

# **EFRAG - INTERNAL RULES**

**EFFECTIVE DATE: 23 October 2017**

## **Approved EFRAG General Assembly 23 October 2017**

### **Article 1      Legal basis for the Internal Rules**

The internal rules implement Articles 5, 6, 7 and 8 of the EFRAG Statutes

### **SECTION 1      CONTRIBUTIONS AND THE EFRAG GENERAL ASSEMBLY**

#### **Article 2      Contributions for EFRAG membership**

1. All Members commit to make financial contributions<sup>1</sup> to the funding of EFRAG.
2. Each Member contributes a minimum of fifty thousand (50K) euro in cash. The EFRAG General Assembly can decide in exceptional cases on membership of organisations based on a lower amount.
3. The lower amount for membership cannot be less than ten thousand (10K) euro for European Stakeholder Organisations. The EFRAG General Assembly may approve such a reduction having regard to the overall budget of the organisation applying for membership.
4. The lower amount for membership cannot be less than ten thousand (10K) euro for National Organisations. The EFRAG General Assembly may approve such a reduction having regard to the overall budget of the organisation applying for membership and the GDP of the country or another relevant measure.
5. Contributions in kind that consist of secondment<sup>2</sup> of staff or any service contract placed under the direction of EFRAG management whilst paid by the organisation are considered to be equivalent to cash contributions. However contributions in kind as mentioned in this article would not be considered as cash for the minimum cash contribution as stipulated in Article 2.2, 2.3 and 2.4.

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<sup>1</sup> The EC provides over half of the function of EFRAG since 2010. The current legal basis as laid down in the financing regulation covers the period 2017 – 2020.

<sup>2</sup> Secondments (in kind contributions) are at present not eligible as expenses under the EC grant agreement.

### **Article 3      Overdue payments**

1. Overdue payments will be penalised in a manner to be decided by the EFRAG General Assembly, on the basis of a proposal from the EFRAG Board.
2. The EFRAG Board may ask its Audit and Budget Committee to propose relevant measures in individual cases.

## **SECTION 2      WORKING RULES OF THE EFRAG GENERAL ASSEMBLY**

### **Article 4      Nomination procedure for EFRAG Board members**

1. The EFRAG Board shall comprise individuals nominated by organisations in the two pillars referred to in Article 8 (i.e. European Stakeholder Organisations and National Standard Setters). Each nominated individual should have a general understanding of financial reporting and its interaction with economic policy.
2. In addition to the composition in two (2) pillars the mix of EFRAG Board members shall reflect a diversity of geographical origin, gender and professional backgrounds. In order to achieve such a balance not more than three (3) members should come from the same country unless exceptional circumstances arise. Any appointment resulting from exceptional circumstances should be on a temporary basis (not exceeding a period of 6 months) and upon recommendation of the EFRAG General Assembly Nominating Committee. The EFRAG General Assembly Nominating Committee decides whether exceptional circumstances exist on a case by case basis.
3. Only candidates nominated for the EFRAG Board by nominating organisations that contribute to the funding of EFRAG can be appointed as an EFRAG Board member.
4. Organisations nominating members for the EFRAG Board shall be ready to provide an alternative candidate if this is needed to meet the collective criteria.
5. EFRAG Board members should ideally meet certain high level criteria including:
  - a) Being a high-level person with strong and recognised standing, competent and qualified within his professional background;
  - b) Being financially knowledgeable and having a good understanding of financial reporting and its implications in particular, how it is used and how it may affect economic growth and financial stability;
  - c) Exercising, or have exercised in the recent past, responsibilities to understand the interactions of financial reporting with economic growth and financial stability;
  - d) Having a general understanding of the work of European and national regulatory and oversight bodies and of the IFRS Foundation;
  - e) Having the necessary degree of integrity, objectivity and discipline;
  - f) Being capable of working with one another in reaching consensus views based on the EFRAG Board's objective of Europe speaking with one voice. Members must be able to put this objective above individual philosophies and interests; and

- g) Being committed to provide the time needed.

**Article 5 EFRAG General Assembly Nominating Committee (EFRAG GA NC)**

1. The EFRAG General Assembly appoints a Nominating Committee (EFRAG GA NC) from amongst or by its members. The EFRAG GA NC consists of an equal number of members of each of the chapters (European Stakeholder Organisations and National Organisations) identified in Article 5.1 of the EFRAG Statutes. The representatives of the National Organisations chapter include at least one (1) representative from an EEA country other than France, Germany, Italy and the UK. The EFRAG GA NC is chaired by the President of the EFRAG Board (who is also the Chairman of the EFRAG General Assembly) in a non-voting capacity. The European Commission participates in the EFRAG GA NC as an observer with speaking rights.
2. The role of the EFRAG GA NC is to assist the EFRAG General Assembly in fulfilling its responsibility for appointing members of the EFRAG Board and to facilitate and coordinate the nomination process of the EFRAG Board. This role includes ensuring a proper professional background, geographical and gender balance and facilitating the replacement in case of resignation of an EFRAG Board member. The EFRAG GA NC also supports the EFRAG General Assembly in overseeing the EFRAG Board performance review process and provides other governance support as appropriate.
3. A member of the EFRAG GA NC of the European Stakeholder Organisations chapter cannot vote on the recommendation of a candidate for EFRAG Board membership from his sector if there are more candidates than EFRAG Board seats for the sector concerned. This would equally apply to the member of the National Organisations chapter from an EEA country other than France, Germany, Italy and the UK, if there are more candidates from those countries than the available EFRAG Board seats.
4. The European Stakeholder Organisations shall nominate candidates from their organisation taking into account the profile and criteria for EFRAG Board members. If the European Stakeholder Organisations cannot reach agreement for the seats in their sector the EFRAG GA NC will recommend the most qualified candidates based on profile and taking into account the professional background, geographical and gender balance in the EFRAG Board.
5. The National Standard Setters from EEA countries shall nominate candidates from their countries taking into account the profile and criteria for EFRAG Board members. If the National Standard Setters from EEA countries other than France, Germany, Italy and the UK cannot reach agreement, the EFRAG GA NC will recommend the most qualified candidates based on profile and taking into account the professional background, geographical and gender balance in the EFRAG Board.
6. The EFRAG GA NC launches a call for candidates from European Stakeholder Organisations and National Standard Setters from EEA countries other than France, Germany, Italy and the UK and recommends the most qualified candidates to the EFRAG General Assembly taking into account the individual and collective criteria.
7. The EFRAG GA NC will make recommendations to the EFRAG General Assembly on the process indicating the names of those candidates nominated and recommended for appointment together with a summary of their CVs and the term for such appointments.

