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?

ANSWER TO QUESTION 5

Consistent to our answers to the previous questions, representation within the EFRAG Board explicitly or implicitly require being a member organisation of the EFRAG GA. Given these constraints, the appointment of representatives of SME's or of SMP's to the EFRAG Board will necessarily depend upon them becoming member organisations within EFRAG GA.

As far as small and medium practitioners (SMPs) are concerned, it should be noted that the European Federation of Accountants and Auditors for SMEs (EFAA) is already a Member Organisation and is therefore in a position to put forward a candidate for appointment at the EFRAG Board level. In the current setting and due to the limited number of seats within the EFRAG Board, such seat cannot however be guaranteed to EFAA even this could be theoretically possible with the support of other member organisations that would agree to relinquish the appointment of their own representative.

A potential solution could consist of increasing the size of the EFRAG Board but with 17 EFRAG Members plus a number of observers, we are of the view that such extension should not be pursued as it would impair the efficiency of the EFRAG Board.

As far as SME's are concerned, no organisations explicitly representing SME's at European level are currently member of EFRAG (e.g. SME Europe). SME's organisations should be encouraged to join EFRAG GA as Member Organisation but again this would entail committing to a recurring financial contribution to EFRAG's budget which is problematic for most organisations.

In the absence of membership to EFRAG GA, SME's representatives will not be able to have representatives at the level of the EFRAG Board and the same will probably hold true at the level of the Non-Financial Reporting Board.

However, it seems to us that one seat within the TEG for Non-Financial Reporting could be attributed to a representative of SME's and SMP's as there is no doubt that SME's and SMP's have quality experts within their organisations that would be able to contribute to the standard setting activities of the TEG for Non-Financial Reporting.

In addition, an SME-focused working group reporting composed of experts and representatives of SME's and SMP's and reporting to the TEG for Non-Financial Reporting could be created.

We consider that representation of SME's and SMP's within the TEG for Non-Financial Reporting combined with the creation of an SME-focused Working Group is the ideal solution. Alternatively, the creation of an SME-focused Working Group with no representation of SME's and SMP's within the TEG for Non-Financial Reporting could provide for a fallback solution, although not fully satisfactory in our opinion.

Finally, we are of the view that not involving at all SME's and SMP's within the EFRAG bodies and limiting their involvement to input in public consultations and outreach events would be insufficient and inconsistent with the stated policy objectives (development of optional NFR standard / format for SMEs).

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?

ANSWER TO QUESTION 6

In line with our previous contribution (GT4 LC 001/20 of Oct. 30th, 2020), we share the European Commission and EFRAG's views that EU NFR standards should be built upon existing global reporting standards and frameworks. We also consider that with financial markets that are international, an economy that is global and planet earth that is one, the end objective should be to have NFR standards that apply internationally or that are substantially converging.

As far as cooperation is concerned, the features of such cooperation should allow for sharing of experience and transfer of expertise while not impairing Europe's current desire to develop its own NFR standards.

Considering the above, we would be in favor of creating a Consultative Forum of NFR standard setters within EFRAG (similar to CFSS in the Financial Reporting pillar) or having EFRAG becoming member of a formal or informal international forum of NFR standard setters (similar to IFASS in the financial reporting arena). However, it would not necessarily seem appropriate to go further and have, for instance, other NFR standard setters and initiatives becoming members of EFRAG's governance bodies (i.e. EFRAG GA, EFRAG Board, Non-Financial Reporting Board, TEG for Non-Financial Reporting).

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)?

ANSWER TO QUESTION 7

- ***Size of the new EFRAG Board***

In the corporate world, research tend to show that Board size matters and that smaller boards tend to be more effective than larger boards. Obviously, EFRAG is not a "*for-profit corporation serving private interest*" but rather a "*not-for-profit organisation serving public interest*" so no hasty conclusion should be drawn from these research findings. However, it is quite clear that – to be effective – the EFRAG Board cannot be of unlimited size. As a consequence, not all Member Organisations can claim or expect to have a representative within the EFRAG Board. This principle should be stated clearly and explicitly, especially in the current context where EFRAG is seeking to enlarge the number of its Member Organisations within the EFRAG GA. Having a board representative should therefore not be used as a "selling point" to attract new member organisations as such a strategy is set up to fail with a potentially high number of applicants called but only few chosen.

