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Sent by email:
To: nominations@efrag.org
Cc: jean-paul.gauzes@efrag.org

18 November 2020

Subject: Response to Ad personam mandate on Non-Financial Reporting Standard Setting

Dear Mr Gauzes,

Accountancy Europe appreciates the opportunity to contribute our views related to the future governance, structure and financing of the European Financial Reporting Advisory Group (EFRAG) if EFRAG were to be entrusted with a standard-setting mandate for non-financial information (NFI) reporting.

We applaud EFRAG's work and engagement in NFI topics, including the preparatory work for the elaboration of possible EU non-financial reporting standards, carried out by the European Lab Project Task Force.

Hereafter, we have summarised some points that we believe merit further consideration.

GOVERNANCE – STRUCTURE AND DUE PROCESS

Accountancy Europe suggests considering the six principles of standard setting as set out in the Cogito paper 2017 *Standard setting of the 21st century* (see Text box 1):

Particularly, a multi-stakeholder involvement guarantees high quality and balanced standards; whereas independence affects the public perception of standard setting and resultantly, legitimacy.

We emphasise that similarly to the financial reporting pillar, non-financial reporting activities in EFRAG should be a public-private partnership in order to ensure appropriate accountability and contribute to legitimacy to these activities. Therefore, relevant European Union (EU) agencies and authorities as well as other private sector preparers' and investors' organisations can be involved within the EFRAG based on their expertise.

NFI standards activities will require new technical expertise and skills in EFRAG, as well as new tasks to be performed in addition to those for financial reporting standards. The current advisory activities

Six principles of standard setting:

- legitimacy
- independence
- transparency
- public accountability
- due process
- balanced (multi-stakeholder membership)

and the respective process in EFRAG for financial reporting should remain unchanged. Resultantly, we make the following suggestions for the governance of EFRAG in light of future NFI standards activities:

- setting up a new body within EFRAG to address NFI standards activities
- providing adequate governance and oversight to the NFI standards activities body
- ensuring connectivity between NFI and financial activities within the EFRAG where appropriate
- providing adequate governance and oversight of the EFRAG organisation as a whole
- enlarging the EFRAG General Assembly
- setting up a new NFI EFRAG Advisory Council
- reforming the EFRAG European Reporting Lab (not further commented on).

The role of EFRAG related to NFI reporting standards will depend on the outcome of the revision of the Non-Financial Reporting Directive. It might also be influenced by the outcome of international NFI initiatives (e.g. the IFRS Foundation consultation and/or the CDP-CDSB-GRI-IIRC-SASB collaboration), and it might change over time.

In any instance, we acknowledge that the role and expertise of the NFI standards activities body should include developing high quality standards, at a minimum, as an EU 'layer' to address specific public policy objectives in the EU.

We emphasise that there should be a body to oversee and govern the NFI standards activities, distinct from the governance and oversight of the financial reporting activities. In addition, NFI and financial activities within EFRAG should be linked and inform one another.

There should be a body responsible for the oversight and governance of the EFRAG organisation as a whole. This body would nominate members, ensure a robust due process and adequate funding for both the financial and NFI pillars.

Furthermore, we suggest enlarging the EFRAG General Assembly to allow additional relevant and interested NFI organisations to participate within and contribute to EFRAG.

Finally, we suggest setting-up a new NFI EFRAG Advisory Council to act as an effective and inclusive source of advice and feedback on all significant decisions.

GOVERNANCE – COOPERATION WITH STANDARD SETTERS AND OTHER INITIATIVES

We believe that, at a minimum, EFRAG's NFI standards activities, will include setting specific EU standards to facilitate the implementation of the requirements in EU legislation to achieve the EU Green Deal.

We suggest that the work of CDP-CDSB-GRI-IIRC-SASB as well as the outcome of the IFRS Foundation consultation towards a comprehensive reporting system be taken into account. EFRAG may use the NFI standards from these initiatives as a basis upon which to add regional (EU) requirements. Alternatively, in case it becomes clear that a global solution will not be timely available, EFRAG may develop separate NFI standards based on the good work of different NFI initiatives.

In order to have a broad market acceptance, it is important that NFI standard setting adheres to a robust public due process and leverages to the maximum possible the relevant work of recognised NFI frameworks and standards organisations.

POSSIBLE CHANGES TO FINANCE OF EFRAG

Accountancy Europe emphasises that the more demands are put on EFRAG, the more human and financial resources will be needed.

Currently, EFRAG's private sector organisations make significant financial contributions, but also and importantly, in kind to EFRAG for its financial reporting activities. They are prepared to continue to do so also in relation to EFRAG's NFI reporting activities. The current preparatory work would be impossible without the full engagement and pro bono work of private sector experts.

