

POSITION PAPER



EFRAG - on the ad personam mandate of Jean-Paul Gauzès

ESBG (European Savings and Retail Banking Group)

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ESBG welcomes the opportunity to comment on the on the ad personam mandate on potential need for changes to the governance and funding of EFRAG.

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?

EFRAG's Due Process is built on the principles of transparency, full and fair consultation and accountability. The due process should be very clearly set out and linked to the objectives of EFRAG. ESBG supports all key steps that ensure open and transparent process in particular we support the possibility of having public discussions of the EFRAG Board in charge of NFR .

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?

As established in ESBG first feedback on October 2020, we believe EFRAG Board should be in charge of financial and non-financial reporting and be reported by the two TEGs (financial and a new non-financial group of experts), avoiding the creation of two “sub-Boards”, a double decision process making and approval process, that could bring inefficiencies and redundancies.

The composition of the EFRAG Board makes EFRAG the legitimate European voice, internationally speaking. The current EFRAG Board includes representatives of European Stakeholder Organisations, National Standard Setters, and is led by a President of the EFRAG Board and the European Commission. The European Supervisory Authorities and the European Central Bank (ECB) participate in the EFRAG Board in an observer capacity. This structure has proven to work over the years. It is important that EFRAG keeps its independence and ensures the involvement of stakeholders, which proved a lot of practical expertise. The same comment applies to EFRAG General Assembly, TEG and potential new Non-Financial Reporting Board and TEG.

Member states and national public authorities could be involved in non-financial reporting pillar based on a advisory body, which could provide more strategic oriented advice and share concerns of specific jurisdictions, having the opportunity to contribute with their knowledge and experience.

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?

We consider the role of EFRAG in the process of standard-setting should be limited to be a drafter, providing advice to the European Commission, maintaining the formal power to adopt the standards in the European Commission. This is why we refer to this new role as an EU standard contributor instead of a standard setter by itself, but in any way the presence of European institutions and agencies is mandatory.

We are aware of the valuable contribution ESAs could do in this field, so we consider ESMA, EBA and EIOPA could be part of the non-financial reporting TEG as members or observers.

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?*

Given the fact that private sector is the one who brings the expertise of preparers and users, it is of utmost importance to ensure a good representation of the private sector in all EFRAG working levels. This helps ensure pragmatic and practicable standards at the end of the day. The working groups should include company representatives from different sectors and regions (also CEE) who participate in the data collection and reporting process and know the challenges from practice.

Representation of private sector and civil society is guaranteed in the general due process of EFRAG. Furthermore, these stakeholders could be represented in the Board, TEG or working groups to contribute with their experience and knowledge based on their specific background and skills and merits to have a chair in these bodies.

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?

Since SMEs form the backbone of the European economy (they represent 99% of all businesses in the EU and account for 67% of all employment), it is beneficial to seek their input. The current scope of the disclosure obligation of the NFRD is not extended to SMEs, they disclose non-financial information only on a voluntary basis. In this regard it has to be borne in mind that the disclosure requirements of the NFRD were tailored to certain large undertakings and groups, whereby SMEs were deliberately excluded. Whether or not this approach changes is in the hands of the Commission right now, which will present a legislative proposal to review the NFRD in early 2021.

Given its particularities and the mentioned relevance in European economy, SMEs should be considered as a particular case in all debates, not necessarily in a specific working group but in all topics of different working groups.

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?

Future relationships with other institutions could be considered. The valuable work of the TCFD should be leveraged. GRI huge indicators library must be referred to trustfully, giving time to dig into details of sustainability (employees, communities, strong sustainability...). The SASB panel of material stakes amongst sectors and industry is reliable and deserves to be used systematically. Integrated Reporting brings an organizational look (systemic inter-relations between environmental stakes and corporate structures) which highlights outside-in impacts, it is a real must for these stakes. CDP is master and commander for measuring greenhouse gases.

Members of other standard setters and initiatives should be present in non-financial reporting TEG, in order to ensure they take part of technical discussions.

A useful example of this collaboration could take advantage of the previous experience between the Boards of IASB and FASB, how the joint meetings were arranged, the outcomes of the discussions were informed, etc.

QUESTION 7 - EFRAG BOARD

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

Which stakeholders should be represented and in which proportion?

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



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?

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 role and the broad participation in EFRAG Board of the existing Stakeholders should be ensured, and all voices should be considered. This structure has proven to work well over the years.

Nevertheless, as mentioned in Q2, we believe EFRAG Board should be in charge of financial and non-financial reporting and be reported by the two TEGs (financial and non-financial), avoiding the creation of two “sub-Boards” and double decision making and approval process that could bring inefficiencies and redundancies. As a consequence of this view, members of the new EFRAG Board should have ideally knowledge or experience in both fields, or it should be ensured that its composition considers members with both type of background.

QUESTION 8 - NON-FINANCIAL REPORTING BOARD

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

Which stakeholders should be represented and in which proportion?

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

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?

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

Given that the relevant stakeholders for financial and non-financial reporting might not always be the same, creating the Non-Financial Reporting Board appears to be inevitable. Also here, a good stakeholders’ representation would be important for the independence and credibility of the work.

Non-financial reporting TEG should be the group in charge of non-financial reporting tasks. Its composition could not be limitative, and should include a wide range of stakeholders’ representation, like civil society and private sector.

The proposal of two “sub-Boards” reporting to EFRAG Board rises concerns about decision making, inefficiencies and redundancies.

QUESTION 9 - TEG FOR NON-FINANCIAL REPORTING

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

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

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?

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



Creating a new body (TEG for non-financial reporting) would facilitate the transition in the moment when a global standard setting process is established. In this moment, the new TEG could become an advisory group and contribute with valuable input.

The TEG for non-financial reporting should include a wide range of stakeholders' representation.

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?

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

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

The current proposal is broadly in line with our first answers to the consultation except for the establishment of two "sub-boards": the two pillars structure, with a pillar for financial reporting and a pillar for non financial reporting, seems reasonable.

ESBG agrees and considers very relevant the TEGs to ensure an ongoing exchange of views is in place to support interconnectivity in the consideration of financial reporting and non-financial reporting developments.

Regarding the current tasks of European Lab, these will be probably in charge of the new non-financial reporting pillar, so the European Lab could be transformed into a permanent working group of this pillar, reporting directly to the non-financial reporting TEG.

QUESTION 11 - FUNDING

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?

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?

Would a levy at national or European level be feasible?

What alternative financing mechanism would you suggest being considered?

In our view the financials and funding of EFRAG should reflect the strategy, the agreed work streams and priorities, as well as all the tasks EFRAG is in charge of. In order to facilitate the preparation of a proper financial structure and to have data to manage resources and dedication, a way to allocate the cost and resources of each of the activities by EFRAG could be carried out. The market participants do not want to be involved as regards the sharing of costs, for example, no costs are involved in relation with GRI.





About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 900 banks, which together employ more than 650,000 people driven to innovate at roughly 50,000 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion in corporate loans (including to SMEs), and serve 150 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking. Our transparency ID is 8765978796-80.



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