Based on the above premises and considering that the current EFRAG Board comprises 17 members plus 5 public observers (COM, ECB, EBA, EIOPA, ESMA and ESMA) as well as 1 private observer (BetterFinance representing private investors) i.e. a total of 23 participants with either voting rights (members) or speaking rights (observers), we are of the view that there is limited, if no room, for extension of the size of the EFRAG Board.

To remain effective, the size of the new EFRAG Board cannot exceed 20 to 25 participants including members and observers.

- ***Stakeholders represented in the EFRAG Board***

Considering that EFRAG is currently a private organisation (AISBL), it seems normal and adequate that the composition of its board (EFRAG Board) reflect to a large extent the composition of the EFRAG GA i.e. of its Member Organisations, keeping in mind that not all Member Organisations will be able to have one representative at the EFRAG Board. Therefore, Member Organisations will need to come up with some type of mechanism facilitating the appointment of board members, for example using rotation, cooperation and goodwill to allow each Member Organisations to have a board member at some point in time.

From a practical standpoint, it is expected that each chapter within the EFRAG GA be granted a specific number of seats based on their respective contribution to the EFRAG budget. Assuming that the overall financial contribution by the “European Stakeholders Organisations” and “National Organisations” is equal, each one of these two chapter will be allowed the same number of seats.

Should a third chapter of Member Organisations dedicated to EU Institutions and Agencies be created, the same principle would apply i.e. a fixed number of board seats based on the overall financial contribution. If not feasible, an “observer status” should be maintained for these EU Institutions and Agencies (see hereunder).

Obviously and considering the major role of the European Commission in financially supporting EFRAG’s activities, it seems obvious that the European Commission shall continue to propose the EFRAG Board President, even though from a legal perspective it shall be the role of the EFRAG GA to confirm such appointment. As is currently the case, the EFRAG Board President shall be independent from the Member Organisations and be the “guarantor” of EFRAG public interest mission.

As far as the balance between EFRAG Board members representing Member Organisations with a primary interest in Financial Reporting vs Member Organisations with a primary interest in Non Financial Reporting is concerned, a mechanism should be thought through allowing for flexibility considering that many Member Organisations will have an interest in both Financial Reporting and Non Financial Reporting and will be able to financially contribute to both chapters.

- ***The status of observer***

As far as the “observer” status is concerned, we have indicated in our previous contribution (GT4 LC 001/20 of Oct. 30th, 2020) that we would view favorably a situation where the European institutions and agencies (including ECB, EBA, EIOPA, ESMA and ESMA but also the EEA) would become Member Organisations of the EFRAG GA thus giving rise to a 3rd chapter “EU Institutions and Agencies” in addition to the 2 existing chapters i.e. “European Stakeholders Organisations” and “National Organisations”. As Member Organisations, the European Institutions and Agencies would be able to put forward candidates for appointment at the EFRAG Board level.

However, should membership to the EFRAG GA be incompatible with their statutes or otherwise impracticable, then we are of the view that alternatives should be found and that the “observer status” provides for such an alternative. We consider that the “observer status” should be limited to the sole “European Institutions and Agencies”.

- ***Obstacles to cumulating mandates within the EFRAG Board and the FR Board or NFR Board***

It can be argued that it would make sense that the President or Chair of each of Financial Reporting Boards and the Non Financial Reporting Boards participates to the EFRAG Board either in a member capacity or simply as presenters in order to be able to report on the activities of each boards and be able to ensure appropriate coordination and sound communication.

However, cumulating a mandate as a Member of the EFRAG Board with a mandate as member of the Financial Reporting Board and the Non Financial Reporting Board should remain an exception both from a segregation of duty and an efficiency perspectives.

- ***EFRAG bodies in charge of appointing FR TEG, NFR TEG and European Lab members***

Each board should have duties and responsibilities that are commensurate with their role.

Therefore, we are of the opinion that the appointment of members should be as follows:

- The members of the EFRAG Board are currently appointed by the EFRAG General Assembly and rightly so;
- The members of the Financial Reporting Board and of the Non Financial Reporting Board should be appointed by the EFRAG Board;
- The members of the TEG for Financial Reporting should be appointed by the Financial Reporting Board;
- The members of the TEG for Non Financial Reporting should be appointed by the Non Financial Reporting Board;
- The members of the European Lab should be appointed jointly by the members of the Financial Reporting Board and of the Non Financial Reporting Board;
- The members of the working groups, advisory panels and other task forces should be appointed by the EFRAG body that decided to create them i.e. in most cases the FR TEG or the NFR TEG.

