

www.allianz.com

Allianz SE, 80790 Munich, Germany

Koeniginstrasse 28
80802 Munich, Germany
Phone +49 89.3800-0

Jean-Paul Gauzès
President of the EFRAG Board
European Financial Reporting Advisory Group
35 Square de Meeûs
B-1000 Brussels
Belgium

Direct dial	Our ref., Date
Tel. +49 89 3800 14429 +49 89 3800 90261	Dr. Roman Sauer Andreas Thiele 05.01.2021

Mail roman.sauer@allianz.com
andreas.thiele1@allianz.com

Invitation to comment on the Consultation Document on the Ad personam mandate on potential need for changes to the governance and funding of EFRAG

Dear Mr. Gauzès,

We appreciate the opportunity to comment on your Ad personam mandate to provide recommendations on the possible changes to the governance and funding of EFRAG, in case EFRAG was entrusted with the development of possible EU non-financial reporting standards. This comment letter summarizes the Allianz Group's key positions on the questions posed in the Questionnaire.

We would first like to highlight again that **a consistent global mandatory non-financial reporting system would, in our view, not only simplify the reporting landscape, but clearly be highly and by far most valuable to increase the transparency about and comparability among companies** in this area. At the same time, we acknowledge that this may be difficult to achieve in a reasonable timeframe in view of the subject's urgency. In our opinion, however, a potential EU-level solution should only represent an intermediate step towards a global solution.

Accordingly, EFRAG's structure should be amended in a way that is consistent with and contributes to achieving such a global solution in the mid- to long-term. Therefore, **we welcome your proposal to create a fully separate governance structure for the non-financial reporting pillar from the beginning** as well as the fact that both sub-Boards would act fully independently and perform their respective tasks with a high degree of autonomy. In a similar vein, **we fully agree that the non-financial reporting pillar should have its own separate funding structure.**

With view to a global solution, in the mid- to long-term, we believe that EFRAG's core activities in financial reporting and non-financial reporting should be aligned and comprise upstream influence, improving corporate reporting standards, and endorsement advice. To this end, the Non-financial Reporting Board could be migrated towards an endorsement body as soon as a global standard-setter for non-financial reporting is in place. We would like to emphasize again that this view is not

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Allianz SE
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based on any specific concerns regarding EFRAG's general ability to fulfil the role of a standard-setter in non-financial reporting. On the contrary, we are well aware of the very high level of EFRAG's expertise and its proven track record and highly appreciate EFRAG's work. Rather, our view and corresponding proposals are based on more holistic and long-term considerations as to the optimal and most efficient set-up in the steady state, for which, in our view, a global solution should be pursued and for which the financial reporting set-up can and should serve as a point of reference.

As to the concrete proposals outlined in the consultation document, we would further like to make three more specific comments. First, **EFRAG should only make changes to its governance and funding structure that are in fact required to serve the role of developing EU non-financial reporting standards in the short-term.** Second, in our understanding, **the proposals in many cases implicitly imply a strong parallel between the financial reporting pillar and the non-financial reporting pillar, although the non-financial reporting pillar would be set up for a very different role and purpose.** Therefore, mirroring the current set-up of the financial reporting pillar in all respects would, in our view, not properly reflect the different nature of EFRAG's role in non-financial reporting. Third, beyond the envisaged separation of the two pillars and the three-board structure, **we sometimes missed more detailed and specific information about the roles and responsibilities as well as the composition of the envisaged Boards and TEGs, and the rationale as to why this particular structure is deemed as most suitable.** This rendered it more difficult to assess whether the proposed structure can be considered as the best option, both in the short-term and with view to a global solution in the mid- to long-term.

Finally, more generally, while we deem comprehensive involvement of the interested public and stakeholders as essential to ensure that resulting standards are relevant for and responsive to the needs of all stakeholders and, therefore, **generally agree with the proposed steps of the due process, we believe that it would likely be too time-consuming at this stage.** To tackle the timing issue, especially with regard to the short-term, we believe that **reliance on existing guidance and collaboration with respective organizations is essential and would allow to achieve timely progress in a reasonable timeframe, while still allowing for a reasonable and sufficient degree of public involvement.** At best, one or more existing standards, as deemed suitable, would serve as the initial basis and core guidance, which is then supplemented in a way to address EU specificities based on the technical guidance developed within the non-financial reporting pillar. In any case and irrespective of these structural considerations, **we deem it as essential that the respective disclosure requirements be streamlined and consistent with those imposed by means of existing and upcoming EU regulations.**

The appendix to this letter sets out our view and detailed comments on the specific questions posed in the consultation document, with a focus on the issues which are of particular relevance for us. In this regard, we would like to note that, as we already provided very detailed feedback to your initial questionnaire about EFRAG's governance and funding structure, many of our views are not repeated herein. Rather, we focus on the concrete proposals presented and the specific questions posed in this consultation document and respond to them under the assumption that EFRAG will in fact be entrusted with the development of EU non-financial reporting standards. However, both of our feedbacks should be considered on a combined basis as, together, they comprehensively reflect our overall view.

We hope that our feedback is helpful for you. Please feel free to contact Dr. Julia Menacher (Julia.Menacher@allianz.com) or us to discuss any matters raised in this letter.

