

CONSULTATION DOCUMENT

ON THE *AD PERSONAM* MANDATE

on potential need for changes to the
governance and funding of EFRAG

November 2020

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EFRAG Board President
Chairman of the European
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**CONSULTATION DOCUMENT
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TO THE GOVERNANCE AND FUNDING OF EFRAG**

Your response will be uploaded on the EFRAG website, unless you indicate otherwise

PLEASE PROVIDE YOUR COMMENTS NO LATER THAN 6 JANUARY 2021

DISCLAIMER

The ad personam mandate is a mandate EVP Dombrovskis conveyed to Jean-Paul Gauzes personally. This consultation document is his personal responsibility and includes his personal preliminary proposals. The Consultation Document has therefore not been subject to the review of the EFRAG governance bodies: EFRAG General Assembly, EFRAG Board and the European Lab Steering Group.

The European Commission is preparing a legislative proposal for the revision of the Non-Financial Reporting Directive (NFRD). In parallel, the European Commission has mandated EFRAG to undertake preparatory work for the elaboration of possible EU non-financial reporting standards. This mandate is being carried out by a multi-stakeholder [European Lab Project Task Force \(PTF-NFRS\)](#).

In addition, Executive Vice-President Valdis Dombrovskis has [invited me](#), on an ad-personam basis to provide recommendations on potential changes to the governance and financing of EFRAG, in case it were entrusted with the development of possible EU non-financial reporting standards. His invitation is accompanied by an [Annex](#) that provides the context within which the question of possible European reporting standards under the NFRD are being considered. According to the mandate received, I will submit my final recommendations to the European Commission by the end of January 2021.

On 1 October 2020, I issued a first public invitation to comment to a wide range of stakeholders to contribute their views to help me to develop the proposals for possible changes to the governance and funding of EFRAG. This invitation to comment was in the form of a letter with an accompanying questionnaire and with responses requested by 30 October 2020.

I used the input received to prepare my progress report with preliminary proposals, which was submitted to the European Commission on 6 November 2020 and also published on [EFRAG's website](#).

To date, I have received close to 50 responses to that first consultation and have carefully considered all of them. The letters received are uploaded to [EFRAG's website](#).

I also received various additional contributions in different forms such as through email responses and online meetings with individual organisations that requested these due to the circumstances arising from the covid-19 crisis.

All these contributions (including those received after I submitted my progress report) have helped me to further elaborate the proposals that are laid out in this public consultation document, regarding the potential changes in EFRAG's governance, organisation and funding, taking into account the new competencies which would be needed at EFRAG.

Objectives of the second consultation

The objective of this second consultation is to seek input on my proposals for changes to the governance structure of EFRAG and to obtain input on a number of additional matters in order to make my proposals operational. I am in particular interested to receive your views on the additional aspects that were not, or not fully, addressed in the first consultation.

The following sections present my preliminary proposals regarding the different aspects of the governance and funding of EFRAG. A number of specific questions are included on issues on which I in particular welcome further input.

I would appreciate to receive the contribution of your views on or before 6 January 2021 to nominations@efrag.org with a copy to myself (jean-paul.gauzes@efrag.org).

I thank you in advance for your cooperation and contributions.

I also would like to thank all those that have already provided input since my ad personam mandate was first made public.

I would be pleased to respond to any questions you may have.

