

4 January 2021

Mr. Jean-Paul GAUZÈS
EFRAG Board President

Square de Meeûs, 35
B-1000 - Brussels
Belgium

Re: Consultation Paper on the *ad personam* mandate on potential need for changes to the governance and funding of EFRAG

Dear President Gauzès,

The Stakeholder Reporting Committee (SRC) is a committee of the European Accounting Association (EAA) whose mission is to actively participate in the debate about how organisations can, and should, inform their wide range of stakeholders about their activities, including their impact on society. It focuses on the non-financial or sustainability reporting. Further, given that non-financial information is increasingly attracting the interest of policy makers and standard setters, our committee also aims to create awareness of the policy issues amongst our membership, and to collaborate with policy makers and standard setters with a view to allowing the academic community's research expertise to have an impact on emerging policies and standards.

Based on the above, we are pleased to respond to your *ad personam* mandate on potential need for changes to the governance and funding of EFRAG issued in November 2020. We already responded the 29th of October 2020 to your Consultation on *ad personam* mandate on NFR standard setting, in which we mentioned the difficulties to respond in such a short period of time, which is even more critical in this case due to the Christmas break. It is not our aim to respond each of the numerous and detailed questions that are included in this new Consultation Document on the *ad personam* mandate on potential need for changes to the governance and funding of EFRAG, but to highlight some aspects that caught our attention, which are specifically referred to the new Non-financial Reporting body.

1. We understood that the Non-financial Reporting Board should be the only body responsible for the development of the standards, while in the document it is not entirely clear. We refer next to some paragraphs that produce that confusion. It is said that "Each Reporting Board would be responsible for all positions regarding its area of competence, after having considered the technical advice provided by its corresponding TEG and reflecting the results of EFRAG's due process (para 5.13), and that "The role of the Non-Financial Reporting Board would be focused on the *review and approval* of the non-financial reporting standards recommended by the Technical Expert Group" (para 5.18), and "The TEG would *be responsible for developing* standards with help from appropriate working

groups and recommending these standards for approval to the Non-Financial Reporting Board” (para 5.23).

2. We were surprised about the lack of information on the requirements to be a Non-financial Reporting Board member, although the document is explicit about the characteristics of TEG members: “The members of the TEG for non-financial reporting would be chosen for their experience and expertise in the drafting of standards and subject matter expertise in the non-financial reporting domain. A geographical and professional background balance should be respected” (para 5.22). We understand that these aspects are even more important for Board members, together with the necessary independence that we discuss below. Moreover, since “The role of the Non-Financial Reporting Board would be focused on the review and approval of the non-financial reporting standards recommended by the Technical Expert Group for Non-Financial Reporting (see above) *and nonfinancial reporting research activities* to support the non-financial reporting standard setting process” (para 5.18) we strongly recommend to include academics among the Board members.

In the letter we submitted on October 29, when responding to Q1.4 we stated the following: “In general, the new standard setting initiative has to be conceived – in the EAA SRC’s opinion – as a public-private partnership, where the private sector is directly involved in the standard setting work, under the premise that those making the standards are independent, whilst the public entities have a fundamental role of direction providers and oversight.”

3. We have some concerns that under the current proposal, the body issuing the new NFR standards is a truly independent body. It is not explained in the document how the members of the Non-financial Reporting Board will be selected, whether it will be part-time or full-time job, and how they will be paid. In our view, all these aspects should be specified in order to be able to appreciate the necessary independence. As an example, you can look at the IASB, which is formed by an independent standard-setting group of highly qualified experts, who work full time in that capacity.

Regarding the financing, it is clearly stated in the CP that in addition to cash funding, *currently* contributions in kind are provided for several groups: “EFRAG TEG, the EFRAG Board, the Working Groups and Advisory Panels and the European Lab and its Project Task Forces as well as in form of free secondments” (para 6.5).

4. What about the future Non-financial Reporting Board, should we understand that also contributions in kind are expected? We consider that this does not provide a good indicator of independence.

We conclude with some comments also included in our letter dated 29th October. As indicated in our introductory remarks, the EAA SRC believes it is in the interest of entities and stakeholders to have a common set of rules for NFR. In the event that an EU standard setter is established, it would be necessary to find the mechanism to align it with the equivalent international structures. What must be

avoided is to have standards that are not compatible with existing ones since it would increase complexity and impair global harmonization.

Sincerely,

Begoña Giner
SRC Chair
On behalf of the Stakeholder Reporting Committee

European Accounting Association
(<http://www.eaa-online.org/r/SRC>)