However, as far as finance is concerned, the EC would need to make sure the necessary funding is guaranteed, both for the EFRAG activities related to financial reporting and the ones related to the wider corporate reporting including NFI reporting.

Considering that at minimum the NFI standards activities will include setting specific EU standards to ease the implementation of the requirements in EU legislation, the EU and its Member States should foresee a sustainable long-term budget for this activity. In doing so, they should duly consider the level of funding of the global standards setters.

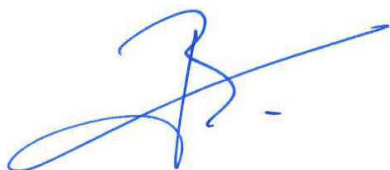
To this end, the EC should contribute by directly funding EFRAG and by influencing the main beneficiaries to do so as well.

* * *

We kindly refer to Annex of this letter for our detailed responses.

Please do not hesitate to contact Hilde Blomme (hilde@accountancyeurope.eu) in case of any questions or remarks.

Sincerely,



Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 35 countries that represent close to 1 million professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX: QUESTIONNAIRE

In your opinion, if EFRAG were entrusted with the development of possible EU non-financial reporting standards activities in a revised NFRD, how would the following general and specific considerations, identified as relevant to standard setting mechanism, apply if EFRAG were to be the standard setter? (NB: this does not affect EFRAG' present mission).

SECTION 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?

In the Cogito Paper 2017 *Standard setting in the 21st Century*¹ we set out how 'good' standard setting should look like. We believe that its six principles of standard setting continue to be relevant and should be adhered to in case EFRAG would be entrusted with any standard setting activities:

- legitimacy
- independence
- transparency
- public accountability
- due process
- balanced (multi-stakeholder) membership

Furthermore, if standard setting is a public interest mission, it requires multi-stakeholder involvement to guarantee the quality, practicability, balance and legitimacy of the standards.

It is of paramount importance that standard setting is independent and not affected by the agendas of one main stakeholder, be it preparers, investors, regulators or lawmakers. They should be considered and treated equally. This directly affects the public perception of standard setting and resultantly, market acceptance. Therefore, we suggest clarifying the relationship (i.e. role, expectations and vision) with the European Commission (EC) within EFRAG, especially related to non-financial information reporting but also as compared to financial reporting.

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?

Accountancy Europe suggest that relevant European Union (EU) agencies and authorities, like ESMA, should be involved within EFRAG, without financially contributing to EFRAG.

However, we note that it is important to have separation of powers to mitigate any self-review risk. For example, the non-financial information (NFI) standard setting body should be separate from the NFI standards' supervisory authority. To this end, we support ESMA to have an NFI supervisory role and to play the same role in the future NFI reporting activities as it does currently in the financial reporting activities of EFRAG.

In addition, we emphasise that NFI reporting is not relevant to capital market participants only. Smaller entities' operations also impact issues such as climate change and are dependent on resources like

¹ Accountancy Europe (2017), *Standard setting in the 21st century*, see: <https://www.accountancyeurope.eu/publications/standard-setting-21st-century/>

public entities are. Therefore, in order to ensure NFI issues are adequately addressed, there should be broader representation than capital market regulators or organisations.

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?

We fully appreciate that NFI topics (e.g. climate issues) require specific expertise, which is broader than and different from the current financial reporting skillset. Therefore, the main criteria to include any authorities in the NFI reporting pillar should be the relevance of their expertise available.

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 should be involved? Should the standard setting pillar be a public-private partnership like in the financial reporting pillar?

NFI reporting is of significant interest to a much wider range of stakeholders than financial reporting as a company's operations also impact the environment and society. Therefore, the EFRAG membership should be enlarged to allow more relevant and interested organisations to participate within and contribute to EFRAG like preparers (e.g. CSR Europe) and investors (e.g. Invest Europe, Better Finance, and sustainability rating agencies such as CDP). Depending on their membership status, they could at least be involved in the new NFI EFRAG Advisory Council as per paragraphs 24 – 27.

To this end, it is important to set out the relevant criteria for the selection of these stakeholders and clarify their roles and contributions to the NFI standards activities.

Similarly to the financial reporting pillar, the NFI standards activities pillar in EFRAG should be a public-private partnership in order to ensure appropriate accountability and provide legitimacy to these activities.

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?

SMEs are increasingly facing NFI reporting requests from capital providers, clients and suppliers. However, they do not always have the resources to address these complex issues. Therefore, it is important that NFI reporting considers the needs and limitations of SMEs.

In our view, SMEs should benefit from simplified NFI standards, which SMEs can apply on a voluntary basis. To this end, in order to ensure the development of adequate (simplified) SME NFI standards, SME representatives, with relevant NFI reporting knowledge, should be part of the bodies in the NFI reporting pillar.