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CHAPTER 1: EFRAG'S CURRENT ORGANISATION AND GOVERNANCE

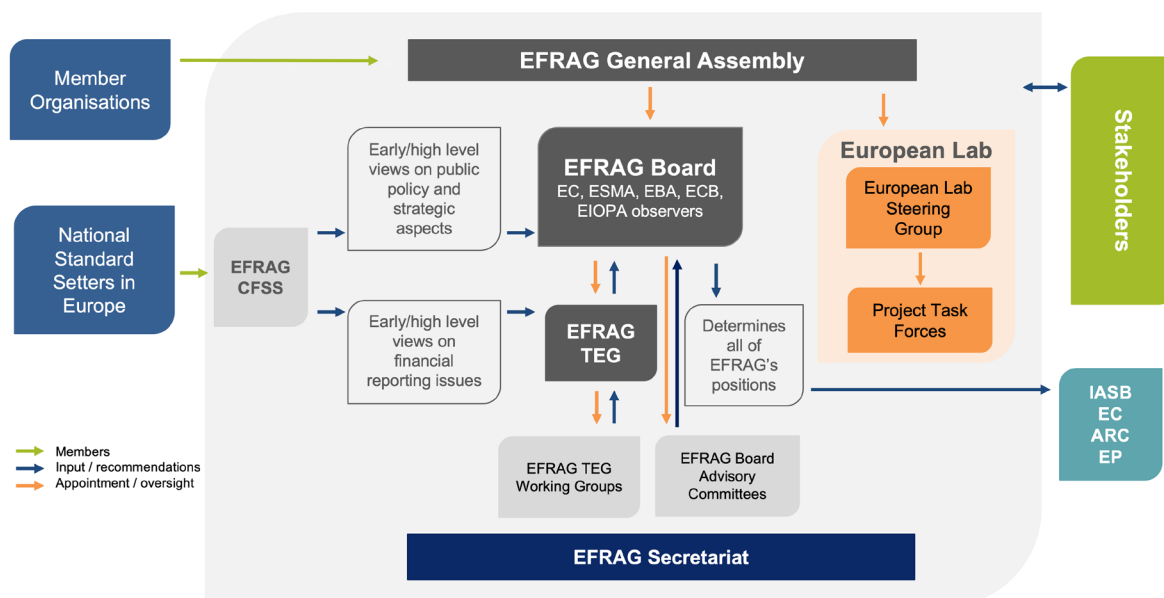
EFRAG'S CURRENT MISSION

- 1.1. EFRAG's mission is to serve the European public interest by developing and promoting European views in the field of financial reporting and ensuring that these views are properly considered in the IASB standard-setting process and in related international debates. EFRAG ultimately provides advice to the European Commission on whether newly issued or revised IFRS Standards meet the criteria of the IAS Regulation for endorsement for use in the EU, including whether endorsement would be conducive to the European public good.
- 1.2. EFRAG seeks input from all stakeholders, and obtains evidence about specific European circumstances, throughout the standard-setting process and in providing our endorsement advice. Our legitimacy is built on transparency, governance, due process (which may include field tests, impact analyses and outreaches), public accountability and thought leadership. This enables EFRAG to speak convincingly, clearly and consistently, and be recognised as the European Voice in financial reporting.
- 1.3. EFRAG is operating in a fast evolving environment and cares about adapting its activities and its governance to meet the opportunities and challenges in corporate reporting.

EFRAG'S CURRENT GOVERNANCE

- 1.4. The current structure of EFRAG is presented in the chart below.

EFRAG'S STRUCTURE



- 1.5. The EFRAG General Assembly consists of the EFRAG Member Organisations divided into two chapters: European Stakeholder Organisations and National Organisations. These provide for the private funding of EFRAG. The EFRAG General Assembly appoints the EFRAG Board which consists of two pillars: European Stakeholder Organisations and National Standard Setters. The EFRAG Board President is nominated by the European Commission after having consulted the European Parliament and the Council of Ministers. The EFRAG Board decides on all of EFRAG positions and is also responsible for certain governance and oversight activities. EFRAG TEG, supported by its Working Groups and Advisory Panels, provides technical advice to the EFRAG Board. EFRAG CFSS (Consultative Forum of Standard Setters) consisting of all National Standard Setters in Europe provides input to EFRAG TEG and where applicable directly to the EFRAG Board.
- 1.6. The European Lab consists of a European Lab Steering Group appointed by the EFRAG General Assembly and directly accountable to the EFRAG General Assembly, and Project Task Forces that are responsible for carrying out the European Lab Projects.
- 1.7. Further information about the respective roles of each of the bodies is also available in the [governance section](#) of EFRAG's website.

CHAPTER 2: EFRAG'S NEW MISSION

In case EFRAG were entrusted with the development of possible EU non-financial reporting standards, its new mission would be different from its present mission of influencing the IASB and providing endorsement advice.