Yours sincerely,



Dr. Roman Sauer

Head of Group Accounting & Reporting



Andreas Thiele

Head of Group Accounting Policy Department

Appendix: Consultation Document on the Ad personam mandate on potential need for changes to the governance and funding of EFRAG – Consultation Questions

We would first like to take the opportunity to make the following overarching remarks which relate to the proposals more generally:

- We provided very detailed feedback to the previous consultation about EFRAG's governance and funding structure, in case EFRAG was entrusted with the development of possible EU non-financial reporting ("NFR") standards. Many of our views are not repeated herein, if not explicitly requested, to avoid redundancies. Rather, we focus on the concrete proposals presented and the specific questions posed in the consultation document and respond to them under the assumption that EFRAG will in fact be entrusted with the development of EU NFR standards. However, ultimately, both of our feedbacks should be considered on a combined basis as, together, they comprehensively reflect our overall view.
- We would like to highlight again that a consistent global mandatory NFR system would not only simplify the reporting landscape, but clearly be highly and by far most valuable to increase the transparency about and comparability among companies in this area. At the same time, we acknowledge that this may be difficult to achieve in a reasonable timeframe in view of the subject's urgency. In our opinion, however, a potential EU-level solution should only represent an intermediate step towards a global solution. In this regard, the financial reporting ("FR") set-up can generally serve as a point of reference in many respects as it has been successful in achieving high-quality and consistent global FR standards.
- In our opinion, EFRAG's structure should be amended in a way that is consistent with and contributes to achieving such a global solution in the mid- to long-term. To this end, we deem it essential that a separate governance structure be set up for EFRAG's NFR pillar, with the primary aim to ensure full independence from the beginning. This set-up would be best suited to facilitate significant short-term progress at the EU level, on the one hand, as well as to allow for the migration towards a global solution in the mid- to long-term, on the other hand. Accordingly, we welcome the proposal to create a fully separate structure for the NFR pillar from the beginning.
- At the same time, in our view, EFRAG should only make changes to its governance and funding structure that are in fact required to serve the role of developing EU NFR standards in the short-term, both in order to achieve an efficient reorganization at the outset and to avoid unnecessarily extensive reorganizations at a later stage. We do not believe, for example, that a completely differently staffed joint EFRAG Board would be required, given that the two sub-Boards would each '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' (please refer to our response to Question 7).
- In our understanding, the proposals outlined in the consultation document in many cases implicitly imply a strong parallel between the FR and the NFR pillar, although the NFR pillar would be set up for a very different role / purpose (i.e. developing standards for EU NFR) than the FR pillar (i.e. endorsement advice and influencing IFRS standard-setting in the European public interest). Therefore, mirroring this set-up in all respects would, in our view, not properly reflect the different nature of EFRAG's role in NFR. In particular, the NFR pillar may require specific governance and funding arrangements, for example as to staffing of the specific bodies (e.g. less systematic rotation) or the involvement of specific stakeholders. As to the latter, for example, while the involvement of European stakeholder organizations in the FR pillar (directly or via observer rights) makes perfect sense with view to EFRAG's role in FR, a similar rationale does not necessarily apply for the NFR pillar.

- Given the IFRS Foundation's proven track record in FR, its extensive expertise in standard-setting and stakeholder dialogue as well as its robust governance and well-established, transparent and inclusive due process, we believe that its potential endeavor to set up a second standard setter under the umbrella of the IFRS Foundation may be a promising step towards a global solution. If such a standard setter was set up, in order to prevent parallel work on the same topics and achieve timely progress, we would strongly advocate close collaboration and dialogue between EFRAG and this standard setter.
- Our responses to Questions 1-6 and 11 apply more generally and do not (only) relate to the specific governance structure proposed in section 5 of the consultation document.
- Our responses to Questions 7-10 are based on the assumption that the three-board structure, as proposed in section 5 of the consultation document, is implemented.

Question 1: Due process

Do you agree that the above reflects the key due process steps for open and transparent non-financial standard setting? If not, which other steps would you advise me to consider or to remove?

We generally agree with the proposed steps of the due process and strongly welcome the fact that a high degree of stakeholder dialogue and public involvement is envisaged. Nonetheless, there are two aspects, in particular, that we would like to address in this context and that EFRAG should take into account in our view:

- We deem comprehensive involvement as essential to ensure that standards are developed in a balanced manner and are not solely driven by the, admittedly urgent, need for action and specific political objectives on sustainability matters. Nonetheless, the due process (as in the current FR standard-setting set-up and as proposed herein) would likely be too time-consuming at this stage. In particular, we believe that, for example, "Undertaking field tests and other forms of effect analyses before a project is included in the work plan" would not be required for all sustainability matters at this point, as there clearly is a demand for NFR with respect to numerous sustainability matters (e.g. climate change). Also, to tackle the timing issue, especially with regard to the short-term, we believe that reliance on existing guidance and collaboration with respective organizations is essential and would allow to achieve timely progress in a reasonable timeframe, while still allowing for a reasonable and sufficient degree of public involvement. At best, one or more existing standards, as deemed suitable, would serve as the initial basis and core guidance, which is then supplemented in a way to address EU specificities based on the technical guidance developed within the NFR pillar.
- Paragraph 3.2 could be understood in a way that the due process as established for EFRAG's FR pillar, which arguably "allows all and mainly European constituents to put forward their views", can serve as a point of reference for the NFR pillar. First, we believe that the specificities of standard-setting should be taken into account when defining the due process for the NFR pillar as this might, for example, require a different degree or way of outreach. Second, we do not agree with the regional scope as this could lead to standards that are primarily developed in the European public interest, making it less likely for them to have a global impact. While the scope makes perfect sense with view to EFRAG's role in FR, for developing NFR standards, knowledge and expertise from stakeholders worldwide would be particularly beneficial, especially against the background that improving NFR is clearly an objective that is shared by stakeholders and actively worked on globally.

