

## Final response to EFRAG president's ad personam mandate to propose a new structure for EFRAG to account for its potential new non-financial reporting responsibilities

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### Introduction

We welcome the opportunity to comment on the EFRAG president's ad personam mandate to propose a new structure for EFRAG to account for its potential new non-financial reporting responsibilities.

Our ideas outlined below take as a starting point and are influenced by the following views about what is really meant by EFRAG's potential role as a standard setter for non-financial reporting:

- We understand that EFRAG would not, in practice, be given formal legal standard setting powers but would rather be the standard drafter (much like ESAs are today) – with the Commission/Parliament/Council retaining the formal power to set standards into law.
- We fully support EFRAG taking on the role to draft non-financial reporting for Europe now, given the urgent need for progress and the need for the creation of non-financial standards in Europe. We do believe that at some point there is likely to be a global standard setting process and that this would be desirable given the international nature of investments and investment portfolios. Therefore EFRAG should seek a governance structure for non-financial reporting activity which would allow it to migrate from a stand-alone "standard drafter" to a role of "contributing" pro-actively to a global process for drafting standards and then once they are developed to provide "endorsement advice", much like it is the case today for IFRS standards and financial reporting. However, international developments may take many years and Europe cannot wait and needs to begin work urgently.

## 1. Governance – Structure and due process

### **Question 1.1**

**Standards need to be developed in the public interest and no individual category of stakeholder may exercise undue influence: How can it be best ensured that standards are developed based on an inclusive and transparent due process? What should be the characteristics of such a due process?**

We advocate for a due process very similar to the one currently existing for dealing with financial reporting matters.

As described in our response to question 1.6, we advocate for the creation of a non-financial reporting Board and Technical expert group. The due process guidelines described in the Maystadt report currently applied to the financial reporting pillar, and designed to ensure standards are developed in the public interest and avoid undue influence, would also apply to the non-financial reporting pillar.

### **Question 1.2**

**Relevant European institutions and agencies shall be invited to be fully involved in the development of future standards, including the European Securities and Markets Authority (ESMA): How can these European Institutions and agencies be involved in the development of future standards and in the standard setter? Should there a particular role for ESMA?**

Relevant European institutions should be granted observer status on the Non-financial reporting Board and Non-Financial Technical expert group. We do not believe that ESMA should be treated differently than other European institutions.

### **Question 1.3**

**To permit relevant national public authorities to provide input about whether any future standards are responsive to the public interest, how can these authorities be included in the governance of the non-financial reporting pillar? Which authorities would be the most relevant and how should they be involved?**

A number of national public authorities should be represented and be members of both the Non-financial reporting Board and Non-Financial Technical Expert Group. However, there would not be space for all 27 member states to be present and therefore an approach would be needed to ensure appropriate involvement and representation. The most relevant authorities may vary per country. In some it could be within the financial reporting standard setter, in others it maybe within other bodies (not least because not every member state has its own financial reporting standard setter.) The MS should identify relevant experts/representatives.

### **Question 1.4**

**Should private sector and civil society representatives be involved in the standard setting work? If so, what would be suitable options for doing so in a balanced way? Which stakeholders<sup>1</sup> should be involved? Should the standard setting pillar be a public-private partnership like in the financial reporting pillar?**

We believe that the standard setting pillar be a public-private partnership like in the financial reporting pillar. The private sector should play a key role in the standard setting work – representation should be equivalent to what currently exists for dealing with financial reporting matters with representation at Board, TEG and expert group levels.

**Question 1.5**

***If there were to be SME standards derived from the future EU non-financial reporting standards, how should the SME angle be addressed in the governance and in the standard setting process?***

SME standards could be developed by leveraging off the expertise of a dedicated working group (SMEWG) reporting directly to the Technical Expert Group on Non-Financial reporting.

**Question 1.6**

***Which governance structure would you foresee for the EFRAG EU non-financial reporting standard setting pillar? How would this fit in the overall EFRAG governance structure? What relation would there be with the financial reporting pillar, if any?***

The structure we believe EFRAG should take to assume its potential new responsibilities is as follows:

**General approach**

In light of the points above, our overall approach is to copy many aspects of the current governance, put in place following the Maystadt report (for IFRS work) because we consider this works well and would also be appropriate for non-financial reporting.