## **Article 6          Commitments of EFRAG Board members**

All EFRAG Board members are required to commit themselves formally to acting in the European public interest in all matters in their EFRAG Board member role, irrespective of the fact that they represent particular private or national interests. All members are also required to formally commit to:

- a) work in the context of the European IAS Regulation and make their best endeavours to help this Regulation best serve the European public interest;
- b) serve the objective of Europe speaking with one voice in accounting to the extent feasible and of making decisions within the EFRAG Board by consensus;
- c) deliver EFRAG positions in a timely manner thereby respecting EFRAG's due process, to allow EFRAG to influence the IASB's standard setting process in the most effective and efficient way and to submit endorsement advice in a timely manner on final standards and interpretations following a request of the European Commission;
- d) provide the rationale for their positions, so that EFRAG can be fully accountable to its stakeholders and European institutions;
- e) commit to EFRAG's due process including the public consultation process with European constituents; and
- f) exercise their judgement in their own right. They should have the mandate and confidence of the organisation by which they are nominated to contribute to the discussions and to the development of consensus-based European positions from a European public interest perspective.

## **Article 7          Appointment and status of EFRAG Board members**

1. The President of the EFRAG Board is directly nominated by the European Commission, after having heard the Council of the European Union and the European Parliament, and is appointed by the EFRAG General Assembly (Article 7.2.2 d) of the EFRAG Statutes).
2. Having considered the recommendations of the EFRAG GA NC, the EFRAG General Assembly appoints the EFRAG Board.
3. Members of the EFRAG Board are appointed by the EFRAG General Assembly for a period of three (3) years renewable for a further three-year term (Article 7.3.1 of the EFRAG Statutes). In exceptional circumstances further extensions, each for up to three (3) years can be granted.
4. Paragraph 3 notwithstanding, the EFRAG General Assembly can organise the appointment of the members of the EFRAG Board in such a way that the EFRAG General Assembly will appoint each year one-third (1/3) of the members (i.e. staggered appointments).
5. Members of the EFRAG Board may not be represented by alternates.
6. Members of the EFRAG Board may in exceptional circumstances bring advisors to the meeting that specialise in certain topics. Advisors may be accorded speaking rights by the President of the EFRAG Board by invitation at all or part of any meeting as and when appropriate.

7. The EFRAG Board shall review its own performance annually and report to the EFRAG General Assembly. The EFRAG General Assembly, supported by the EFRAG GA NC, will oversee the performance review process.
8. The EFRAG General Assembly is responsible for the compensation and travel policy for EFRAG Board members as deemed appropriate. These decisions require a qualified majority described in the EFRAG Statutes in Article 7.2.5. In the absence of any decision, no compensation is paid and no reimbursement of travel costs is paid. The EFRAG General Assembly approves the amount of any compensation granted to an individual EFRAG Board member. Any compensation of the President of the Board is determined in due consultation with the European Commission.
9. An EFRAG Board member who has not attended three (3) consecutive regularly convened meetings of the EFRAG Board, whatever the reason might be, is assumed to have resigned. The President of the EFRAG Board will liaise with the nominating organisation (s) for his resignation (Article 7.3.2 of the EFRAG Statutes). The nominating organisations in case of resignation of an EFRAG Board member can nominate a replacement for the remaining term that meets the individual profile and quality criteria as set out in Article 4.5 in coordination with the President of the EFRAG Board and supported by the EFRAG GA NC.
10. When an EFRAG Board member decides to resign from the EFRAG Board (Article 7.3.2 of the EFRAG Statutes) or the nominating organisation(s) decide to request his removal, the President of the EFRAG Board will liaise with the nominating organisation(s) to consider his replacement. The nominating organisation(s) can nominate a replacement for the remaining term that meets the individual profile and quality criteria as set out in Article 4.5 in coordination with the President of the EFRAG Board and supported by the EFRAG GA NC.
11. If an EFRAG Board member resigns, or the nominating organisation(s) decide to request his removal, the nominating organisation(s) of the resigning member nominates a replacement for the remaining term that meets the individual profile and quality criteria as set out in Article 4.5 in coordination with the President of the EFRAG Board and supported by the EFRAG GA NC. In the situation the nominating organisation(s) is (are) unable to nominate a candidate meeting the individual and collective criteria, the EFRAG GA NC should issue a call for candidates.

### **SECTION 3 WORKING RULES OF THE EFRAG BOARD**

#### **Article 8 Composition of the EFRAG Board**

1. The EFRAG Board is composed of members belonging to two pillars (i.e. European Stakeholder Organisations and National Standard Setters), appointed by the EFRAG General Assembly:
  - **European Stakeholder Organisations:** eight (8) members:
    - Industrial and trading companies: two (2) members proposed by BUSINESSEUROPE;
    - Banks: two (2) members proposed by the European Banking Federation, the European Association of Cooperative Banks, the European Savings and Retail Banking Group and the European Association of Public Banks;
    - Insurance companies: one (1) member proposed by Insurance Europe;

