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Dear Mr President,
Dear Jean-Paul

Reply to your letter *Ad personam* mandate on Non-Financial Reporting Standard Setting

Thank you for your request for input.

We are very pleased to be able to contribute to the discussion. Please find below EFAA's contributions.

We remain, of course, available to provide any further clarification if needed.

In your opinion, if EFRAG were entrusted with the development of possible EU non-financial reporting standards in a revised NFRD, how would the following general and specific considerations, identified as relevant to standard setting mechanism, apply if EFRAG were to be the standard setter? (NB: this does not affect EFRAG' present mission)

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?

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?

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?

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 stakeholders¹ should be involved? Should the standard setting pillar be a public-private partnership like 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?

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?

EFAA believes that the trickle down and supply chain effects demand greater representation of SMEs within EFRAG's technical and governance structures. EFAA believes that the new EU Strategy places even greater emphasis on the pursuit of a sustainable EU economy and society, with a significant reduction in carbon emissions leading to an eventual net zero carbon footprint by 2050 or sooner. This reduction and other important objectives can only be achieved with the transition of the SME sector which accounts for the majority of private sector GDP, employment as well as environmental, social and governance (ESG) impact. Therefore, we foresee even greater trickle down and supply chain effects with NFR than financial reporting. This of itself is justification enough to have more SME voices within EFRAG's technical and governance structures.

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

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?

EFAA believes significant changes will be needed to EFRAG's governance structures if it assumes the responsibility for setting NFRS. We suggest the formation of a supervisory board with broad representation from key stakeholders who stand to benefit from and be involved with financial and NFR.

This supervisory board would oversee the work of EFRAG's current board, that would continue to operate with much the same responsibilities and due process as presently. As indicated above our only suggestion for change would be greater SME representation. Furthermore, as SMEs typically outsource their financial reporting needs to SMPs, and likely will do so for NFR as well, then greater SMP representation is necessary.

The supervisory board would also oversee the activities of another newly formed body – an independent NFR standard setting board (let us call it the ENFRSB). The ENFRSB's relationship with EFRAG might be modelled on that of the IASB to the IFRS Foundation or the IAASB and IESBA to IFAC. This board would need to be populated with a broad range of technical experts from accountants and assurance providers through to environmental management specialists. And given the even greater impact and relevance on SMEs, whether a result of trickle down or supply chain effect or NFRD mandating or encouraging NFR by SMEs, SME and SMP representatives on the ENFRSB will be essential.

If the IFRS Foundation decides to establish a sustainability standards board then close coordination between the ENFRSB and this board will be essential; harmonization and convergence is important at European and global level. In the event EFRAG is charged to develop an NFRS for SMEs, or that a general NFRS be applicable to SMEs, then the ENFRSB may need to be supplemented with either new arrangement to systematically represent the SME sector. EFRAG might need to form a sub-committee of the new ENFRSB with a chair that sits on and liaises with the ENFRSB. As we note above even if there were to be no NFRD

requirement for SMEs to report on NFR, and hence no NFRS for SMEs, trickle down and supply chain effects as well as SMEs voluntarily adopting NFRS will grow and as such demand greater SME voices on the ENFRSB.

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?

EFAA believes that the additional cost of supporting a new NFR pillar – with as we suggest a new supervisory board and an independent NFR standard setting board (ENFRSB) – should be borne by the broad range of key stakeholders represented on this supervisory board, as they stand to benefit from NFR, as well as EU funds, as NFR activities serve the common European good.

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

EFAA foresees the need for a name change if EFRAG assumes this broader mandate. Perhaps the European Business Reporting Foundation.

We greatly appreciate this opportunity to share our points of view at a historical moment for EFRAG. We truly believe, from experience and sense of responsibility, that given SMEs and SMPs are the majority of business entities and accountancy firms in Europe, we need to ensure both groups are well represented in decision-making groups like EFRAG. Only then can we be sure of effective application of "think small first" and "smart regulation".

Yours sincerely,



Salvador Marín
EFAA President