

**Position paper from the Informal Danish Funding Mechanism on:
Non-Financial Standard Setting in EU
June 2020**

The Danish EFRAG-mandate agrees on nonfinancial information (NFI) as an important issue and its importance will increase in the coming years even when the Covid-19 epidemic effects are considered. There is a political pressure to move forward on various NFI-agenda issues including sustainability reporting.

We agree that it is time to move from market-led solutions towards standard setting for NFI, and we agree it is getting urgent. In Denmark, we have been working with the market-led solutions for quite some time, and we have moved far over the last years with support from the leading part of Danish business life, and therefore, the subject is important for us.

Our opinion:

- A global standard setter for non-financial standards is preferred, however under the pressure of time an intermediary EU standard setter for Non-financial reporting is supported
- The first standards are to be issued quickly focusing on relevant information when investing and financing, and it may be in the form of KPI's and other simpler information
- The first standards should also be inspired by existing material/standards and should aim to support global practices, where possible/relevant. Furthermore, they must also focus on alignment with EU requirements e.g. the Taxonomy and Disclosure regulations.
- EFRAG is the obvious choice for a European standard setter – given a close collaboration with the stakeholders in the EU including the Commission and ESMA.
 - EFRAG will have to adjust its governance structure to ensure proper independence, oversight, and governance and continue to be an independent, open, transparent, due process-oriented organisation working in the European public interest
 - The technical work must be prepared by technically strong and specialised committees and staff

Global NFI Standard Setter – Interim European NFI standard setter

To increase the value of the reporting – especially for capital providers and lenders - we believe global convergence on the disclosure of non-financial information is important. However, at the same time we stress that moving towards a standard setter for NFI is urgent for Europe and likely more urgent in the European environment than in other constituencies given the ambitious policies and goals in Europe. The Sustainable Finance initiative being but one of the initiatives, where more harmonized reporting would be beneficial. There is in general a rapidly growing and urgent request in Europe from capital providers and lenders, and other stakeholders for more harmonized information from companies on NFI issues. EU companies are trying to meet the expectations and currently

struggle with bridging the gaps between the different, unharmonized requests from the diverse group of stakeholders.

In principle we support a global standard setter for NFI, but find it challenging to establish a global standard setter under the auspices of the IFRS Foundation in the necessary short timeframe that is available due to rapid demand for comparable NFI in Europe. In our opinion it will not be acceptable with an IFRS Foundation solution, where Europe does not have the appropriate influence, compared to the weight and importance of the sustainability agenda in Europe.

We support, as an intermediary solution, a European private sector standard setter, as we believe this would best meet the demand from end users and requirements in EU-regulations and serve the long-term public interests. EFRAG is an independent, open, transparent, due process-oriented private sector organization used to working with reporting issues in the European public interest¹. Therefore, we support EFRAG to establish itself as a European standard setter for NFI standards. We believe such a European structure will ensure a high-level influence on potential future global standards.

Quickly issued standards based on acknowledged frameworks and aligned with EU requirements

EC proposes to request EFRAG to launch preparatory work on EU NFI standards. Even though this pre-empts questions being addressed in the recently closed public consultation, we support the request to launch the preparatory work on scope, governance structure, costs and other structural elements needed to be able to form an appropriate and recognised standard setting body. The preparatory work should be speedy, and the work should involve the EU stakeholders including companies (preparers), investors, other users, and auditors. Enforcers and other regulatory bodies should be reflected in the due process procedures to ensure that input is being considered, but we should be cautious not mixing competence of standard setting with enforcement.

In regard of the scope of the future standards, we will at this stage prefer to aim for information issued for use by the capital providers and lenders to reduce some complexity in the set-up and to improve the value of NFI. We also believe this would meet other stakeholders' expectation to a large extent. We believe that an EU standard setter must build upon existing NFI frameworks. When issuing EU standards, it is important to take other EU requirements into consideration in order to ensure alignment including alignment with the requirements in the taxonomy- and disclosure regulations. The potential standard

¹ In continuation of the [EC "Information Note"](#) presented and discussed at the ARC meeting in April 2020, we support many of the arguments presented in the Note including that EFRAG should be appointed to develop the standards in the absence of global standards. However, we stress the independence point more than the required direct involvement of ESMA and other EU institutional bodies.

setter would also benefit from the results from the recent EU NFRD-consultation. As a matter of principle, it would be preferred if a NFI framework was developed first, but we will not support such a step, due to a potential delay in the issuance of the first standards. Having said that we will prefer new NFI standards to comply with the basic principles of relevance and faithful representation etc.

It is our opinion that the an NFI standard setter must rely on the lessons learned from how the financial reporting standards (IAS) were developed. The first standards issued in the 1970ies and the 1980ies were short and simple. For NFI focus may be narrow in the start, focussing on key-figures and/or key-ratios. However, the overall objective should be to get started quickly with quick issuance of the first standards.

We believe any organisation tasked with this, including EFRAG, will need to have specialised staff to develop the NFI standards, and we believe the committee responsible for the issuance of the standards should have specialised knowledge on a high level – not only on the specific topics, but also in regard to standard setting and reporting in general. Therefore, a connection to financial reporting requirements is crucial to ensure cohesive development. We still find it important that IASB continue to issue the IFRS standards for financial reporting to be endorsed by EFRAG and Europe as practise is today.

EFRAG Structure and Governance

The present structure of EFRAG is well suited to give endorsement advice to EU Institutions on IFRS standards and to generate examples of best practice in the European Reporting Lab, but the governance structure will have to be adjusted in order to issue EU standards. Further, the funding structure of EFRAG also needs to be addressed to secure adequate funding. It is our opinion that an EU standard setter must be an independent, open, transparent, due process-oriented organisation working in the European public interest.

There are different possibilities to adjust the EFRAG structure to be able to issue standards. One suggestion is to let EFRAG have two pillars, FI and NFI, with two independent boards each assisted by one technical committee, or EFRAG may have one board with two technical committees. In the latter case, we suggest that the board only have limited influence on the standards in order to have real experts to have the final say on issuance of the standards. We do not support the NFI standard setter to be a subcommittee of the European Reporting LAB, as the members of the European Reporting Lab do not necessarily hold the relevant expert reporting competences and have no connection to the financial reporting requirements.

Regardless of the structure, EFRAG must establish a "Governance and Oversight Committee" (GOC). The GOC will ensure the independence of the board(s), and ensure the appropriate funding and oversee the appropriate dealings at the meetings, use of the due processes etc. The GOC will also be responsible for oversight of strategy and

administration. The board(s) and technical committees will only work with the technical matters.

EFRAG will have to find ways to involve enforcers such as ESMA, EBA, EIOPA and the ECB. This could be done through an advisory group like the ones set-up with IAASB / IESBA. This will allow EFRAG to work closely with the EC and the enforcers, but EFRAG must also stay independent in its standard setting to avoid undue pressure from the EU institutions or from private sector lobbyists.

If you have any questions regarding this document please contact – Charlotte Jepsen, CEO of FSR – Danish Auditors and Chair of the Informal Danish Funding Mechanism at cbj@fsr.dk



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