- 2.1 As a matter of fact, standard setting is not the same activity as giving input to another standard setter such as the IASB. Standard setting is also different from giving endorsement advice. Standard setting has specific processes and activities and it is also in many respects a larger responsibility because the standard setter issues requirements that need to be complied with.
- 2.2 Enlarged responsibilities would arise even if EFRAG would not, in practice, be given formal legal standard setting powers but would instead be the drafter of standards; while the European Commission, European Parliament and Council retain the formal power to set standards as part of law.

It is crucial for a standard setter to have a good and robust corporate governance and due process and a sustainable finance in order to get accepted by the public sector and the private stakeholders. Therefore, it is proposed that EFRAG has two pillars one for financial reporting activity (influencing the IASB and endorsement advice) and another for non-financial reporting standard setting (NFR).

- 2.3 However, these two activities shall cooperate and exchange views and where possible be interconnected and draw on synergies to form an integrated view of the performance of companies.

As regards the financial reporting pillar, the current structure of EFRAG, which after the Maystadt reform in 2014 has attained good results, could as far as possible, be preserved in its present status, in order not to compromise the quality of EFRAG's performance and the balance of views held among its stakeholders.

- 2.4 The governance principles would be as follows:

- Independent
- Open and transparent
- Due process
- Publicly accountable
- Legitimate
- Balanced (multi-stakeholder) membership
- Adequate funding
- Serving the European public interest

CHAPTER 3: DUE PROCESS

- 3.1 As regards the organisation of the non-financial reporting standard setting pillar, a sound due process adapted for standard setting with features of the due process existing for financial reporting matters would be recommended. The due process features described in the Maystadt report currently applied to the financial reporting pillar, and designed to ensure that standards are developed in the public interest and avoiding undue influence, would also apply to the non-financial reporting pillar.
- 3.2 Since its establishment, EFRAG has put in place for its financial reporting activities, a transparent public due process that has developed over time. This due process allows all and mainly European constituents to put forward their views for consideration by EFRAG and ensures that the diversity of accounting and economic environments and views in Europe are taken into account in determining EFRAG's positions.
- 3.3 EFRAG's legitimacy is built on its transparency, governance, due process, public accountability and thought leadership. As part of its due process, EFRAG publishes draft positions for public consultation, undertakes field tests and other forms of effect analyses, organises outreach events (some of which are especially targeted at users of financial statements), undertakes special surveys, and publishes the results in feedback statements and publishes final positions. EFRAG contributes to evidence-based standard setting by undertaking quantitative studies and effect analysis that inform the discussion on EFRAG's comment letters and endorsement advice, and are increasingly becoming an important part of EFRAG's research work.
- 3.4 All technical discussions are held during EFRAG Board and EFRAG TEG public meetings and webcast meetings and recordings are accessible after the respective meetings. The supporting papers for the public sessions of both the EFRAG Board and EFRAG TEG meetings are publicly available on the EFRAG website.
- 3.5 Building on the above process and principles, the due process for non-financial reporting pillar should include the following important steps:

PUBLIC MEETINGS AND DOCUMENTS

- Debating and developing technical proposals in public meetings including the recording of meetings for later consultation;
- Supporting documents for the public meeting are publicly available;
- Clear voting arrangements for approving documents at various stages of the due process;
- Discussion and decision summaries that are made available after meetings;
- Public discussions with other Non-Financial Reporting Standard Setters;

WORK PLAN AND PUBLIC CONSULTATION

- Agenda consultations (appropriate frequency to be determined) to define non-financial standard-setting priorities and develop project work plan;
- Undertaking field tests and other forms of effect analyses before a project is included in the work plan;
- Reaching out to relevant (global) non-financial reporting initiatives and considering their views in the research, standard setting and European Lab activities where appropriate;
- Publication of an exposure draft; including a basis for conclusions and initial effect analysis;
- Exposure drafts and/or other due process documents such as discussion papers open for comment for a sufficient period of time;
- Additional broad stakeholder consultation, if needed through field tests, surveys, public hearings and roundtable meetings;
- Publication of additional materials to support the exposure draft (e.g. podcasts, webcasts, educational material);
- Consideration of feedback received from public consultation process, publication of comment letters received and issuance of feedback statements;
- Publication of standard/s accompanied by a basis for conclusions and effects analysis;
- Publication of materials accompanying a standard such as project summary and education material;
- Post-implementation reviews conducted at an appropriate time to identify and address potential implementation issues encountered after adoption of standard/s.