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?

ANSWER TO QUESTION 8

- ***Size of the Non Financial Reporting Board (“NFR Board”)***

The comments relating to the size EFRAG Board apply to a large extent to the Non Financial Reporting Board i.e. the workable size to allow a proper functioning should not exceed 20 to 25 members and/or observers.

- ***Stakeholders represented in the NFR Board***

Stakeholders represented in the NFR Board should reflect the diversity of stakeholders.

It is our view that the end objective would be to achieve a good balance of the following:

- Representatives of Member Organisations vs other stakeholders (not represented in the EFRAG GA);
- Representatives of Public vs Private members;
- Representatives of national organisations vs European stakeholders’ organisations;
- Representatives of Preparers, Auditors and Users as well as of Academia.

- ***The status of observer***

As far as the “observer” status is concerned, our comments in relation with the EFRAG Board apply to a large extent to the NFR Board i.e. the observer status could be used to associate European Institutions and Agencies that – by statute – cannot become Member Organisations of EFRAG and/or that can fully participate in a public-private partnership.

- ***Appointment of the NFR Board members***

Again and with reference to our answer to question 7, we consider that each EFRAG body should have duties and responsibilities that are commensurate with their role. In this regard, we are of the opinion that the members of the Non Financial Reporting Board should be appointed by the EFRAG Board. While the EFRAG General Assembly should obviously be kept informed of such appointments, we take the view that it is neither its duty nor its responsibility to appoint the members of the NFR Board.

- ***Interconnectivity between the FR Board and the NFR Board***

Interconnectivity between the Financial Reporting Board (FR Board) and the Non Financial Reporting Board (NFR Board) can be achieved in a variety of different ways that are not exclusive of each other.

The European Lab (see question 10) can obviously provide for the ideal forum for cooperation and connectivity between financial reporting and non financial reporting.

Other ways to ensure interconnectivity between the FR Board and the NFR Board include the following:

- having an FR Board member and an NFR Board member (eg their respective President / Chair) acting as a liaison between the two boards;
- having a periodic joint meeting of the two boards;
- having a limited number of board representatives that are members of both the FR Board and of the NFR Board;
- having a portion of EFRAG staff working both on FR projects and NFR projects.

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?

ANSWER TO QUESTION 9

- ***Size of the TEG for Non Financial Reporting Board (“TEG NFR”)***

In our view, the size of the TEG NFR should be comparable to that of the TEG for Financial Reporting (TEG FR). The TEG FR currently has 16 Members plus 5 Observers i.e. a total of 21 participants with voting or speaking rights.

Consistent with our prior comment in connection with the size of the EFRAG Board and of the NFR Board, we are of the view that the workable size to allow a proper functioning should not exceed 20 to 25 members and/or observers.

- ***Stakeholders represented in the TEG NFR***

As far as the composition of the TEG NFR is concerned, we agree with the proposals included in the consultation document i.e.:

- TEG NFR Members should have significant experience and expertise in the drafting of standards and in the Non Financial Reporting domain;
- The composition of TEG NFR should allow for a geographical and professional background balance and ideally for a gender balance as well.

- ***Appointment of the TEG NFR members***

Consistent with our answers to questions 7 and 8, we are of the view that each EFRAG body should have duties and responsibilities that are commensurate with their role. In this regard, we think that the members of the TEG NFR should be appointed by the NFR Board. The EFRAG Board should obviously be kept duly informed of the nomination process and of the various steps leading to such appointments.

- **Interconnectivity between the TEG FR and the TEG NFR**

Consistent with our answer to question 8, we think that interconnectivity between the TEG for Financial Reporting (TEG FR) and the TEG for Non Financial Reporting (TEG NFR) can be achieved in a variety of different ways that are not exclusive of each other.

The European Lab (see question 10) can obviously provide for the ideal forum for cooperation and connectivity between financial reporting and non financial reporting.

Other ways to ensure interconnectivity between the TEG FR and the TEG NFR include the following:

- having the TEG FR Chairwoman/man as *ex-officio* member of the TEG NFR and vice versa having the TEG NFR Chairwoman/man as an *ex-officio* member of the TEG FR;
- having a periodic joint meeting of the two TEGs;
- having a limited number of TEG representatives that are members of both the TEG FR and of the TEG NFR;
- having a portion of EFRAG staff working both on FR projects and NFR projects.

