



EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES

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Comments: *Ad persona mandate on Non-financial Reporting Standard Setting*

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Contact: Ms. Raquel Zaragoza

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Dear Mr Gauzes, dear Jean Paul:

EFFAS would like to thank you for sharing with us the letter and questionnaire issued on 1 October, in the context of your ad persona mandate on the governance and finance structure of EFRAG if EFRAG were to become the EU non-financial reporting standard setter.

Since the letter invites us as interested stakeholder to contribute, we are very happy share our views that will allow you to develop good and thoughtful proposals for possible changes to the structure of EFRAG which we understand will off course be subject to public consultation.

EFFAS is very pleased to comment on the questionnaire on your *Ad persona mandate on Non-financial Reporting Standard Setting* as requested by the EU.

EFRAG – Questionnaire

In your opinion, if EFRAG were entrusted with the development of possible EU non-financial reporting standards 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)

1. Governance – Structure and due process

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?

EFFAS response: As the European center of expertise in corporate reporting, EFRAG already works for the endorsement of financial standards considering the public interest. This experience in addition to the implementation and development of the Corporate Lab places EFRAG in a



distinctive and strong position to prepare **high-quality and technically independent** non-financial standards incorporating the public interest.

This can be achieved by:

- Setting a clear and defined work agenda for 2-3 years to be approved by the Board and by the EC.
- Setting EFRAG's work on the basis of diversified and inclusive technical and governance groups where all key stakeholders are represented, namely a governance structure and decision-making process with all stakeholders involved.

Once the new structure defined, due steps and procedures should be outlined for creating a working agenda. Both technical, governmental and governance aspects need to be clearly defined and agreed upon.

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?

EFFAS response: ESMA and other agencies could be incorporated into this process in a similar way as they participate as observers in the review of financial standards today

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?

EFFAS response: Similar to ESMA. Other regulatory bodies such as ESG, EBA, EIOPA, ECB should participate as observers.

1.4 Should the private sector and civil society representatives be involved in the standard setting work?

EFFAS response: Given the high level of technical work to be prepared, the standard setting work should be done by experts. In other words, the selection of people involved in the standard setting work should be based only on their expertise. If civil society representatives have to participate it should be on a representational basis and as observers.

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?



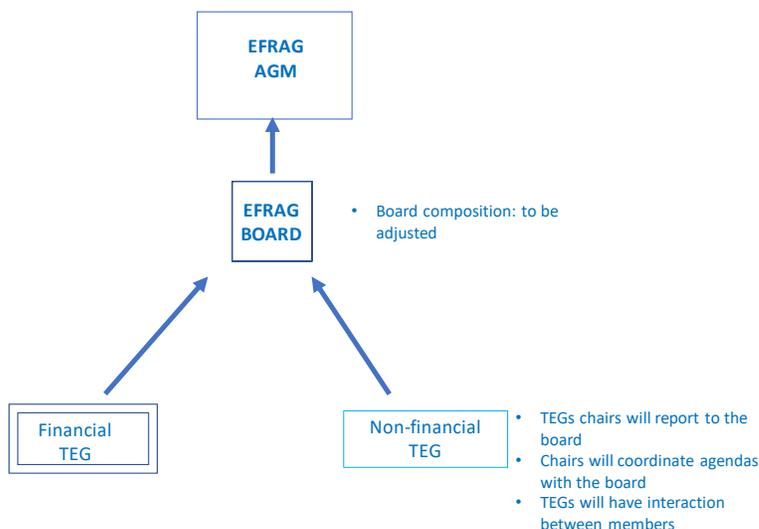
EFFAS response: Similar to what is currently used on financial reporting, the standard setting pillar should be a public-private partnership. This public private partnership should be created in a form where deliverables and budgets are being shared. The mechanics of this budgeting could be revised (see further).

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?

EFFAS response: Separate SME standards is always a sensitive subject. But if they were derived from the future EU non-financial reporting standards, a subgroup or *ad-hoc committee*, should address this topic. This should be more the case as well on financial reporting today.

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?

EFFAS response: See graph attached. We debated extensively whether we should have two boards or only one, whether we should have separate steering groups between the board and the TEGs.



EFFAS response (cont'd): We believe the optimal structure should be one Board with two TEG's, a financial one and a non financial one, where the TEG chairs report to the Board, for the Board needs to respect its mission to serve the European public good whether that is on financial or non-financial reporting. The TEG chairs will coordinate the agendas with the Board and will foster interaction between the different members. Currently there is no non-financial TEG but a steering committee (Corporate Lab) with ad-hoc task forces, which is normal in this



phase. But once we move to standard setting this should be institutionalized into a non-financial TEG with different people and profiles than the current one.

We think that one Board is key for keeping the consistency between financial and non-financial information (refer to Answer to 2.2) and to develop high quality corporate reporting standards.

2. Governance – Cooperation with standard setters and other initiatives

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 organizations be closely associated in future standardization work? How would you see cooperation and involvement?

EFFAS response: It should be a cooperation and provide feedback in both directions. The relationship with the relevant existing standard-setting organizations could be similarly to the current relationships with IFRS, FASB, etc....

- 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?

EFFAS response:

1. Set up an EFRAG task force to analyze the different institutions addressing currently this topic (IRRC, TCFD, Sustainability Standard Board, IFRS).
2. Analyze the different participants and products in the market and prepare a draft report to EFRAG board and to the EC.
3. Prepare a final report indicating proposing structure and participation of the different institutions for final approval.

How can the EU non-financial reporting standard setting have a global impact?

EFFAS response: EU standards have to (1) be of **high quality** and based on professional and **independent** technical work, (2) reflect **markets needs** and (3) have the **support of all stakeholders**.

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.

EFFAS response: **This is a key point for users.** Metrics have to be defined and linked with the financial statements as valuation is derived from financial statements. Both financial and non-financial reporting have to be consistent and connected.



Effas response cont'd: to this end, the connection should be established from the inception of the projects by incorporating analysts and investors focused on financial reporting with and the different groups working on non-financial reporting standards.

3. Possible changes to finance of EFRAG

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

EFFAS response: Stakeholders should appoint representatives and/or co-fund the operations of the new organization/structure.

The current structure is a good reflection of the PPP idea that exists already for the financial reporting: 60% EU + 40% private sector. However, the automatic correction of the EU budget if a private party decides to no longer participate and vice versa should be adapted. We should work on a long-term plan with specific goals defining the need for resources and funding and get a long-term agreement on that, with a remediation period if a party would withdraw.

4. Do you have any other comments you want to share?

EFFAS response: No

Yours sincerely,

Jesus Lopez Zaballos
EFFAS Chairman
27 / 10 / 2020