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?

Accountancy Europe highlights that engaging in NFI standards activities will require new technical expertise and skills, as well as new tasks to be performed in addition to those for financial standards. Therefore, the current advisory activities in EFRAG for financial reporting should continue as is and that the process and governance structure for these activities should remain unchanged.

Considering the above, we make the following suggestions to the governance of EFRAG in light of future NFI standards activities:

- setting up a new body within EFRAG to address NFI standards activities
- providing adequate governance and oversight to the NFI standards activities body
- ensuring connectivity between NFI and financial activities within the EFRAG
- enlarging the EFRAG General Assembly
- setting up a new NFI EFRAG Advisory Council
- providing adequate governance and oversight of the EFRAG organisation
- reforming the EFRAG European Reporting Lab (not further commented on).

NFI standards activities body and governance

The NFI standards activities body should be the decision-making body on NFI technical matters. This body could either have a standard setting role and/or a role in influencing existing standards, considering their adequacy for use in the EU.

This role is expected to be primarily determined by the outcome of the revision of the 2014/95/EU Non-Financial Reporting Directive (NFRD). In addition, this role may be adapted in the future depending on the outcome of international NFI initiatives (e.g. the IFRS Foundation consultation² or the CDP-CDSB-GRI-IIRC-SASB collaboration³).

Therefore, at this point in time, it is difficult to comment on the composition and functioning of the NFI standards activities body as it largely depends on the roles it will be entrusted by the EC. Standard setting requires significantly more resources, rigor in the process, time and funding than influencing and endorsing existing standards.

In any case, the NFI standards body should be responsible for addressing the needs of the EU 'layer' of NFI standards. In particular, there is a need to have a comprehensive review of the requirements in the different EU legislation (e.g. the NFRD, the 2019/2088 Sustainability Regulation, the 2020/852 Taxonomy Regulation, etc.) and ease their implementation through streamlining to the extent possible, in view of achieving the Green Deal. Therefore, the role and expertise needed for the NFI standards activities body should include developing high quality standards to address specific requirements in the EU.

In addition, we suggest entrusting a body with overseeing and governing the NFI standards activities body.

Connectivity between NFI and financial activities in EFRAG

NFI and financial information affect and are affected by one another. Therefore, it is important that NFI and financial activities within EFRAG are linked and inform one another.

Enlarging the EFRAG General Assembly

The role of the EFRAG General Assembly would not materially change and continue to take responsibility for fulfilling the legal requirements.

² IFRS Foundation (2020), *Consultation Paper on Sustainability Reporting*, see: <https://www.ifrs.org/news-and-events/2020/09/ifrs-foundation-trustees-consult-on-global-approach-to-sustainability-reporting/>

³ CDP-CDSB-GRI-IIRC-SASB (2020), *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting*, see: <https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf>

NFI reporting is of significant interest to a much wider range of stakeholders than financial reporting due to the topics covered. Therefore, the General Assembly should be enlarged to allow more relevant and interested organisations to participate within and contribute to EFRAG, like preparers (for instance CSR Europe) and investors (for instance Invest Europe, Better Finance). To become an EFRAG member, a financial contribution should be made to EFRAG. Certain key NFI reporting stakeholders might be extremely relevant to become an EFRAG member, but not have the capacity to contribute financially. This should not be a reason to exclude them. To be inclusive, financial contributions from members should be small and should be compensated by public funding, as further explained in paragraphs 34 – 41.

EFRAG organisation governance

In order to minimise complexity, there should be a body responsible for the oversight and governance to the EFRAG organisation as a whole. This body should be responsible for:

- nominating and appointing the members in the financial and NFI standards activities bodies
- setting up a robust due process and ensuring the EFRAG activities adhere to it
- ensuring adequate funding both for financial and NFI standards activities
- ensuring and maintaining relationships with stakeholders.

Setting-up a new NFI EFRAG Advisory Council

The role of the NFI Advisory Council should be to act as a sounding board that is consulted to give advice on all significant decisions on NFI to be made in EFRAG. The NFI Advisory Council would have an advisory and a debate role in the EFRAG NFI activities.

Every Member Organisation of EFRAG should be allowed to appoint an NFI reporting representative to the new NFI Advisory Council. In addition, representatives of key players within the NFI reporting area would increase inclusiveness and should be welcomed. It could also include national public authorities with relevant expertise (see paragraph 7).

This NFI Advisory Council could be fairly large (e.g. include more than 30 representatives). Consulting with such a vast stakeholder representation could also cover some NFI outreach EFRAG would be expected to undertake in view of its NFI activities.

The NFI Advisory Council would make the organisation broad and inclusive whilst keeping the EFRAG NFI board small and effective.

