Timo Punkari, KHT, FCCA

Mr Jean-Paul GAUZÈS
Chairman of the Board
EFRAG
nominations@efrag.org
jean-paul.gauzes@efrag.org

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BY E-MAIL

NFR standards commentary

Dear Mr Gauzès, please find my views and comments to the NFR standard setting.

1 Governance – structure and due process

1.1 My view is that the "public interest" could be assured by steering group or other similar group supervising the standard setting working group. Standard setting requires such expertise that it could not be expected that representatives of the public would have it. The steering group should set the targets and purposes of the targets, while the standard setting working group would define the contents of the standards. The steering group could consist of as an example members from NGOs, trade unions, EU commission and relevant EU agencies, national relevant authorities, investors and IASB, to have different views. A rotating structure may be necessary to avoid too large number of members.

1.2 Since the NFR covers a vast area, representation of many institutions and agencies would be useful, by one way of another. Besides ESMA, at least these come to my mind: EU commission, ETSK of the institutions, and EEA, EIGE, EU-OSHA, Eurofound, FRA of the agencies. If there was a steering committee, the institutions could participate that committee, while the agencies should have expertise to participate in the standard setting working group. ESMA might be a permanent member in the standard setting group, to assure that the market authority view would always be present.

1.3 The relevant national public authorities would be at least the environmental and work agencies, but also the securities and market authorities, and possibly also the authorities supervising public auditors. They could participate in either the steering group or the standard setting group.

1.4 Since the intended reporting is mainly produced by private listed companies, they should have a reasonably strong participation in the standard setting group. Equally, as they already work within the financial reporting framework, it would be beneficial to have the same structure for the NF reporting structure.

1.5 SME angle could be addressed the same way than the financial reporting. In SME environment all reporting is often done by the same people, so there should be a strong connection with financial reporting structures.

1.6 Since the NFR is required from the same companies and entities than the financial reporting, it would be logical to create similar structure for both sides of reporting, and have strong connections between the two.

2 Governance - Co-operation with standard setters

2.1 Financial reporting standards are prepared together with IASB, and their IFRS standards form the basis of EU financial reporting standards. To avoid confusion within the multitude of standards ("the alphabet soup"), there should be just one standard setter, or consortium of standard and framework setters, with whom EU would work on the standards. Whoever EU would choose as their partner would make that standard setter de facto a world leading standard setter, so the choice must be done with extreme care. One possibility is to support IASB in their recent initiative in taking (finally) a stronger position in NFR standards, as that would streamline the reporting environment of the companies subject to financial reporting and NFR. Should IASB agree with FASB similar co-operation than with financial standards, there would be a real international NFR standard setting organisation, which would help companies working in a number of markets to apply same standards in all key markets. IASB has also joined the major private independent standard and framework organisations (GRI, SASB, CFD, CDSB, IR and ISO) in a collaborative group under "Corporate Reporting Dialogue". As this group covers practically all major players, it could be practical for EU to have the members of the dialogue as the standard developing partners. In the same time, the Big4 accounting firms, which assure auditing in most companies subject to both financial reporting and NFR, have joined forces with WEF to define common sustainability standards. Working together with this WEF led consortium would bring the audit view to the standard setting process, as any standards must be auditable.

3 Financing EFRAG

3.1 Since the companies and entities subject to NFR are more or less the same than for the IFRS financial reporting, it would be the simplest way to organise EFRAG NFR financing the same way than with financial reporting.

4 Other comments

The key issue is to keep the reporting requirements understandable and workable. The entities preparing the reporting have busy schedules and they have to be able to create simple routines to collect the data within their own organisations, which may have dozens of units in a number of local jurisdictions. Since the corporate reporting expertise and processes are in the financial management, for the reporting companies it would be simplest to have the same structures than with the financial reporting, as that would allow using the existing reporting routines also for NFR to some extent at least. Separating NFR from financial reporting might create confusion among the reporting companies, auditors, and national supervising authorities. There are connections and common parts in NFR and financial reporting, and should they be separated, there could be confusion which one has the governing role, what kind of cross references the NFR and financial reporting should or could have, and how and by whom the reporting would be audited.

Timo Punkari
Public Certified auditor in Finland (KHT) and UK (FCCA)
Member of the Finnish Auditor Association sustainability working group
Part-time researcher of corporate governance and sustainability at Aalto University, Finland
Lecturer in sustainability reporting