- Accountancy profession: two (2) members proposed by the Accountancy Europe and the EFAA ("European Federation of Accountants and Auditors");
  - Users: one (1) member proposed by the associations representing users;
  - **National Standards Setters (NSS):** eight (8) members of which the NSS of France, Germany, Italy and the UK will each nominate a member.
2. In the situation where European Stakeholder Organisations or National Standard Setters are proposing more candidates for a position in the EFRAG Board than the number of available seats for that sector, the candidates are proposed after consultation by the related organisations with the other organisations in the sector, or the other relevant National Standard Setters.
  3. The Chairman of the EFRAG Technical Expert Group (EFRAG TEG) and the EFRAG CEO are permanent observers with speaking rights.
  4. The **European public institutions** (ESMA, EBA, EIOPA and ECB, respectively) appoint an observer with speaking rights.
  5. The European Commission appoints an observer with speaking rights.
  6. Observers with speaking rights, identified in Art 8.4 and 8.5 of the EFRAG Internal Rules, should preferably send the same representative to EFRAG Board meetings for continuity and consistency purposes.
  7. There is one observer seat with speaking rights for European organisations representing private investors ("end users"). The representative appointed may not be represented by an alternate. In appointing the representative the overall professional background, geographical and gender balance of the EFRAG Board should be respected.
  8. Observers with speaking rights (other than the EFRAG TEG Chairman or CEO) should, to the extent possible, meet the same profile and criteria as applicable to the EFRAG Board members, as these have been set out in Articles 4.5 of the EFRAG Internal Rules.

## **Article 9      Role of the EFRAG Board**

1. As described in the EFRAG Statutes the EFRAG Board has the following responsibilities in addition to the administrative tasks specified in Article 7.3.4. c) to n) of the EFRAG Statutes:
  - a) To be responsible for all positions of EFRAG, after having considered the technical advice provided by EFRAG TEG and reflecting the results of EFRAG's due process (Article 7.3.4 a) of the EFRAG Statutes) and
  - b) To ensure that EFRAG has an open and transparent due process including a public consultation process with European constituents on draft EFRAG positions such as discussion papers, draft comment letters, draft consultation documents and draft endorsement advices (Article 7.3.4 b) of the EFRAG Statutes).
2. In order to fulfil these tasks the EFRAG Board is more specifically responsible:

- a) To set the strategic direction of EFRAG taking into account the priorities defined by the European Commission in respect of developments in international financial reporting standards (IFRS<sup>3</sup>);
- b) To provide directions to and request technical advice from EFRAG TEG on issues relevant for the EFRAG Board's positions as detailed further in Article 23 including the due process; oversee the work of the EFRAG TEG, and provide guidance and feedback to the EFRAG TEG on its work;
- c) To provide directions on the field work of EFRAG where specific consultations or investigations are deemed necessary to provide an economic assessment. In particular in the possible interactions of financial reporting standards with economic growth and financial stability, and, more generally, in the areas where the EFRAG Board requires support by the EFRAG staff;
- d) To ensure the optimal use of European resources, i.e. ensuring pooling of resources with National Standard Setters, European Stakeholder Organisations, European public institutions and other organisations with an interest in financial reporting within the responsibilities of the EFRAG Board and its delegation model.
- e) To advise the European Commission on the strategic direction in relation to financial reporting;
- f) To consider and comment upon proposed developments to European regulations, directives, guidelines and guidance as requested by the European Commission;
- g) To decide on the agenda of EFRAG's research activities, after consultation with the European Commission and after public consultation on possible projects to be included in the research agenda, when deemed necessary, so as to stimulate the accounting debate in Europe and influence the IASB; and
- h) To provide input to the IASB's agenda consultations after consultation with the European Commission and after public consultation.

#### **Article 10      Role of the President of the EFRAG Board**

1. The President of the EFRAG Board acts in cooperation with the EFRAG Board members and reports to them issues in his remit. All EFRAG Board members are accountable to the EFRAG General Assembly.
2. The President of the EFRAG Board convenes and chairs meetings of the EFRAG General Assembly and its Nominating Committee (EFRAG GA NC), the EFRAG Board, the EFRAG Remuneration Committee and the EFRAG Nominating Committee (for EFRAG TEG).

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<sup>3</sup> According to the definitions in IAS 1 paragraph 7, International Financial Reporting Standards (IFRSs) are Standards and Interpretations issued by the International Accounting Standards Board (IASB). They comprise:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards;
- (c) IFRIC Interpretations; and
- (d) SIC Interpretations.

3. The President of the EFRAG Board's main duty is to ensure that the EFRAG Board operates by consensus to the maximum extent feasible, so as to exercise influence on behalf of Europe in the development of IFRS in a timely fashion.
4. The President of the EFRAG Board is the public spokesman of EFRAG and is responsible for the communication on behalf of EFRAG on all matters. He can allow other members of the EFRAG Board and the EFRAG TEG Chairman to speak on behalf of EFRAG. Delegation to the EFRAG TEG Chairman may also relate to the representation of EFRAG in technical fora.

#### **Article 11 Convocation and agenda of meetings**

1. The EFRAG Board holds at least three (3) meetings every year or as required at the call of the President of the EFRAG Board in accordance with a schedule agreed a year in advance. Meetings are called by electronic mail one (1) month in advance. Meetings can take place in the form of physical meetings, conference calls or video conferences. Additional meetings can be called (Article 7.3.6 of the EFRAG Statutes).
2. The draft agenda is proposed by the President of the EFRAG Board and circulated to the members with the convocation. The agenda is circulated no later than five (5) working days before the meeting. Additional background papers and material are circulated five (5) days in advance of the meeting to allow them to be studied.
3. Any member may ask the President of the EFRAG Board to add a specific item on the agenda at least two (2) weeks before the meeting. The European Commission observer may also ask the EFRAG President to add a specific item to the agenda provided that the request is made at least two (2) weeks before the meeting.

#### **Article 12 Secretariat – Minutes**

Minutes of the meetings are prepared with support of the EFRAG staff. The minutes are circulated to the members in draft form within three (3) weeks after the meeting.