Question 2: Member states and national public authorities

Considering the proposed new governance structure (see section 5 EFRAG proposed new core structure) at what level do you consider that the relevant national authorities should be involved and should they be members or observers:

- *EFRAG General Assembly?*
- *The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?*
- *The Non-Financial Reporting Board?*
- *TEG for Non-Financial Reporting?*

Should a Consultative Forum (similar to the Consultative Forum of Standard Setters in the Financial Reporting pillar) or any other form of advisory committee; be created for the Member States and national public authorities?

We generally agree that member states and national public authorities should be involved to the extent that they bring relevant expertise and / or that there are interconnectivities that need to be taken into account. However, in our view, a due process as presented on p. 7-8 of the consultation document, which is in substance similar to the one applied in FR (in combination with a suitable governance and financing structure, see below), would allow them to provide input and get involved to a significant and reasonable extent.

In our view, there are no indications as to why a different approach as to their respective involvement in the standard-setting process should be adopted in the context of NFR as compared to FR. Further, member states' interests are represented by the EC, Parliament and Council who retain the actual legal right to impose standards.

Consequently, we do not believe that member states and national public authorities should be involved systematically at any of the levels listed in this question, neither as members nor as observers. In particular, we do not believe that the involvement of national public authorities in the NFR pillar should mirror the current involvement of national standard setters in the FR pillar. The latter are actual FR standard setters, meaning that their expertise is focused on FR, while this is (mostly) not the case for them in NFR, nor for national public authorities in general. A similar approach (as in the FR pillar) may potentially be applied for actual national NFR standard setters or for the national FR standard setters also setting NFR standards (the latter would then, however, already be represented in the GA today), if deemed appropriate / required. In any case, globally leading standard setters should be involved as well at the appropriate levels (please refer to our responses to Questions 7, 8 and 9), especially against the background of their knowledge and expertise, and the fact that for the purpose of NFR standard-setting, involving European stakeholders only is neither required nor suitable.

However, setting up a consultative forum (similar to the EFRAG CFSS) could be a compromise and worthwhile, for example, to detect inconsistencies with national requirements and policies in an early stage, but would not be strictly required in light of the envisaged due process in our view.

Finally, more generally, we would like to emphasize that involvement of member states must not necessarily translate into involvement of national public authorities, depending on each member state's national set-up. We would only recommend to involve a national public authority if it is in fact the relevant national standard-setting body in a particular jurisdiction and, thus, has the relevant expertise. This should be assessed on a case-by-case basis to determine the most suitable approach to ensure high-quality national input.

Question 3: European institutions and agencies

Considering the proposed new governance structure (see section 5 EFRAG proposed new core structure) at which level do you consider European institutions and agencies should have representatives and should they be members or observers:

- *The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?*
- *The Non-Financial Reporting Board?*
- *TEG for Non-Financial Reporting?*
- *The Working Groups?*

Should a Consultative Forum or any other form of advisory committee; be created for European Institutions and Agencies to provide input to the TEG for Non-Financial Reporting and the Non-Financial Reporting Board?

In our view, ESMA as well as other European public bodies such as EBA, EIOPA or ECB should have a role in the NFR context that is similar to their respective role in the FR context under IFRS and should, thus, be involved into the standard-setting process to a similar extent and via similar procedures. For example, given ESMA's current role to promote the consistent application of IFRS and foster convergence of enforcement practices across Europe, ESMA could assume a similar role to promote the consistent application of potential future NFR standards and foster respective convergence of enforcement practices across Europe, naturally under the assumption that ESMA is reorganized in a way to be endowed with the same level of expertise in NFR as in FR. However, in analogy to the rationale outlined in our response to Question 2, in our view, there are no indications as to why a different approach as to the degree or way of involvement of these European public bodies in the standard-setting process should be adopted in the context of NFR as compared to FR. Accordingly, neither ESMA nor other European public bodies should, in our view, be granted a specific / different role in the standard-setting process in NFR.

Consequently, we do not believe that European institutions and agencies should be involved systematically at any of the levels listed in this question, neither as members nor as observers.

As to organizations with high technical expertise on sustainability matters, they should in our view, also not be granted a specific role in the standard-setting process in NFR. However, setting up a consultative forum or any other form of advisory committee could be worthwhile to incorporate their knowledge and expertise. In this case, such a committee could involve the above mentioned European public bodies such as ESMA as well, if deemed necessary. Also, in this case, global institutions and agencies (e.g. UN, WEF) should be involved as well, especially against the background of their knowledge and expertise, and the fact that for the purpose of NFR standard-setting, involving European stakeholders only is neither required nor suitable.

In this context, we would also like to note that involving European organizations to a greater extent (while not involving non-European organizations) would not be aligned with our key position that the degree of uniformity and comparability in NFR should be maximized, globally as far as possible.