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?

CHAPTER 4: ISSUES ON WHICH FURTHER INPUT IS SOUGHT

REPRESENTATION OF MEMBER STATES AND NATIONAL PUBLIC AUTHORITIES

- 4.1 To ensure appropriate accountability towards Member States, representation of Member States (through their national public authorities) within the governance structure is a critical matter.
- 4.2 A consultation with Member States is currently taking place to better understand how they see their role in the future governance and funding of EFRAG. The feedback from the consultation with Member States will be considered in developing the final recommendations.
- 4.3 One important question to address is whether the representation of Member States and their national public authorities in the non-financial reporting pillar governance should mirror the current participation of national standard-setters in EFRAG's financial reporting pillar.
- 4.4 It is important that the national public authorities that bring relevant expertise are involved.
- 4.5 In the current financial reporting pillar EFRAG Member Organisations include two chapters, one being National Organisations (that have different forms in different countries and sometimes directly or indirectly involve national public authorities). The National Standard Setters (which primarily deal with financial reporting but several of them are also involved in non-financial reporting) nominate their candidates for the EFRAG Board seats in the National Standard Setters Pillar. The larger National Standard Setters also directly nominate 25% of the EFRAG TEG seats. Finally, EFRAG operates a Consultative Forum of National Standard Setters (EFRAG CFSS).

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?

REPRESENTATION OF EUROPEAN INSTITUTIONS AND AGENCIES

- 4.6 Relevant European institutions and agencies shall be invited to be involved in the development of future non-financial reporting standards.
- 4.7 For the financial reporting pillar of EFRAG, European Institutions and agencies are represented as follows:
- the European Commission, the European Supervisory Authorities (ESAs) and the ECB participate in the EFRAG Board in an observer capacity.
 - The ESAs and ECB, the IASB and the European Commission are invited to attend EFRAG Technical Expert Group meetings as observers.
- 4.8 A similar observer role could be considered for the non-financial reporting pillar. In this case, the relevant European institutions and agencies may not necessarily be the same as those that are observers for the financial reporting pillar.
- 4.9 European public authorities with high technical expertise on sustainability matters such as environment, social, human rights or corruption (e.g. EEA (European Environmental Agency), FRA or environmental agencies) and the EC Platform for Sustainable Finance) could be directly involved in the standard setting body and/or Non -Financial Reporting TEG as observers, all of them on the same basis. However, care should be taken that in the role carried out by the European public authorities conflicts of interests are avoided and a proper segregation of duties is respected.
- 4.10 Alternatively (or in addition to the above), a public authority coordination and consultation group could also be considered in which both national public authorities and the European institutions and agencies could be involved. This group should ensure policy coherence and enforceability of the standards by aligning any requirements with existing legal reporting obligations. It should be able to highlight inconsistencies and provide input to the standard setting process.

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?

REPRESENTATION OF THE PRIVATE SECTOR AND CIVIL SOCIETY

- 4.11 The feedback from the first consultation overwhelmingly showed the need to have private sector and civil society representatives, including NGOs, with a clear and recognised expertise on non-financial reporting topics, being involved in the non-financial reporting standard setting work.
- 4.12 As is the case with the financial reporting pillar, the non-financial reporting pillar should be a public-private partnership, where the private sector is directly involved in the standard setting work. The underlying premise being that those developing the standards are independent and impartial, whilst the public entities have a fundamental role of direction providing and oversight. Such representation should go beyond companies within the scope of the standards and users of their reports, and allow for a multi-stakeholder approach. However, it should be taken into account that the size of the bodies should be workable.
- 4.13 Relevant stakeholders might include as mentioned in the mandate:
- Financial and non-financial entities with securities listed on EU regulated markets;
 - Large non-listed companies;
 - Other categories of financial market participants as defined in Article 2(1) of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector;
 - Small and Medium-Sized Enterprises (SMEs);
 - Auditors, assurance providers and accountants;
 - Investors, including where relevant smaller or retail investors;
 - Sustainability rating agencies and providers of ESG-related indices or benchmarks;
 - Non-Governmental Organisations active in the areas covered by the NFRD;
 - Trade unions; and
 - Academics specialising in the field of corporate reporting and sustainability.