#### **Article 13 Transparency of meetings and access to documents**

1. EFRAG Board meetings are open to the public but the EFRAG Board may, at its discretion, hold certain discussions in private. The President of the EFRAG Board can invite individuals to the meeting and they may be accorded speaking rights at all or part of any meeting as and when appropriate.
2. Notice of the next EFRAG Board meeting and the agenda are posted on the EFRAG website. EFRAG Board agenda papers are publicly available on the EFRAG website. The related advices/reports of the EFRAG TEG form part of these publicly available agenda papers. The EFRAG Board may decide to make selected agenda papers not publicly available.
3. A summary of the tentative decisions reached by the EFRAG Board at each meeting will be published on the EFRAG website.
4. All papers and comments received as a part of EFRAG's due process are published on the EFRAG website (Article 14).



5. The documents published on the EFRAG website include: final and draft comment letters on IASB and IFRS Foundation consultation documents and where relevant on consultation documents of other organisations; proactive position papers; and final and draft endorsement advices to the EC including effect studies and the related bases for conclusions.

#### **Article 14 Due process**

1. EFRAG conducts a transparent due process open to all parties. Transparency is achieved in particular by a public consultation process with European constituents, including:
  - a) Publication, with an open call for comments, of draft EFRAG comment letters to the IASB, IFRS Foundation or any other bodies and draft endorsement advice letters to the European Commission and other position papers as appropriate;
  - b) Publication of due process feedback reports;
  - c) Publication of comment letters received unless confidentiality is requested;
  - d) Publication of the EFRAG Annual Review.
2. Publication means that the documents are freely available via the EFRAG website for all other interested parties.
3. The EFRAG Board may delegate the organisation of EFRAG's transparent due process including the public consultation process on both technical and other matters to EFRAG TEG.

#### **Article 15 Due process for endorsement advice**

1. EFRAG is committed to provide its endorsement advice to the European Commission within the agreed timeframe following a request by the European Commission to give an endorsement advice on an IFRS.
2. EFRAG uses its best endeavours to publish its final endorsement advice on the day it is delivered to the European Commission.

#### **Article 16 Committees and Task Forces**

1. The committees of the EFRAG Board, set up in accordance with Article 7.3.7 of the EFRAG Statutes, are the EFRAG Audit and Budget Committee, the EFRAG Remuneration Committee and the EFRAG Nominating Committee. These committees are not required to apply Article 13 on transparency of meetings and access to documents. However, a summary of their discussions is provided to the EFRAG Board at the first meeting of the EFRAG Board following the relevant committee meeting.
2. Task Forces may be established for a limited period of time and for a well-defined purpose.

#### **Article 17 EFRAG Audit and Budget Committee**

1. The EFRAG Audit and Budget Committee is appointed by the EFRAG Board to assist the EFRAG Board in fulfilling its responsibility for audit and budget matters. The EFRAG Audit and Budget Committee consists of members of the EFRAG Board with at least two (2) representatives from each of the pillars of the EFRAG Board and, ideally, equal representation in numbers from

each of the pillars, as identified in Article 8, with different backgrounds and relevant experience for the tasks of the EFRAG Audit and Budget Committee. The EFRAG Board appoints the Chairman of the EFRAG Audit and Budget Committee.

2. The EFRAG Audit and Budget Committee is responsible for:
  - a) Proposing to the EFRAG General Assembly the appointment of independent auditors and the amount of their fees;
  - b) Evaluating budget proposals prepared and presented by the EFRAG Secretariat (e.g. the major variances and the reasons for them); advising the EFRAG Board on draft budgets and monitoring the expenditures within the limits authorised by the EFRAG General Assembly in accordance with the EFRAG Statutes;
  - c) Performing a preliminary review of the annual accounts to be approved provisionally by the EFRAG Board and making recommendations to the EFRAG Board in that respect;
  - d) Discussing with the external auditor and the Chief Executive Officer changes in accounting policies and any issues arising from the audit;
  - e) Advising on the internal rules and processes of EFRAG regarding budgets and financial statements;
  - f) Considering and proposing action to the EFRAG Board on overdue payments of members (Article 3).
3. The EFRAG Audit and Budget Committee reports to the EFRAG Board. Minutes of the meetings of the EFRAG Audit and Budget Committee are made available to all the members of the EFRAG Board.
4. The EFRAG Audit and Budget Committee shall meet at the request of any of its members or at the request of the EFRAG Board at least twice a year (to review the financial statements and the budget respectively) by physical meeting, conference call or video conference.
5. The Chairman of the EFRAG Audit and Budget Committee convenes the meetings and prepares the agenda. The agenda is circulated no later than five (5) working days before the meeting. Additional background papers and material are circulated five (5) working days in advance of the meeting to allow them to be studied.
6. Two-thirds (2/3) of the members of the EFRAG Audit and Budget Committee present or represented by a written proxy constitute a quorum and decisions by the EFRAG Audit and Budget Committee require the support of a simple majority of those present. A proxy may only be given to another EFRAG Audit and Budget Committee member. No member may hold more than one (1) proxy.

## **Article 18 EFRAG Remuneration Committee**

1. The EFRAG Remuneration Committee is appointed by the EFRAG Board to assist the EFRAG Board in fulfilling its responsibility for remuneration matters. The EFRAG Remuneration Committee consists of members of the EFRAG Board with at least one (1) representative from each of the pillars of the EFRAG Board, as identified in Article 8, ideally with different backgrounds and relevant experience for the tasks of the Committee. The President of the

EFRAG Board chairs the Committee or delegates this task to another EFRAG Board member, while remaining responsible for the neutrality of proceedings.

