

Responses to questionnaire to *Ad personam mandate on Non-Financial Reporting Standard Setting*

European Financial Reporting Advisory Group

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Belgium

Madrid, 13th November 2020

Dear Jean-Paul,

I am pleased to contribute as President of ICAC in the process to form an opinion that allows you to respond to the mandate that you have received from Vice-President Valdis Dombrovskis, on an *ad personam* basis, to provide recommendations on the possible changes to the governance and financing on EFRAG, in case EFRAG were entrusted with the development of possible EU non-financial reporting standards.

As you know the Spanish Government strongly supports the initiative of the Commission in the European Green Deal to evaluate the Non-Financial Reporting Directive (NFRD) and its plan to publish a legislative proposal to revise the current Directive to be in line with the Action Plan for Sustainable Finance. The Spanish Government believes that a revision of the NFRD is needed to strengthen the quality and create added value of non-financial reporting.

In the specific case of Spain, the transposition of the current NFRD has been carried out through a Law that is more demanding in terms of scope and content than the Directive, because our Government has long been convinced of the importance of non-financial information, which is a key priority to enable a green and sustainable transformation of our societies in the different areas that the NFRD covers.



We believe that a restructuring of the information, that provides greater clarity in the content for the users of the information, is very beneficial and also it is demanded for the companies that want to fulfill efficiently with the requirements. Also, to the extent that non-financial information is more regulated, it will be more relevant and more satisfactory for all the stakeholders.

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?

ICAC thinks that EFRAG should take advantage of its experience in the financial reporting pillar which it currently involves all accountancy stakeholders in a proper balance to achieve as principal aim and requirement of any standard endorsement to be conducive to the European public good, according to the terms based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards.

It is also important to take into account the specific European circumstances. In order to avoid unintended consequences of the standards before the adoption it is crucial to undertake impact analyses, field tests and outreaches as a very relevant part of the standard setting process.

A transparent process with the proper governance principles based on a solid corporate governance and due process including public consultation is needed to issue standards accepted by both public and private sectors.

Based on the success of EFRAG's structure in the financial reporting pillar, it could be interesting to explore the creation of a parallel pillar for non-financial information, with the adaptations required given the characteristics of this information.

In conclusion, the characteristics of such a due process are the following ones: serving the European public good, publicly accountable, independency, balanced membership representing

the different interests involved, open and transparency, due process with public consultation, legitimate voice of Europe, responsibility towards the different interests at stake.

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?

ICAC reckons that all relevant European institutions and agencies should get involved, including ESMA, integrated in the due process directed by EFRAG as the Institution with the European Commission mandate.

The following stakeholders should be represented through the corresponding associations or corporations: companies publishing non-financial information and corporate reports; users (analysts and investors (mainstream and socially responsible investors)); accountancy profession; financial intermediaries; civil society organizations and academics

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?

The different nature of the financial information prepared by a company (historical information on events occurred up to a date and on the situation and results obtained by the entity) in respect of the non-financial information that is referred to aspects related with the impact that the entity has in society, and in particular, in aspects such as environment, human resources, employee rights, fight against corruption and that is referred to some extent to prospective information, some aspects of the information have similarities that show that the connectivity between both types of information could be positive. It makes necessary to have an internal coordination process at the level of national public authorities to determine how to provide the inputs about whether any future standards are responsive to the public interest. In any case, the relationship between financial and non-financial information and the synergies between the two kind of information mean that financial authorities will have to be involved in the standardization process.



On this issue the Commission will have to provide guidelines to achieve some harmonization.

We could also consider two different scenarios. If the different European jurisdictions assign the competence of Non-Financial reporting to the accounting Standard Setters, the existing model in the financial reporting activity with all the institutions represented in the CFSS-TEG meetings and the EFRAG Board with permanent and temporary seats could be integrate the Non-financial Standard Setters process, but it does not seem to be a desirable scenario and should be avoided, it is preferable to maintain the independence between the two activities, financial and non-financial. If this was not the case, a parallel structure should be developed, taking into account that this duplicity would impact the need for additional finance of EFRAG.

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?

ICAC thinks that the public-private partnership is necessary to obtain the feedback from all stakeholders, mainly of preparers and users of Non-financial information, as it works in the financial reporting pillar.

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?

It would be reasonable to address the SME angle establishing a simplified framework of requirements depending on the size of the entities as the Accounting Directive stipulates for the SME's financial statements. The simplified standard would increase the comparability of the information that these entities could present. However, this information should remain on a voluntary basis not to increase the costs for these entities.

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?



As stated in point 1.3, it would be advisable to decide if the EFRAG Non-financial activity could be integrated in the current EFRAG governance structure, anticipating as far as possible the challenges that EFRAG faces relating to Brexit and its financial sources.

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 organisations be closely associated in future standardisation work? How would you see cooperation and involvement?

We agree with a collaborative standardisation work should be implemented. It would be desirable to look into the current financial reporting process, with standard proposals and comment letters, to find out if it could be possible to develop any improvements.

- 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?

It would be desirable that the future EU Non-financial Standards should gather the existing international standards and frameworks so that European preparers could rely on the compliance with EU Non-financial Standards covers all the users demands of information, avoiding possible duplicate burdens if European entities had to meet several Non-financial information requirements. A conceptual framework must be elaborated also for non-financial information.

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

We think that, if the EU non-financial Standards could achieve a high quality level in the sense mentioned in the last question, this is to say, that an entity applying EU non-financial reporting covers all reasonable users' expectations of non-financial information, EU Non-financial



Standards would have a global impact through its own usefulness producing international standing. The level of demand of the EU regulations requires the elaboration of a framework that meets the necessary requirements to satisfy the necessary quality of the standards

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?

A clear definition of Non-financial information objectives would be essential to determine the boundaries between financial and non-financial information and the possible interconnections between both. This may help also to decide where the non-financial information should be located and to avoid possible duplicities in the Notes or in the Management Report.

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?

ICAC considers that the non-financial pilar should have its own source of financing apart from the financial pilar. The European Commission needs to be aware of the increases in EFRAG's financial needs caused by the non-financial reporting pillar, pointing out that the current system of obtaining the European Commission grant could lead to a dead-end if the expenses grow but the EFRAG incomes decline as consequence of the present EFRAG financial difficulties.

The standardization process undertaken within the EU will save resources compared to the requirement to finance a process outside the EU where it will be more difficult for the results to be adjusted in time and form to the requirements of EU law.

The funding should support the public and private sector partnership model of EFRAG, but to ensure the balance of interests, the Commission should be involved in financing

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



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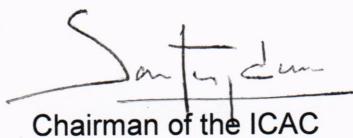
icac Instituto de Contabilidad y
Auditoría de Cuentas

We do not have any other comments.

Please don't hesitate to contact us if you would like to clarify any point of this letter.

Yours sincerely,

Santiago Durán Domínguez



A handwritten signature in black ink, appearing to read "Santiago Durán".

Chairman of the ICAC