Question 4: Private sector and civil society

Considering the proposed governance structure (see section 5), at which level do you consider private sector and civil society ought to have representatives:

- *The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?*
- *The Non-Financial Reporting Board?*
- *TEG for Non-Financial Reporting?*
- *The Working Groups?*

In general, when determining the composition of a standard-setting body (be it in a short-term or mid- to long-term set-up), or the NFR pillar, more specifically, it needs to be ensured that, comprehensively, its members have the necessary expertise, experience, tools and knowledge in the area of NFR as well as any essential related areas. This, in turn, assures that it is aware of and able to take into account the information needs and interests of all relevant stakeholders to a reasonable and balanced extent. Thus, while we generally agree that all of the stakeholder groups listed on p. 11 of the consultation document are important and should be involved, provided that the NFR pillar is appropriately staffed in the first place, in our view, a due process as presented on p. 7-8 of the consultation document, which is in substance similar to the one applied in FR (in combination with a suitable governance and financing structure, see below), would allow private sector and civil society representatives to provide input and get involved to a significant and reasonable extent.

In analogy to the rationale outlined in our responses to Questions 2 and 3, in our view, there are no indications as to why a different approach as to their respective involvement in the standard-setting process should be adopted in the context of NFR as compared to FR. We acknowledge that NFR is relevant for a broader stakeholder group and that adapting a framework to the needs of financial stakeholders (only) would not be able to ensure that the information needs of all other stakeholders are fully covered as well (especially when it comes to the inside-out perspective without rebound effect). Nonetheless, we believe that financial stakeholders are also (increasingly) interested in NFR, which implies that adapting a framework to their needs would, at least, ensure that the information needs of other stakeholders are covered to a great extent. In addition, there is broad agreement that other stakeholders' information needs need to be considered as well and, among others, the application of the double materiality perspective as required under the NFRD reflects the strong commitment to respond to these needs appropriately.

Consequently, we do not believe that private sector and civil society representatives should be involved systematically at any of the levels listed in this question, neither as members nor as observers.

Question 5: SMEs

Considering the proposed governance structure (see section 5), at which level do you consider SMEs (SMPs) should be represented:

- *The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?*
- *The Non-Financial Reporting Board?*
- *TEG for Non-Financial Reporting?*
- *A SME- focused Working Group?*

Would it be sufficient to seek input of SMEs/SMPs in the public consultation and outreaches rather than involve them in the governance bodies?

In general, we believe that a reasonable and proportionate set of requirements should be developed for SMEs, which reduces the burden for SMEs, while still ensuring that the basic data points are provided at a reasonable cost, taking into account the minimum information required for other companies (in particular, financial institutions) to meet their disclosure requirements (as, for example, in the EU setting given the linkage between the NFRD, EU Taxonomy and SFDR).

While such specific disclosure requirements for SMEs would naturally have significant implications for SMEs and related governance and oversight bodies, we do not perceive particular implications as to the governance and standard-setting process of the body in charge of developing NFR standards or the umbrella organization, respectively. In analogy to the rationale outlined in our responses to Questions 2, 3 and 4, in our view, there are no indications as to why a different approach as to their respective involvement in the standard-setting process should be adopted in the context of NFR as compared to FR. Rather, again, we believe that a due process as presented on p. 7-8 of the consultation document, which is in substance similar to the one applied in FR (in combination with a suitable governance and financing structure, see below), would allow SMEs and related governance and oversight bodies to provide input and get involved in the standard-setting process to a significant and reasonable extent.

Consequently, we do not believe that SMEs should be involved systematically at any of the levels listed in this question, neither as members nor as observers. However, setting up an SME-focused working group could be a compromise and worthwhile, but would not be strictly required in light of the envisaged due process in our view. In any case, such a working group should not only be composed of SMEs (but also of other experts, for example, from relevant bodies in the context of EU NFR).

Question 6: Cooperation with other standard setters and initiatives

What do you see as main features of cooperation with the (global) reporting initiatives? What kind of involvement could you consider?

As mentioned in our response to Question 1, we believe that any EU NFR guidance should build on and be aligned with existing NFR guidance as much as possible. At best, one or more existing standards (or, for example, the “Statement of Intent” initiative), as deemed suitable, would serve as the initial basis and core guidance, which is then supplemented in a way to address EU specificities based on the technical guidance developed within the NFR pillar.

This is not only absolutely critical to achieve timely progress, which is key given the urgency of sustainability matters. Further, such an approach would leverage synergies to the highest possible degree by leveraging previous efforts related to the actual development of frameworks and standards. Also, the broader the application of such frameworks and standards already at this stage, the more the preparers can build on their current reporting practices, which, in turn, is beneficial for users in terms of transparency and comparability as well. Finally, such a modular approach would increase the likelihood of a potential EU-level solution to have a global impact, especially as the EU NFR standards would then already be closely aligned with existing global NFR guidance. This would ensure that EU NFR standards would not only or primarily be driven by EU-level interests and needs, at least with regard to the core guidance, but would still address them via specific supplementary guidance developed within the NFR pillar.

Indeed, the involvement of and cooperation with existing standard-setting organizations is, in our view, a key step towards ultimately achieving a global solution and should, therefore, be one of the key priorities and objectives from the beginning. Comprehensive involvement of existing standard-setting organizations (worldwide) must be ensured via an adequate governance structure.