2. The role of the EFRAG Remuneration Committee is to:
  - a) Advise the EFRAG Board on the remuneration policy for EFRAG staff including management;
  - b) Ensure that the remuneration policy is followed and when necessary propose to the EFRAG Board changes in the policy;
  - c) Liaise with the EFRAG Nominating Committee in relation to remuneration matters to be discussed with candidates for the position of EFRAG TEG Chairman;
  - d) Make a proposal to the EFRAG Board for a remuneration package for the Chief Executive Officer and/or the EFRAG TEG Chairman when the individual is recruited and when the remuneration package is changed;
  - e) Approve the remuneration package for the management team– both when the individual is recruited and when the remuneration package is changed;
  - f) Ensure that proper remuneration benchmarking is used in the remuneration process; and
  - g) Confirm the independence of the Chief Executive Officer and/or the EFRAG TEG Chairman at recruitment and thereafter annually. The findings should be reported back to the EFRAG Board.

#### **Article 19 EFRAG Nominating Committee**

1. The EFRAG Nominating Committee is appointed by the EFRAG Board to assist the EFRAG Board in fulfilling its responsibility for appointing members of EFRAG TEG. The EFRAG Nominating Committee consists of members of the EFRAG Board with at least two (2) representatives of each of the pillars of the EFRAG Board and ideally equal representation in numbers of each of the pillars as identified in Article 8, with different backgrounds and relevant experience for the tasks of the Committee. The President of the EFRAG Board chairs the EFRAG Nominating Committee or he delegates this task to another EFRAG Board member, while remaining responsible for the neutrality of proceedings.
2. The role of the EFRAG Nominating Committee is to:
  - a) Seek candidates for membership and chairmanship of EFRAG TEG;
  - b) Identify qualified candidates (which include candidates nominated by and coming from National Standard Setters) against the criteria set out in the call for candidates, respecting a balanced composition of EFRAG TEG in professional experience, gender and geographical origin. In particular, the EFRAG Nominating Committee will consider the balance between preparers, professional accountants/auditors, users, academics and other relevant backgrounds, together with the balance of geographic backgrounds and gender, whereby not more than three (3) EFRAG TEG members can come from the same country to achieve the widest possible geographical spread, unless exceptional circumstances arise. Any appointment resulting from exceptional circumstances should be on a temporary basis (not exceeding a period of 6 months) and upon recommendation of the EFRAG Nominating Committee. The EFRAG Nominating Committee decides whether

exceptional circumstances exist on a case by case basis. No nationality restrictions are imposed on EFRAG TEG members with a user background;

- c) Make recommendations to the EFRAG Board for appointments to EFRAG TEG and for the term of such appointments;
- d) The EFRAG Nominating Committee will make its recommendations to the EFRAG Board by assessing the proposed candidates against the individual profile and respecting the collective criteria and recommends the most qualified candidates within the context of the overall composition of EFRAG TEG. Candidates are chosen primarily on the basis of technical accounting competences and practical experience. Candidates nominated by and coming from National Standard Setters should equally meet the criteria and profile established for EFRAG TEG members. The EFRAG Nominating Committee will liaise with the EFRAG Remuneration Committee before discussing any remuneration conditions with candidates for the EFRAG TEG Chairman position.

## **Article 20 Appointment of Technical Experts**

1. On the recommendation of the EFRAG Nominating Committee, the EFRAG Board appoints the members of EFRAG TEG. Members of EFRAG TEG are appointed for terms of up to two (2) years, renewable to the extent that the total term as a member of EFRAG TEG does not exceed six (6) years. Where an ad hoc vacancy arises from a resignation or any other reason, the incoming candidate will initially be appointed to complete the term of appointment of the outgoing member.
2. The EFRAG Board appoints the EFRAG TEG Chairman for a term of up to three (3) years, renewable to the extent that the total period of service as EFRAG TEG Chairman does not exceed six (6) years (i.e. not including any period as an ordinary member of EFRAG TEG). The maximum period that the EFRAG TEG Chairman can serve in any capacity on EFRAG TEG is twelve (12) years.
3. The EFRAG Board may appoint a Vice-Chairman of EFRAG TEG who will substitute for the EFRAG TEG Chairman when necessary. The term of appointment in paragraph 2 applies to the Vice-Chairman of EFRAG TEG.
4. When a suitable candidate has been identified in the nominating process, but for any good reason cannot be appointed, the EFRAG Board, on the recommendation of the EFRAG Nominating Committee, may ask him whether he would agree to be registered on a list of qualified candidates for a maximum period of two years. When a member of EFRAG TEG resigns or is no longer able to fulfil his responsibilities, the EFRAG Board, on the proposal of the EFRAG Nominating Committee, may decide to appoint a suitable candidate who is on the list of qualified candidates, without a public call for applications as set out in Article 19.

## **Article 21 Nomination procedure**

1. The call for candidates is announced by the EFRAG Nominating Committee no later than five (5) months in advance of the date of the appointment. If the vacancy arises unexpectedly with less than five (5) months' notice, the five (5) month period mentioned above may be shortened as necessary so as to minimise the period in which a vacancy remains unfilled.

2. The call for candidates is accompanied by explanations that make it clear that candidates are chosen primarily on the basis of technical accounting competences and practical experience but that in order to achieve an appropriate balance and diversity, EFRAG will also take other factors into account. In particular, EFRAG will consider the balance between preparers, professional accountants/auditors, users, academics and other relevant backgrounds, together with the balance of geographic backgrounds.
3. The search process involves at least:
  - a) Publication of potential vacancies on the EFRAG website;
  - b) Notification of European Stakeholder Organisations and National Standard Setters of EEA countries of the invitation for candidates; and
  - c) Consideration of further steps to be taken to attract suitable candidates.
4. The procedure for seeking candidates is as follows:
  - a) Following the call for candidates, at least a two (2) month period is allowed for names to be put forward. Candidates may submit their candidature on an individual basis or may be supported by an organisation or National Standard Setter.
  - b) Candidates are required to submit an application. A short list of candidates, meeting the required criteria and profile is drawn up for interview. As candidates might not wish their candidature to be made public, the EFRAG Nominating Committee does not advise the EFRAG Board of the names of all candidates but indicates the number of candidates, the reasons for its recommendations and the names and CVs of those it recommends for appointment to EFRAG TEG. The EFRAG Board is informed about the names and CVs of all candidates for EFRAG TEG Chairmanship.
  - c) Members of EFRAG TEG eligible for re-appointment are required to advise the President of the EFRAG Board of their interest in being re-appointed as soon as possible, preferably at least six (6) months before the expiry of their term but in any case no later than the closing date for nominations in the call for candidates.
5. In providing recommendations to the EFRAG Board, the EFRAG Nominating Committee applies the following procedures:
  - a) Recommendations for appointments should be made to the EFRAG Board as soon as possible following the interviews so that the EFRAG Board can confirm appointments at its next meeting;
  - b) Recommendations for appointment should include recommendations regarding the period of appointment; and
  - c) EFRAG publishes a list of new appointments as soon as all candidates have been informed of the outcome of their application, i.e. after the EFRAG Board meeting and at least two (2) months before the date of the actual appointment.