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?

REPRESENTATION OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)

- 4.14 SMEs are increasingly facing non-financial information reporting requests from capital providers, clients and suppliers. In addition to the trickle down effects and imposed reporting obligations due to being part of the supply chain of larger entities, some SMEs voluntarily adopt non-financial reporting standards. However, they do not always have the resources to address the sometimes complex reporting obligations. SMEs often outsource their reporting needs to small and medium sized practitioners (SMPs). Consequently, the impact of non-financial reporting standards on SMEs should be taken into account.
- 4.15 Therefore, it is important that, regardless of whether NFI standards are developed specifically for SMEs, the needs and limitations of SMEs must be considered and SME representatives (which may include SMPs), with relevant non-financial reporting knowledge, may be part of the bodies in the Non-Financial Reporting pillar. It could also be considered to have a SME- focused Working Group providing input to the non-financial reporting TEG.

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?

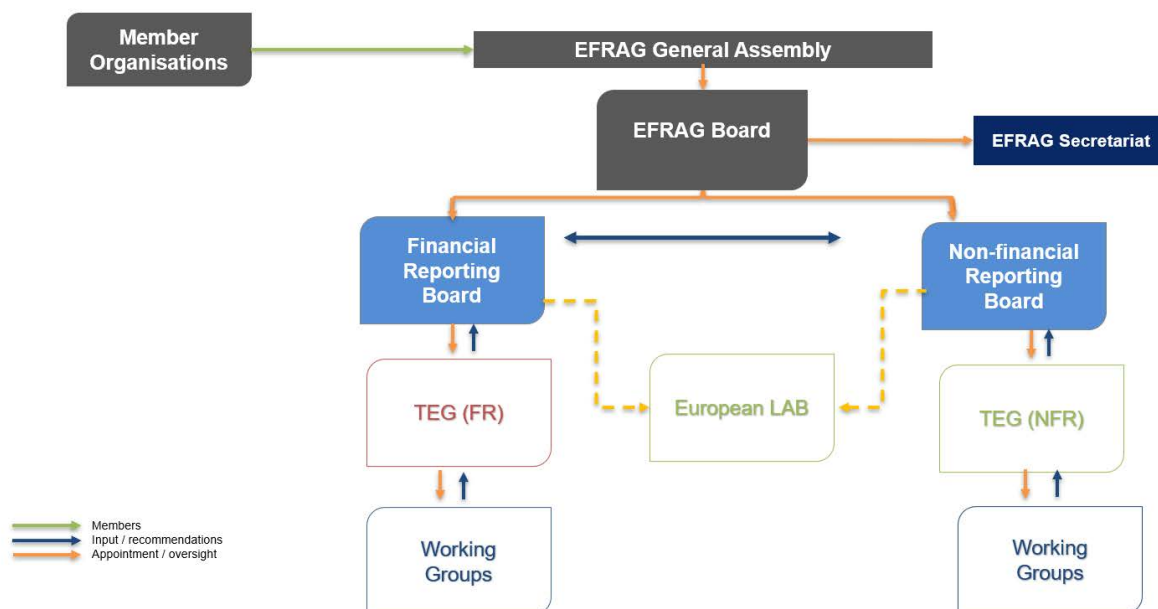
COOPERATION WITH OTHER STANDARD SETTERS AND INITIATIVES

4.16 Any future possible EU non-financial reporting standards must be built on, existing reporting standards and frameworks to the greatest possible extent. It will in particular be essential that existing standard-setters are consulted in order to understand how best to draw from and build upon the standards they have developed and to ascertain if their standards are relevant for the EU non-financial reporting standard setting process. Relevant existing standard-setting organisations need to be closely associated with any future standardisation work. The involvement with existing (global) non-financial reporting initiatives will depend however on further clarification on how the EU non-financial reporting standards will be created and how they are built on the existing standards and frameworks or will be derived from these frameworks.