In our view, the most promising approach and credible signal would consist in the representation of (selected relevant) existing (international) standard-setting organizations (at least the “Statement of Intent” initiative) in the actual standard-setting body (or an interim body of experts, as the case may be). In addition, this body should actively seek input from and involvement by existing standard-setting organizations via concrete processes such as by setting up dedicated advisory panels / consultative groups with their respective representatives. In addition, further relevant bodies in the context of EU NFR such as the Platform on Sustainable Finance, which was recently established pursuant to the Taxonomy Regulation, shall be represented in or strongly engage with this body as well in order to ensure consistency between any future NFR standards and relevant (current and upcoming) EU legislation(s).

These considerations apply and should be considered more generally, in our opinion, i.e. irrespective of whether a global standard-setting body were to be newly established already as a first step or whether a technical body of experts were established under the umbrella of EFRAG as an intermediate step, if such future NFR standards should have a global impact.

In any case, we deem it as essential that EFRAG provides insights into how it plans to work with existing NFR initiatives, how it plans to consider and integrate existing guidance, and about its commitment to and engagement in consolidating / harmonizing the reporting landscape and ultimately working towards a global NFR standard setter.

Question 7: EFRAG Board

We would first like to take the opportunity to make the following overarching remarks which relate to the specific structure proposed in section 5 of the consultation document more generally:

- We strongly welcome the proposal to create a fully separate structure for the NFR pillar from the beginning as well as the fact that the two sub-Boards would act fully independently and perform their respective tasks with a high degree of autonomy (namely, as they 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”).
- While interconnectivity between FR and NFR is, of course, very important, this would be of particular relevance for an umbrella organization that sets both FR and NFR standards. In the context at hand, we rather deem it as important in terms of the exchange of knowledge and expertise, among others, about overarching topics such as digitization or topics with intersections affecting / contributing to both pillars. In particular, the FR and NFR pillars serve very different roles and their respective activities can and should not be strictly / deliberately aligned. In contrast, both roles should generally be fulfilled fully independently of each other.
- Beyond the envisaged separation of the two pillars and the three-board structure, we sometimes missed more detailed and specific information about the roles and responsibilities as well as the composition of the envisaged Boards and TEGs within the proposed governance structure, and a corresponding rationale as to why this structure is proposed and deemed as most suitable. This rendered it more difficult to assess whether the proposed structure can be considered as the best option, both in the short-term and with view to a global solution in the mid- to long-term.

What in your view should be the maximum size the new EFRAG Board?

We believe that the number of members should be restricted to max. 40 (for efficiency reasons and against the background of coordination issues), subject to the below considerations regarding its composition. Usually we would see a size of 15-18 members as the maximum size for a decision making body, but the higher number would be required if EFRAG follows the idea to create a “joint Board” as described below.

Which stakeholders should be represented and in which proportion?

As we understand that the two sub-Boards would act fully independently and perform their respective tasks with a high degree of autonomy (namely, as they 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”), we do not believe that a (completely) differently staffed joint EFRAG Board would be required. In fact, the NFR pillar would serve a very different role / purpose (i.e. developing standards for EU NFR) than the FR pillar (i.e. endorsement advice and influencing IFRS standard-setting in the European public interest). As such, while there are, of course, interconnectivities between FR and NFR, more generally, EFRAG’s roles in both areas differ significantly and should be carried out fully independently of each other. Accordingly, the EFRAG Board would, in our understanding, primarily serve as a representative body to the public and allow for and ensure a reasonable degree of dialogue and exchange of knowledge and expertise between the FR and NFR pillars. To this end, we believe that the most suitable and resource-efficient approach would be if the EFRAG Board was (only) composed of the members of the two sub-Boards. The EFRAG General Assembly should be in charge of exercising oversight over both sub-Boards, whilst respecting their exclusive responsibility for the positions taken on all NFR and FR matters, respectively.

A “Board” is usually a decision making body, while in our view the new joint EFRAG Board acts mainly as a representative body for exchange and discussion purposes. One possibility could be to identify topics which are relevant for financial and non-financial reporting, specifically topics related

to the interconnectivity, and make the EFRAG Board the decision making body for them. If no decision making power is granted to the EFRAG Board, as all topics are either covered by the Financial Reporting or Non-Financial Reporting Board, maybe the EFRAG Board should be renamed as a Council only, as it is a consultative body only. We also deem this approach as suitable with view to a global solution in the mid- to long-term where EFRAG should, in our view, pursue its current role in FR in NFR as well. In the steady state, there would likely be more decisions that would in fact relate to both areas and would, thus, need to be taken by the EFRAG Board, e.g. if endorsement advice was to be provided to the EU for a standard on a management commentary that would require elements from both FR and NFR. The three-board structure could then potentially even be simplified, namely, by retaining only the EFRAG Board and both TEGs, where the former would then be responsible for performing the tasks of the FR and the NFR Boards.