## **SECTION 4 WORKING RULES OF THE EFRAG TECHNICAL EXPERT GROUP (EFRAG TEG)**

### **Article 22 Composition of EFRAG TEG**

1. EFRAG TEG consists of a minimum of nine (9) and a maximum of sixteen (16) voting members.
2. The EFRAG Board will appoint at least four (4) members who are nominated by National Standard Setters as members of EFRAG TEG, provided they meet the criteria. There will be EFRAG TEG members nominated by the NSS from France, Germany, Italy and the UK.
3. The European Commission has the right to appoint an observer with speaking rights to attend EFRAG TEG meetings. The EFRAG Board and the EFRAG TEG Chairman may invite additional permanent observers with speaking rights to attend EFRAG TEG meetings. The European Securities and Markets Authority (ESMA), the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA), the European Central Bank (ECB) and the IASB are each invited to appoint an observer with speaking rights to attend EFRAG TEG meetings. The IASB staff are invited by the EFRAG TEG Chairman, when relevant. The EFRAG TEG Chairman can however decide that certain sessions are for EFRAG TEG members only.
4. A delegation of the relevant EFRAG Working Group participates in the EFRAG TEG meetings as observer with speaking rights when specific topics on which a Working Group(s) advise(s) EFRAG TEG are discussed.
5. When ESMA, EBA, EIOPA, ECB, the EC, the IASB and National Standard Setters send staff in addition to their nominated observers to attend meetings, they are granted speaking rights at the discretion of the EFRAG TEG Chairman.
6. EFRAG TEG members are required to be guided by the need to act in an independent manner in the European public interest and therefore do not regard themselves as representing a sector, an industry or national interests. EFRAG TEG members that have been nominated by National Standard Setters are expected in addition to inform the EFRAG TEG to the extent possible of the views and supporting arguments of their national constituency.
7. EFRAG TEG members are appointed in their personal capacity and may not be represented by alternates.
8. EFRAG TEG members are required to commit themselves formally to acting in the European public interest in all matters in their EFRAG TEG member role.
9. EFRAG TEG members are expected to devote 15% to 20% of their available working time to EFRAG and to commit to attend EFRAG TEG meetings.
10. EFRAG TEG members who have not attended the last three (3) consecutive regularly convened meetings of EFRAG TEG, whatever the reason might be, are assumed to have resigned. They can be replaced by decision of the EFRAG Board. The replacement member will complete the period for which the resigning member had initially been appointed.

## **Article 23      Role of the EFRAG Technical Expert Group**

1. EFRAG TEG provides technical advice to the EFRAG Board who has the responsibility for all EFRAG positions. In doing so EFRAG TEG provides its own professional judgment, arguments and technical analysis based on its technical expertise and on EFRAG's due process. EFRAG TEG's advice forms part of the EFRAG Board agenda papers that are publicly available unless the EFRAG Board has decided not to make related selected agenda papers publicly available (Article 13.2). All draft and final documents are issued under the EFRAG Board's authority. The EFRAG Board may decide to delegate part of the work to EFRAG TEG, assisted by EFRAG staff. When that is the case, the EFRAG Board determines whether publication of the draft or final documents should go through a process of approval, high level clearance or delegation. The EFRAG Board provides feedback statements that explain how its conclusions have been reached. The EFRAG Board and EFRAG TEG are assisted by the EFRAG staff in all stages of their proceedings.
2. In the preparation of its technical advice provided to the EFRAG Board for the EFRAG Board's finalisation and approval, EFRAG TEG includes input of the EFRAG Working Groups (Article 28). The EFRAG Consultative Forum of Standard Setters also provides input for EFRAG's technical work for consideration by EFRAG TEG (Article 30).
3. EFRAG TEG will provide input for the EFRAG research activities in the financial reporting arena in active projects launched by the EFRAG Board.
4. The membership of EFRAG TEG is structured so that no sector, group or country has a majority and can determine EFRAG TEG views. EFRAG TEG aims to deliver sound technical judgments supported by reasoned opinions without regard to the particular interests of member or nominating organisations.

## **Article 24      Convocation and agenda of meetings**

1. EFRAG TEG is expected to have at least ten (10) physical meetings every year lasting for an average of three (3) days as determined by the EFRAG TEG Chairman. In addition, the EFRAG TEG Chairman may call extraordinary meetings including conference calls using other technical means such as video conferencing or the internet.
2. EFRAG TEG's meetings are held in accordance with an annually fixed schedule. The meetings are scheduled no later than 1 September for the following calendar year. Members confirm their attendance or apologies at least three (3) working days before each meeting.

## **Article 25      EFRAG TEG Chairman – Secretariat – Minutes**

1. The EFRAG TEG Chairman convenes and chairs the meetings. He ensures that EFRAG TEG benefits from the input of specialised Working Groups (Article 28) where needed. He is responsible for chairing the technical sessions of the EFRAG Consultative Forum of Standard Setters. He is responsible for the management of all EFRAG's technical activities, including leading field work as determined by the EFRAG Board. He can represent and communicate generally on behalf of EFRAG on technical matters under the delegation of the President of the EFRAG Board. In those circumstances the views presented will be those of EFRAG's Board if such views have been formed.