**Core structures**

We make the following suggestions:

- A single General Assembly which continues to cover all EFRAG activities
- A single EFRAG President responsible for all the EFRAG organisation
- A single EFRAG CEO responsible for all operational/organisation tasks for EFRAG
- A new (additional) EFRAG Board in charge of Non-Financial reporting which will work in parallel to the existing EFRAG Board dealing with Financial reporting matters. Chaired by the EFRAG President (who continues to also Chair the existing Financial reporting Board)
- A new Technical Expert Group for non-financial reporting which will work independently from the existing TEG for financial reporting matters and have its own Chair with appropriate experience/expertise
- A number of new Working Groups/Task Forces/Expert Groups to carry out drafting of standards and providing specialist expertise into the process (e.g. as the Insurance Accounting Working Group does now for IFRS related matters). The Board would decide with recommendations from TEG on the need for and mandate for such Working Groups new Nominating Committee dealing with Non-Financial groups' appointments.

**EFRAG General Assembly**

The role of the EFRAG General Assembly would be extended to take responsibility for fulfilling the legal requirements, appointing chairs and members and supervising both the Non-Financial reporting and Financial reporting Boards. We believe that the remuneration and audit committees' roles can remain as single bodies with their scope covering all EFRAG activities.

**New Non- Financial Reporting EFRAG Board**

The role of the new Non-Financial reporting Board would be very similar to the existing Financial Reporting Board but focus on all Non-Financial Reporting aspects. The EFRAG president would chair both the financial and nonfinancial reporting Boards. The new Non-Financial reporting Board members would be selected by the General Assembly, like it is the case today for the Financial reporting Board.

### **Technical Expert Group for non-financial information reporting**

The role of this Technical Group for non-financial information reporting is expected to be determined at least initially by the outcome of the revision of the 2014/95/EU Non-Financial Information Directive. This group would be responsible for developing the standards with help from appropriate working groups and EFRAG staff. If/when a global standard setting process is formed then they would provide technical input into that process and advise the non-financial reporting Board in its role in influencing and endorsing existing standards. A new Non-Financial reporting Nomination Committee should be put in place to select non-Financial TEG members. The new TEG on non-financial reporting would also provide help to the non-financial reporting Board to identify the need for and scope of additional working groups, task forces or expert groups who would help them in developing non-financial reporting standards.

### **EFRAG European Reporting Lab**

While we recognise that the EFRAG European Reporting was a positive steppingstone to foster interest and begin the work on best practices on non-financial reporting, the creation of the non-financial reporting Board and non-financial reporting TEG would remove the need for its existence. We therefore suggest that this group be discontinued once the new structure is put in place. Many of those currently involved may well migrate to roles with the new non-financial reporting structure.

## **2. Governance – Cooperation with standard setters and other initiatives**

### **Question 2.1**

***Any future possible EU non-financial reporting standards must be built on existing reporting standards and frameworks to the greatest possible extent:***

- ***How can the relevant existing standard-setting organisations be closely associated in future standardisation work? How would you see cooperation and involvement?***
- ***More broadly, how should cooperation with existing public and/or private initiatives producing international standards and framework be established, to ensure that any future non-financial reporting standards applying in the EU build to the greatest extent possible on existing standards and frameworks?***
- ***How can the EU non-financial reporting standard setting have a global impact?***

Whereas it is key that existing frameworks be analysed and used as a basis for developing EU non-financial reporting standards – and the organisations developing those standards could be consulted, but they should not be involved in the standard setting process to avoid any conflict of interest.

### **Question 2.2**

***How to establish an appropriate coordination between the financial and non-financial reporting so as to ensure that financial and non-financial reporting provide an integrated view of the performance, position, development and impacts of reporting companies?***

The link between financial and non-financial reporting should be one of the criteria used in the development and design of the potential future non-financial reporting standard. The interlinkage between the two aspects should be considered by the future non-financial reporting TEG and Board, under the supervision of the EFRAG president.

### 3. Possible changes to finance of EFRAG

**Question 3.1**

***What ideas do you have for financing of the non-financial reporting pillar? Should the financing reflect the public-private partnership?***

We understand that the issue of the future funding of EFRAG is currently being discussed by the EFRAG general assembly, and we do not want to pre-empt any decision they may take.

However, our preliminary view is that the Non-financial reporting pillar should be mainly financed by a separate dedicated budget from the Commission, and we support the public-private partnership which currently exists for the financial reporting pillar. National standard setters contribute a significant amount financing for the Financial reporting pillar, but it is not clear if they are, or will be, involved in non-financial reporting at a national level and so their involvement in financing the non-financial reporting pillar is less evident.

We also believe that that with the finalisation of the IFRS 17 and with no major new IFRS standard to be endorsed in the near future, it may be possible that some of the EFRAG resources currently allocated to the financial reporting pillar could be reallocated to non-financial reporting. This could liberate some of the current private sector funding and allow the private sector to support a portion of the non-financial activities.

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