In our view, the current EFRAG Board could and should be migrated to the FR Board. This would ensure that the well-established FR pillar which we believe should in substance remain unchanged, is not affected by any reorganizations made to EFRAG. The NFR Board would need to be newly set up. As to the respective proportion of the EFRAG Board representatives, we would suggest for the EFRAG Board to consist of an equal amount of members of the FR and the NFR pillar at all times. Accordingly, we would suggest for the NFR Board to also consist of 17 members, if deemed reasonable with view to the required stakeholder involvement. Otherwise, namely if one sub-Board were to have more members than the other sub-Board, for this sub-Board, a rotation mechanism as to its members' representation in the EFRAG Board should be set up.

Finally, we believe that the FR and NFR Board should have the same Chair, who should further serve as the EFRAG Board President as well. As the two sub-Boards would act fully independently and perform their respective tasks with a high degree of autonomy, we do not believe that appointing another individual as EFRAG Board President would be required / appropriate. In our understanding, this position would, otherwise, be very much detached from technical topics / decisions. Further, as the EFRAG Board President should not either be the Chair of the FR Board or the NFR Board, we believe that the most straightforward and suitable set-up would be for the same individual to serve as the Chair of all three Boards.

This set-up would, in our view, also be appropriate to ensure interconnectivity, subject to the above considerations as to how we perceive interconnectivity in this particular context, where the FR and NFR pillars serve very different roles.

Should there be observers? If so, who should be the observers?

In our view, European Public institutions such as the EC, ESAs and ECB could participate in the EFRAG Board in an observer capacity. The same could apply for other relevant organizations with a focus on sustainability matters or with high technical expertise on sustainability matters, as deemed relevant.

Do you foresee any obstacles that may arise were the EFRAG Board charged with oversight to include representatives of the Non-Financial Reporting Board and the Financial Reporting Board?

As we understand that the two sub-Boards would act fully independently and perform their respective tasks with a high degree of autonomy and that the EFRAG Board would, thus, not take actual decisions related to the FR and NFR pillars, we do not foresee any obstacles that would arise from appointing (only) representatives from the two sub-Boards to the EFRAG Board. Obstacles would, however, arise, if the EFRAG Board rather than the EFRAG General Assembly was to be in charge of exercising oversight over both sub-Boards.

Should the EFRAG Board appoint the members of both TEGs and the European Lab, or should this be done by their respective Boards (Non-Financial Reporting Board and the Financial Reporting Board)?

The EFRAG Board should appoint the European Lab SG members as (based on the structure proposed in section 5 of the consultation document) it does not pertain to the FR and NFR pillars. If a particular project task force serving only one of these pillars was set up within the European Lab,

the respective sub-Board could make appointment recommendations to the EFRAG Board or decide upon the temporary members autonomously. However, we do not believe that this scenario is likely to occur very often (please refer to our response to Question 10).

The TEG members should be appointed by their respective responsible sub-Board. As to the FR TEG, the formal process as currently in place, in our view, should be carried forward.

Question 8: Non-financial reporting board

What in your view should be the maximum size of the new Non-Financial Reporting Board?

Based on our response to Question 7, we would suggest for the NFR Board to also consist of 17 members, if deemed reasonable with view to the required stakeholder involvement. In any case, we believe that the number of members should be restricted to max. 20 (for efficiency reasons and against the background of coordination issues).

Which stakeholders should be represented and in which proportion?

In our understanding, the NFR Board would represent the body that would actually be responsible for developing NFR standards, with the TEG providing input / support / technical guidance. As to its composition, generally, a similar approach could be adopted as for the FR Board, yet taking the different thematic focus and nature of the NFR role into account. In particular, we would strongly recommend for (selected relevant) existing (international) standard-setting organizations (at least the “Statement of Intent” initiative) to be directly represented in the NFR Board (please refer to our response to Question 6). This approach would be particularly promising, especially against the background of their knowledge and expertise, the fact that for the purpose of NFR standard-setting, involving European stakeholders only is neither required nor suitable, and to achieve a global impact as well as timely progress.

Should there be observers? If so, who should be the observers?

While the involvement of various bodies in the FR pillar via observer rights makes perfect sense with view to EFRAG’s role in FR, a similar rationale does not necessarily apply for the NFR pillar. Taking the different nature of the NFR role into account, we do not believe that there should be observers. In particular, there are no indications as to why a different approach as to the degree or way of involvement in the standard-setting process should be adopted in the context of NFR as compared to FR.

Should the Non-Financial Reporting Board members be appointed by the EFRAG General Assembly on recommendation of the EFRAG Board or directly by the EFRAG Board?

Against the background of our proposal as to the composition of the EFRAG Board, we believe that the NFR Board members should be appointed by the EFRAG General Assembly. If a (completely) differently staffed joint EFRAG Board were implemented, which we would not recommend, the EFRAG Board could make respective recommendations to the EFRAG General Assembly. Appointment by the EFRAG Board would, in our view, only make sense if the EFRAG Board was also endowed with making decisions directly related to the FR and NFR pillars. Otherwise, it would, in our view, not be appropriate for members (primarily) catering the FR angle to be involved in key decisions about the NFR pillar, and vice versa.

How can the interconnectivity between the Financial Reporting Board and the Non-Financial Reporting Board be ensured?