2. The secretariat of EFRAG TEG is managed by the Chief Executive Officer.
3. Minutes of EFRAG TEG meetings are prepared by the EFRAG staff and are presented to EFRAG TEG for approval. A summary is published on the website.

#### **Article 26 Quorum of attendance and votes in EFRAG TEG**

1. To take a valid decision, a minimum of 60 % of EFRAG TEG members must attend the meeting. For this purpose, the members attending the meeting consist of:
  - a) EFRAG TEG members physically present; and
  - b) EFRAG TEG members attending by telecommunication (telephone, video conference or other electronic means)
2. Proxy voting is not permitted in EFRAG TEG.
3. In all decisions of EFRAG TEG, a simple majority will apply. In a vote on draft or final endorsement of an IFRS for submission to the EFRAG Board, EFRAG TEG members are not permitted to abstain. The EFRAG Board is informed about the votes.
4. If a vote is tied and as many votes are expressed in favour and against a decision, the tie is solved as follows:
  - a) In case the decision relates to the endorsement of an IFRS, the conclusion will be that EFRAG TEG recommends the endorsement of the standard;
  - b) In case the decision does not relate to the endorsement of an IFRS, the EFRAG TEG Chairman has a casting vote.

#### **Article 27 Different views held**

1. If members of EFRAG TEG hold different views these majority and minority views should be explained in the EFRAG TEG final advice to the EFRAG Board with indication of the votes and different views held.
2. Minority views are to be justified by indicating concisely and clearly the specific matters with which an EFRAG TEG member disagrees.

#### **Article 28 EFRAG TEG Working Groups**

1. EFRAG TEG may establish Working Groups (working groups, advisory panels and panels) to support its work in order to obtain advice from experts in relation to a particular area or aspect of financial reporting.
2. EFRAG TEG approves terms of reference for each Working Group which include:
  - a) The objective of the Working Group;
  - b) An outline of the preferred composition of the Working Group;
  - c) The frequency of meetings; and
  - d) The expected outcome.



3. Before setting up a Working Group, EFRAG advertises for nominations. In selecting the members of a Working Group the objective is to reflect sufficient diversity of professional and geographical backgrounds and gender in order to encompass the full range of interests in the area of reporting concerned. Members of Working Groups are appointed by EFRAG TEG. In case a single member of the Working Group resigns EFRAG TEG can appoint a new member respecting a balance in nationality and professional background without having to advertise for nominations.
4. At least one (1) EFRAG TEG member is appointed as a member of a Working Group and generally an EFRAG TEG member chairs the Working Group. However, in specific cases the EFRAG TEG Chairman can propose a non-EFRAG TEG member as Chairman of a Working Group. This proposal should receive validation by the President of the EFRAG Board before it is put to EFRAG TEG for approval.
5. EFRAG TEG reports on the appointment process and the members of the Working Group appointed to the EFRAG Board.
6. A delegation of the relevant EFRAG Working Group participates in the EFRAG TEG meetings as observers with speaking rights when specific topics on which a Working Group(s) advise(s) EFRAG TEG are discussed.
7. If the Chairman of an EFRAG Working Group is not an EFRAG TEG member he is allowed to vote on specific topics on which the Working Group advises EFRAG TEG following the majority view held in the Working Group.
8. EFRAG Working Groups are duly and timely informed about the draft consultation documents submitted to the EFRAG Board and the technical advice provided to the EFRAG Board for its finalisation and approval of the EFRAG positions, with the invitation to provide input.
9. EFRAG Working Groups receive proper feedback from EFRAG TEG on the issues where EFRAG TEG decides to deviate from the Working Group advice and preferred position.

#### **Article 29 Transparency in relation to EFRAG TEG**

EFRAG TEG meetings are open to the public but EFRAG TEG may at its discretion hold certain discussions in private. The EFRAG TEG Chairman can invite individuals to the meeting and they may be accorded speaking rights at all or part of any meeting as and when appropriate. Notice of the next EFRAG TEG meeting and the agenda are posted on the EFRAG website. EFRAG TEG agenda papers are publicly available on the EFRAG website. EFRAG TEG may decide to make selected agenda papers not publicly available. A summary of the meeting is published on the EFRAG website.

### **SECTION 5 WORKING RULES OF THE EFRAG CONSULTATIVE FORUM OF STANDARD SETTERS (EFRAG CFSS)**

#### **Article 30 EFRAG Consultative Forum of National Standard Setters**

1. EFRAG operates a Consultative Forum of National Standard Setters.

2. EFRAG CFSS is a consultative body to both the EFRAG Board and to EFRAG TEG.
3. EFRAG CFSS prepares inter alia the IASB Accounting Standards Advisory Forum meetings in support of the European members of ASAF.
4. EFRAG CFSS meets at least twice a year and its meetings are open to the public but EFRAG CFSS may at its discretion hold certain discussions in private. The EFRAG CFSS Chairman can invite individuals to the meeting and they may be accorded speaking rights at all or part of any meeting as and when appropriate. Meetings are called by electronic mail at least three (3) weeks in advance according to an annually fixed calendar.
5. EFRAG CFSS is either chaired by the Chairman of EFRAG TEG as far as the meeting relates to technical liaison matters with EFRAG TEG or by the President of the EFRAG Board as far as the meeting relates to political and strategic oriented matters.
6. The draft agenda is set by the Chairman identified in Article 30.5 above and circulated to EFRAG CFSS together with the convening notice for the meeting. Notice of the next EFRAG CFSS meeting and the agenda are posted on the EFRAG website. EFRAG CFSS agenda papers are publicly available on the EFRAG website. EFRAG CFSS may decide to make selected agenda papers not publicly available. A summary of the meeting is published on the EFRAG website.