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?

ANSWER TO QUESTION 10

- **Need for a European Lab**

While we believe that there is no requirement to maintain the European Corporate Reporting Lab (European Lab) in the revised EFRAG Structure, a revised European Lab could nonetheless prove useful as both a “Research center” stimulating innovation and identifying good practices and as a platform facilitating the interconnectivity between the Financial Reporting and the Non Financial Reporting dimensions.

- **Scope of European Lab’s work on both FR and NFR**

As hinted in the consultation document, we view favorably a situation where the “revised” European Lab would primarily work on cross cutting issues between FR and NFR, including potentially the digitalization of corporate reporting both FR and NFR.

- **Other comments**

While we do not object to maintaining a European Lab with a revised mission and position in the EFRAG Governance structure, we are of the view that it is key to avoid overlaps with the mission, duties and responsibilities of other EFRAG’s bodies.

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?

ANSWER TO QUESTION 11

- **Source of funding, extent of public funding and potential levies**

The question of EFRAG funding is a long-standing issue that we all agree should be resolved but also that we all humbly recognize that it is a very sensitive, complex and tricky subject for which we should all refrain from drawing hasty conclusions.

We also all agree that to ensure that EFRAG delivers on its current and future missions, which have a public-interest dimensions, it is key that a sustainable funding model be identified and agreed upon.

In this regard, our views have slightly evolved over the years and while we initially did not view favorably some ideas raised in the Maystadt report of 2013, we are now more open to the idea of a full public funding either born by the EU budget, alone or together with Member States (based on their relative GDP) or even financed via a levy on companies in the scope of either the IAS Regulation of 2002 (financial reporting pillar) or of the NFR EU Directive of 2014 as revised in 2021/2022 or to be replaced by a NFR EU Regulation also in 2021/2022.

The feasibility of such a funding obviously requires further thought as well as legal analysis. One question lies in the possibility for a private organisation such as EFRAG (AISBL) to have such type of funding, especially if the chosen option consists of a funding based on mandatory levies on companies.

In such case, should EFRAG give up its private status as an AISBL and be reorganized as an EU Agency?

If such public funding was indeed feasible and retained as the solution to ensure a sustainable financial structure for EFRAG, then the question of the roles, rights and duties of (founding) member organisations, including but not limited to European Stakeholders Organizations that – for some of them – have been funding EFRAG for close to 20 years might obviously create tensions.

Still, we believe that a 100% public funding for an entity dedicated to serving the public interest and needing to maintain independence and not be subject to undue influence is the right way to move forward.

- ***Contributions by the private sector and implication on funding of the public-private partnership***

If the above model was adopted i.e. 100% public funding possibly financed by levies on companies in the scope of the IAS Regulation of 2002 and/or in the scope of the NFR Directive as revised (or the NFR Regulation replacing the NFR directive), then the financial contributions by the private sector would no longer be necessary. Still, contributions in kind corresponding to the uncompensated work time spent by members and experts of EFRAG bodies (GA, Boards, TEGs, Lab, Working groups, project task forces and advisory panels) would normally continue to exist.

Now, if this solution was not deemed possible or feasible, then the current funding model based on financial contributions by Member Organisations as well as an annual grant from the European Commission would be maintained. With an extension of its missions and responsibilities, EFRAG need for funding would increase at a time where Member Organisations see their own budget tighten in the post-Brexit and post-pandemic environment, thus having limited flexibility for increases in financial contributions. In this regard, one can only hope that EFRAG would be able to attract new Member Organisations capable of financially contributing to EFRAG's budget in the Non Financial Reporting pillar and/or in the Financial Reporting pillar.

- ***Alternative financing mechanism***

An alternative suggested in the consultation document would be to diversify the sources of funding of EFRAG activities both in the financial reporting and non financial reporting pillar.

Any of the following options, alone or combined, appear theoretically possible:

- Charging for standards or publications in the same manner as the IFRS Foundation does;
- Funding by philanthropic foundations and other private endowments as is common in the United States for example;
- Creating a fund-raising function within EFRAG to intensively solicit contributions from interested stakeholders not directly involved in EFRAG bodies.

We must however express our doubts as to the chances of success of such a funding model in Continental Europe.

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