In our view, the following measures would be appropriate to ensure interconnectivity between both sub-Boards and, thereby, between both pillars, more generally, subject to the above considerations as to how we perceive interconnectivity in this particular context, where the FR and NFR pillars serve very different roles (please refer to our response to Question 7):

- The proposed composition of the EFRAG Board would allow for and ensure a reasonable degree of dialogue and exchange of knowledge and expertise between the FR and NFR Boards / pillars.
- The FR and NFR Board should have the same Chair, who should in turn be the EFRAG Board President as well (please refer to our response to Question 7).
- In addition to having the same Chair, one other member of the FR Board should be an observer in the NFR Board, and vice versa.

If a (completely) differently staffed joint EFRAG Board was implemented, which we would not recommend, joint FR and NFR Board meetings should take place on a regular basis (and on demand) for the exchange of knowledge and expertise, among others, about overarching topics such as digitization or topics with intersections affecting/ contributing to both pillars.

Question 9: TEG for non-financial reporting

What in your view should be the maximum size of the new Non-Financial Reporting TEG?

We believe that the number of members should be restricted to max. 20 (for efficiency reasons and against the background of coordination issues).

Which stakeholders should be represented and in which proportion? Should there be observers? If so, who should be the observers?

We do not believe that there is a particular stakeholder representation ratio to be pursued for the composition of the NFR TEG. Rather, the focus should be on ensuring appropriate technical expertise in a timely manner and from the beginning, e.g. by involving (selected relevant) existing (international) standard-setting organizations (at least the “Statement of Intent” initiative) directly as members or via dedicated working groups / task forces / advisory panels. Also, while we generally deem the formal appointment process (as currently applied for EFRAG’s TEG) as appropriate, yearly rotations would not be required / appropriate for the NFR TEG, at least not from the beginning, as it is already a key challenge to establish the relevant technical expertise in the first place.

In analogy to the above rationale regarding the NFR Board, while the involvement of various bodies in the FR pillar via observer rights makes perfect sense with view to EFRAG’s role in FR, a similar rationale does not necessarily apply for the NFR pillar. Taking the different nature of the NFR role into account, we do not believe that there should be observers. In particular, there are no indications as to why a different approach as to the degree or way of involvement in the standard-setting process should be adopted in the context of NFR as compared to FR.

Do you agree that EFRAG TEG members are recommended by the EFRAG Non-Financial Reporting Board but appointed by the EFRAG Board rather than be appointed by the EFRAG Non-Financial Reporting Board?

We believe that the NFR TEG members should be appointed by the NFR Board. Appointment by the EFRAG Board (even upon recommendation by the NFR Board) would, in our view, only make sense if the EFRAG Board was also endowed with making decisions directly related to the FR and NFR pillars. Otherwise, it would, in our view, not be appropriate for members (primarily) catering the FR angle to be involved in key decisions about the NFR pillar, and vice versa.

How can the interconnectivity between the Financial Reporting TEG and the Non-Financial Reporting TEG be ensured?

In our view, the following measures would be appropriate to ensure interconnectivity between both TEGs, subject to the above considerations as to how we perceive interconnectivity in this particular context, where the FR and NFR pillars serve very different roles (please refer to our response to Question 7):

- One or two members of the FR TEG should be an observer in the NFR TEG, and vice versa.
- Joint FR and NFR TEG meetings should take place on a regular basis (and on demand) for the exchange of knowledge and expertise, among others, about overarching topics such as digitization or topics with intersections affecting / contributing to both pillars.

In addition, we suggest for EFRAG to address whether individuals could generally serve as members of both TEGs at the same time. In this case, we would suggest for EFRAG to implement a rotation mechanism to ensure that the same individuals would not serve on both TEGs for longer time periods.

Against the background that the FR and NFR pillars serve very different roles, it seems unlikely that joint working groups that would in fact be directly linked to both pillars would be required.

Question 10: Activities of the European Lab

Do you agree that there is a need for a European Lab activity in the revised EFRAG governance structure?

In our view, retaining the European Lab would not be strictly required, but could be worthwhile. Overall, we believe that there are arguments both for and against its retention and we recommend that EFRAG carefully considers whether the advantages or disadvantages prevail:

- Pro: Retaining the European Lab could generally be worthwhile to conduct further projects to stimulate innovations in the field of corporate reporting in Europe by identifying and sharing good practices.
- Con: Given the fact that within the FR and NFR pillars, dedicated working groups / task forces / advisory panels can be set up, if necessary, the need to set up such groups within the European Lab is reduced. Also, given the significant structural changes and the major new role that EFRAG would be taking on, both subject to an urgent timeline, focusing on these two roles might be more efficient and goal-oriented, or even necessary, in the short-term. In particular, innovation and the sharing of best practices are considered very relevant by the broader public and are also strongly encouraged by many other organizations and initiatives. In any case, EFRAG should first ensure that the FR and NFR pillars would be endowed with sufficient resources. Based on our understanding of the European Lab's current structure, composition and tasks, it may, alternatively form the basis for or be migrated to a working group / advisory panel for the NFR TEG. In any case, it should not form the basis for or be migrated to the standard-setting body, which, in our understanding, would be the NFR Board.

Do you agree that the European Lab could address both non-financial reporting and financial reporting activities?

In our view, if the European Lab were retained, its activities should cover the entire corporate reporting landscape. Otherwise, it would not seem straightforward to position the European Lab outside of the NFR pillar. Nonetheless, the respective tasks should not be directly related to either of EFRAG's two roles and respective activities, but rather to overarching topics such as digitization or topics with intersections affecting / contributing to both pillars. For tasks directly related to the FR or NFR roles, dedicated working groups / task forces / advisory panels should be set up by the respective TEG and, thus, form part of either the FR or the NFR pillar.