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?

CHAPTER 5: EFRAG PROPOSED NEW CORE STRUCTURE



EFRAG GENERAL ASSEMBLY

- 5.1. The EFRAG General Assembly would continue to cover all EFRAG's activities. Its role is to take responsibility for fulfilling the legal requirements, appointing the EFRAG's President, the Board's members, and the members of both the Non-Financial Reporting and Financial Reporting Boards.
- 5.2. As it is currently the case, the EFRAG President responsible for the EFRAG organisation will be appointed by the General Assembly, on the proposal of the European Commission, based upon the advice of the European Parliament and the Council.
- 5.3. As non-financial reporting is of significant interest to a much wider range of stakeholders than financial reporting, the General Assembly could be enlarged to allow additional relevant and interested organisations, such as national competent authorities, foundations NGOs and trade unions, to participate in and contribute to EFRAG.
- 5.4. To become an EFRAG member organisation, a financial contribution should be made to EFRAG. Certain key non-financial reporting stakeholders might in particular be suited to become an EFRAG member organisation, but would not have the capacity to contribute financially. To be inclusive, financial contributions from these organisations could be limited.

EFRAG BOARD

- 5.5. The EFRAG Board would be responsible for the EFRAG's organisation, administration, finances and oversight of all EFRAG's bodies. The EFRAG Board may have various committees including nominating committees for appointment of the TEGs and European Lab, Audit and Budget committee, Remuneration committee and Due process oversight committee.
- 5.6. The EFRAG Board would be responsible for selecting the CEO, who is responsible for all operational/organisational tasks for EFRAG.
- 5.7. The EFRAG Board would approve the due process system and evaluate the performance of the due process.
- 5.8. The EFRAG Board's members would be appointed by the General Assembly. They should be of high calibre and ensure that EFRAG is public accountable.
- 5.9. The EFRAG Board could be composed of the EFRAG's President, the Vice-Presidents of the two Reporting Boards (Financial and Non-Financial), representatives of European Public institutions, national standards setters, and representatives of the stakeholders chosen for their competence and expertise. EFRAG Board members should commit to serve in the public interest and be free from conflicts of interest.

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)?

REPORTING BOARDS

- 5.10. Taking into account the new mission given to EFRAG, the activities regarding the reporting issues would be split between two new bodies supervised by the Board, one dedicated to the Financial Reporting aspects, the other to the Non-Financial Reporting aspects: the Financial Reporting Board, and the Non-Financial Reporting Board.
- 5.11. The members of these two Boards would be appointed by the General Assembly, on proposal of the EFRAG Board. Members of both Boards should commit to serve in the public interest and be free from conflicts of interest.
- 5.12. Each Board would be assisted in its area of competence by a Technical Expert Group (TEG).
- 5.13. Each Reporting Board would be responsible for all positions regarding its area of competence, after having considered the technical advice provided by its corresponding TEG and reflecting the results of EFRAG's due process.
- 5.14. Each Reporting Board would have to ensure that in its area of competence, 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 consultation documents, draft endorsement advice, exposure drafts and other forms of draft standards as described above.
- 5.15. Each Reporting Board would have to operate by consensus to the maximum extent feasible, or by a qualified majority (two-third) if there is a failure to reach consensus.

THE FINANCIAL REPORTING BOARD

- 5.16. The Financing Reporting Board would continue the current role of the EFRAG Board in the endorsement process and contributing to the IASB standard setting process including research activities, with the exclusion of any supervisory and oversight role.