## **SECTION 6 WRITING ARTICLES AND OTHER MEANS OF ADDRESSING PUBLIC AUDIENCES**

### **Article 31 Disclaimer when writing articles in the press or addressing a public audience**

1. If a member of the EFRAG Board, EFRAG TEG or an employee of EFRAG publishes articles or statements in that capacity when addressing a public audience, he should carefully consider the potential impact on the reputation and standing of EFRAG.
2. As a matter of policy, EFRAG disclaims responsibility for any private publication or statements when addressing a public audience of any member of the EFRAG Board, EFRAG TEG, or of any employee of EFRAG. As a consequence an EFRAG Board member, EFRAG TEG member or a staff member should be explicit on the position in which he addresses a speech or a written article and may need to indicate that it expresses the author's own views and does not necessarily reflect those of EFRAG.

## **SECTION 7 OPERATING PROCEDURES**

### **Article 32 Chief Executive Officer**

1. According to Article 7.6.3 of the EFRAG Statutes “The administrative office including all EFRAG staff, except for the member(s) of staff who operate(s) under the direction of the President of the EFRAG Board, operates under the direction of the Chief Executive Officer”.
2. The Chief Executive Officer can be the Chair of EFRAG TEG or another person with responsibility for the staff, resources and administration.

### **Article 33      Budget**

1. The budget is prepared by the Chief Executive Officer. The proposal is reviewed by the EFRAG Audit and Budget Committee of the EFRAG Board and submitted to the EFRAG Board for provisional approval for subsequent submission to the EFRAG General Assembly for final approval. The EFRAG General Assembly approves the budget for the following year. The budget document includes forecasts of revenues and expenses for the next year. It may include contributions in kind provided by various stakeholders.
2. Only the EFRAG General Assembly has the power to decide on the contributions to be recovered from the member organisations.
3. The EFRAG Audit and Budget Committee of the EFRAG Board monitors the expenditures within the limits authorised by the EFRAG General Assembly and reports to the EFRAG Board on its findings.

### **Article 34      Supervision and approval of expenses**

Subject to their approval in the budget, the following can be paid from the funds of the Association:

- a) The reasonable expenses incurred by the President of the EFRAG Board, the EFRAG TEG Chairman and the Chief Executive Officer in the exercise of their functions.
- b) As authorised by the Chief Executive Officer, the reasonable expenses of staff members in the exercise of their functions, in particular when travelling for EFRAG.
- c) The travel expenses and compensation of EFRAG Board members if so decided by the EFRAG General Assembly in the compensation and travel policy (Article 7.8).

### **Article 35      Financial Statements**

Financial statements are prepared by the Chief Executive Officer. The financial statements are reviewed by the EFRAG Audit and Budget Committee of the EFRAG Board and approved provisionally by the EFRAG Board within four (4) months after the reporting date. They are submitted for final approval to the next EFRAG General Assembly (Article 8.3 of the EFRAG Statutes).

## APPENDIX 1: PROFILE TO BE INCLUDED IN CALL FOR CANDIDATES FOR EFRAG TECHNICAL EXPERT GROUP MEMBERS<sup>4</sup>

1. EFRAG TEG members should meet the following profile:

- **Technical Competence:** EFRAG TEG members should be the best technical experts in their field in Europe in accounting and financial reporting. They should have experience in the practical application of, or be advising on, the use of International Financial Reporting Standards (IFRS). They should have experience as issuer of financial statements, auditor, user or academic (academic being defined as a person delivering training, doing research and/or lecturing at Universities or other form of bachelor/master education) or other relevant background. Some of the members should have insurance or banking accounting expertise.
- **Experience:** EFRAG TEG members should be active practitioners, or demonstrate relevant practical experience in the past. Members will have knowledge of IFRS and their application in financial reporting coupled with some specialist knowledge of particular industries. Members should be capable of developing new thinking on accounting and financial reporting concepts and applications. Members should have a good understanding of the work of national standards setting and/or regulatory bodies with an interest in financial reporting in their country. This experience must have been acquired at a relevant and senior level of responsibility (typically partner in an accounting firm, Chief Accountant Officer/ Head of accounting policies or IFRS Manager in a large listed corporation or financial institution) and the candidate must be still active or demonstrated relevant active experience in the past.
- **Commitment to act in the European public interest and firm commitment to EFRAG's mission:** EFRAG TEG members should be committed to the objective of Europe speaking with one voice and supporting EFRAG's objectives and main functions as set out in the EFRAG Statutes and the Internal Rules, and demonstrate a willingness to communicate and represent this mission to the outside world.
- **Ability to act in a personal capacity with the necessary degree of independence and objectivity:** EFRAG TEG members will have a certain professional background, but will not be representing their current or former organisation/employer (if any), or European or national organisations. They should act independently of their professional or sectoral affiliation interests and act in the public interest. As a result they cannot be subordinated to the organisations they represent. All EFRAG TEG members are expected to have a good knowledge and understanding of views and issues being considered and developed in their jurisdiction as well as the debates taking place in Europe.
- **Ability to meet time commitments:** EFRAG TEG members should have sufficient time available to work on issues and subjects debated in EFRAG TEG. EFRAG TEG holds ten in-person meetings annually, normally 2 days per meeting but could be up to 3 days. Preparation time and participation in working groups and conference

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<sup>4</sup> This appendix is added for reference purposes but does not form part of the EFRAG Internal Rules

calls on individual issues will also be required. EFRAG TEG members typically spend 15% to 20% of their working time on EFRAG related work. EFRAG TEG members are appointed in a personal capacity and thus of may not be represented by alternates.

- **Developed network of contacts:** EFRAG TEG members have good contacts with financial reporting stakeholders and with the constituency representing their background at national and European (and international) level.
- **Good command of the English language and communication skills:** EFRAG TEG members should have a good command of the English language which is needed to participate in and actively contribute to the activities in EFRAG TEG. They should also demonstrate an ability to communicate effectively and clearly their views for an effective dialogue with fellow EFRAG TEG members.