As indicated above, we therefore believe that the need to set up such groups within the European Lab is reduced and may in fact be limited. We recommend that EFRAG assesses beforehand which (kind of) topics / projects would in fact fall under the European Lab's responsibility within the new structure. In this context, we suggest for EFRAG to seek input from stakeholders as well.

Do you have other comments or suggestions regarding the activities of the European Lab?

If the European Lab was retained, we would see its key potential for contribution, which should, in our view, be primarily pursued, in providing support in any possible way towards a global solution.

Further, we deem it as essential that EFRAG provides insights into which (kind of) topics / projects would in fact fall under the European Lab's responsibility within the new structure. In this regard, in our view, EFRAG should also comment on whether it engages in consolidating / harmonizing the reporting landscape and moving towards a global solution, as this is clearly an objective that is shared by a broad range of European stakeholders.

Finally, we suggest that the European Lab become part of EFRAG's governance structure and not remain a free-standing organism outside of it.

Question 11: Funding

We would first like to take the opportunity to make the following overarching remarks which relate to the funding of the NFR pillar more generally:

- We fully agree that the funding of the FR pillar should not be affected by the new activities and that the NFR pillar should have its own separate source of financing where organizations could decide to contribute to both pillars. In any case, EFRAG's ability to set standards independently without real or perceived undue influence from any interest groups needs to be ensured, and setting up both an independent governance and funding structure is the most suitable approach to achieve this desired result.
- Our view as to the funding of the NFR pillar depends on the timeline. As already mentioned above at various instances, in our opinion, EFRAG's structure should be amended in a way that is consistent with and contributes to achieving a global solution in the mid- to long-term. In line with this target picture, as to funding, we would also differentiate as to the appropriate approach in the short-term, i.e. where EFRAG would be entrusted with developing EU NFR standards, and the mid- to long-term, i.e. where EFRAG's NFR pillar would serve the same role as the FR pillar.

Considering the proposed governance structure in this consultation document:

Should the majority of the funding, or even all the funding, be provided by the European Commission and the Member States?

In the particular situation at hand, in addition to the general objective of serving the public interest, NFR standard-setting would be very closely tied to EU legislations / regulations. Therefore, public funding is generally appropriate and, more specifically, predominant or full reliance on EC and member state funding is to some extent understandable, among others, against the background of the EC mandate as well as to ensure an adequate amount of funding.

Nonetheless, with view to a global solution in the mid- to long-term and the potential EU-level solution's ability to have a global impact, we are concerned that predominant or full reliance on funding by European member states and the EC could give the impression of and may even lead to a EU-level solution which in fact only or primarily serves European needs. However, other interests should be considered as well and to a reasonable extent, as the case may be. In particular, NFR standards should be conceptually well-founded and feasible to implement in practice, and should primarily be developed in a way to serve users of non-financial information. These are overarching and objective requirements. Their fulfilment should, thus, not be influenced by the source of funding or the fact that the entire funding stems from European sources. Accordingly, we would like to emphasize again that we deem it as indispensable that it is ensured that there is no undue influence on potential NFR standards as a consequence of the source of funding (which seems more difficult to achieve when relying on European funds only) and this needs to be made transparent to the public.

As outlined in our responses to Questions 1 and 6, at best, one or more existing standards (or, for example, the "Statement of Intent" initiative), as deemed suitable, would serve as the initial basis and core guidance, which is then supplemented in a way to address EU specificities based on the technical guidance developed within the NFR pillar. Strong reliance on existing NFR guidance would, in our view, counteract potential concerns regarding the NFR pillar's funding to a reasonable extent. In this case, we believe that it would be acceptable for EFRAG to predominantly or fully rely on EC and member state funding to perform its short-term role in NFR.

Is it important that the private sector contributes to the funding and why? Should the public-private sector partnership model also be reflected in the funding?

Based on the above considerations, we generally consider private sector contributions as an important component of funding in the standard-setting process. In particular, the funding structure as

currently in place in the FR standard-setting context under IFRS has proven successful and can serve as a point of reference with view to a global solution in the mid- to long-term.

With view to our target picture, namely where EFRAG's NFR pillar would serve the same role as the FR pillar in the mid- to long-term, EFRAG's current funding structure should in substance apply for both pillars, naturally with (partly) different stakeholder organizations contributing respective funding.

Would a levy at national or European level be feasible?

A levy at national or European level could generally be feasible, but would not be appropriate in our view. The EU transition towards sustainable finance and the related requirements, incl. the disclosure requirements under the NFRD, serve the EU public interest and not (primarily) preparers' interests. As such, respective measures, e.g. to develop the relevant requirements, should primarily be financed by EU public funds. With view to the mid-to long-term, as outlined above, the FR standard-setting context under IFRS can serve as a point of reference for a global standard setter.

What alternative financing mechanism would you suggest being considered?

Additional funding could also be sought from existing NFR initiatives as they are interested in harmonization / consolidation as well as, in many cases, in achieving a global solution. This would, of course, only be an option if EFRAG is dedicated and able to contribute to this objective. The same rationale applies to organizations with a focus on sustainability matters or with high technical expertise on sustainability matters.