SECTION 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?*

CDP-CDSB-GRI-IIRC-SASB (“the Five”) mapped how their NFI standards and frameworks address the double materiality perspective of NFI, whilst also addressing corporate value creation and ensuring an effective link with financial reporting standards. In addition, the IFRS Foundation is consulting on the role it may play in sustainability reporting. Many of the ideas in these initiatives are also supported on EU level, therefore, EFRAG may:

- involve them in the NFI standard setting activities
- consult on draft NFI standards with them (e.g. quality review or other fatal flaw review before issuing these standards for consultation).

The Five will first develop a mock climate standard, built from their standards and framework in the spirit of their vision towards corporate reporting. The output will help assess the commitment of these bodies and how EFRAG could engage them in its work.

On the other hand, the IFRS Foundation is also considering starting with a climate standard focusing on providing financially material disclosures.

Depending on the output and timing of the international activities, the EU may consider the following options in building on the work of these initiatives:

1. The ‘building blocks’ approach: if the NFI standard of either/both of these initiatives (e.g. the soon to be issued climate standards) are deemed adequate, the EU may decide to take this ‘base layer’ standard as is and add regional (EU) requirements (please refer to our comment in paragraph 18). The resulting set would be European NFI standards. Under this scenario, EFRAG’s role in NFI reporting activities would be to endorse global NFI standards in the EU as well as to develop the added layer of EU NFI standards.
2. Develop separate ‘core’ NFI standards, based on the work of these organisations: this would be the case if the global NFI standards would not adequately or timely address European NFI issues. Under this scenario, EFRAG’s role in NFI reporting activities would be to develop NFI standards, which could be seen as only fit for the EU. In order to have a global impact of these standards, EFRAG should seek buy-in from international organisations (e.g. IOSCO, WEF, FSB, UN).

Nonetheless, we highlight that it is important that NFI standard setting leverages to the maximum the existing relevant work of NFI frameworks and standards organisations in order to have a broad market acceptance.

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?

Please refer to our comments in paragraph 20.

SECTION 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?

Accountancy Europe highlights that the more demands are put on EFRAG, the more human and financial resources will be needed. Specifically, delivering quality and credible standards, including NFI reporting standards, would need significantly different and additional competences and resources.

In addition to contributing financially, EFRAG’s private sector organisations make significant contributions in kind to EFRAG for its financial reporting activities. The current preparatory work would be impossible without the full engagement and pro bono work of private sector experts. These organisations are prepared to continue to make these contributions in kind in the future, including for EFRAG’s NFI reporting activities.

Even if existing standards were used for EU NFI reporting standards activities, these different standards would need to be brought together, gaps need to be filled and interconnectivity with financial reporting ensured. This would still need sufficient human and financial resources.

Finally, we point out that NFI standards activities, at a minimum, will include setting specific EU standards to enable the implementation of the requirements in EU legislation (see paragraph 18). Therefore, the EU and its Member States should at least foresee a budget for this standard setting activity.

We note that organisations which develop standards have budgets of 10 million Euros or more, which can be considered an indicator of the necessary effort to engage in standard-setting activity. The following table provides the 2018 or 2019 budgets of some of the better known financial, NFI or specific subject-matter standard-setters:

Organisation	Type of standard setting	Budget in local currency	Budget in Euros
IASB	Financial reporting	GBP 22.000.000	25.000.000
FASB (+FAF-GASB)	Financial reporting	USD 48.217.000	42.971.347
SASB	NFI	USD 8.652.713	7.711.298
GRI	NFI	Euro 9.195.398	9.195.398
CDP	Subject matter specific	Euro 2.450.000	2.450.000
IIRC	Framework	GBP 2.030.000	2.306.818

As far as finance is concerned, the EC would need to make sure that the necessary funding is guaranteed, both for the EFRAG activities related to financial reporting and the NFI standards activities. This should in the first place be done by providing the necessary funding itself without jeopardising the public interest mission and multi-stakeholders model of EFRAG.

In addition, the EC should use its power to directly influence those that should financially contribute to EFRAG as its main beneficiaries, to avoid free-rider issues often linked to public interest standards setting, which are significant in EFRAG’s case. This includes EU Member States, preparers, investors, banks, insurance undertakings and the accountancy profession, which should effectively contribute financially in a transparent, proportionate and fair way.

We highlight that only the EC has the authority to put pressure to oblige the necessary stakeholders to contribute financially in such a way. In the longer term, a legal basis would be ideal; but in the short term, influence and leadership can be exercised outside of legal obligations. The EC can also explore how incentives towards these stakeholders could be used.

SECTION 4: DO YOU HAVE ANY OTHER COMMENTS YOU WANT TO SHARE?

No further comments provided.