THE NON-FINANCIAL REPORTING BOARD

- 5.17. The composition of the Non-Financial Reporting Board should reflect the diversity of the stakeholders.
- 5.18. The role of the Non-Financial Reporting Board would be focused on the review and approval of the non-financial reporting standards recommended by the Technical Expert Group for Non-Financial Reporting (see below) and non-financial reporting research activities to support the non-financial reporting standard setting process. The Non-financial Reporting Board would also consider the European public good dimension.
- 5.19. The possible modalities of cooperation with the existing (global) public and or private non-financial reporting initiatives producing international non-financial reporting initiatives and frameworks and the possible SME angle are considered above.

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?

TECHNICAL EXPERT GROUPS (TEG)

TEG FOR FINANCIAL REPORTING

5.20. The current rules for composition and functioning would continue to be applicable.

TEG FOR NON-FINANCIAL REPORTING

- 5.21. The new Technical Expert Group (TEG) for non-financial reporting will work independently from the existing TEG for financial reporting but would ensure that an ongoing exchange of views is in place to support interconnectivity in the consideration of financial reporting and non-financial reporting developments. Its activity will be focused on the elaboration and drafting of the non-financial standards to be recommended to the Non-Financial Reporting Board.
- 5.22. The members of the TEG for non-financial reporting would be chosen for their experience and expertise in the drafting of standards and subject matter expertise in the non-financial reporting domain. A geographical and professional background balance should be respected.
- 5.23. The role of the TEG for Non-Financial Reporting is expected to be determined, at least initially, by the outcome of the revision of the 2014/95/EU Non-Financial Reporting Directive. The TEG would be responsible for developing standards with help from appropriate working groups and recommending these standards for approval to the Non-Financial Reporting Board.

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?

WORKING GROUPS, ADVISORY PANELS AND TASK FORCES

- 5.24. A number of new Working Groups/Task Forces/Advisory Panels would be established by each TEG. Each TEG would decide on the need for and mandate for such Working Groups and their composition.
- 5.25. Similar to what exists for the Financial Reporting Pillar, the role of Working Groups/Task Forces/Advisory Panels will be to advise and provide input to TEG discussions aiming at providing contributions on specific matters.

EUROPEAN CORPORATE REPORTING LAB (EUROPEAN LAB)

- 5.26. The European Lab would become a task force or other structure to continue the work on good practices on non-financial reporting and to stimulate innovation and debate related to non-financial reporting. The European Lab could potentially also undertake work on cross cutting issues with the financial reporting activities (or on financial reporting only). One possible example is to identify good practices in the area of digital reporting.
- 5.27. The Non-Financial and Financial Reporting Boards would choose the topics and select the members of the Task Force or other structure.

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?

CHAPTER 6: FUNDING

- 6.1. The creation of a new pillar for non-financial information would represent a significant expansion in EFRAG's activities. Standard setting activity will require new technical expertise and skills in EFRAG as well as new tasks to be performed. Adequate financial and human resources of the non-financial standard-setting pillar is crucial to ensure the development of high-quality and relevant standards.
- 6.2. The funding of the existing financial reporting pillar should, not be affected by the new activities and the non-financial pillar should have its own separate source of financing apart from the financial pillar. However, organisations could decide to contribute to both pillars. In all circumstances EFRAG's ability to set standards independently without real or perceived undue influence from any interest groups should be safeguarded.
- 6.3. It should also be recognised that participating in most of the activities of the non-financial reporting bodies is not compensated and thus brings a substantial contribution in kind.

FUNDING STRUCTURE

- 6.4. EFRAG's current funding for the financial reporting pillar originates from both the public sector (the European Union) and the private sector (EFRAG's Member Organisations). Funding by the European Commission is granted through yearly grant agreements. Funding by the Member Organisations includes both contributions in cash and in kind (membership of various bodies).
- 6.5. In addition to cash funding, EFRAG receives contributions in kind provided by the members of EFRAG TEG, the EFRAG Board, the Working Groups and Advisory Panels and the European Lab and its Project Task Forces as well as in form of free secondments.
- 6.6. The funding for the non-financial reporting pillar could similarly support the public- private sector partnership model of EFRAG. However, the public (EC) funding should play a leading part for the non-financial reporting pillar, given its public interest mission in standard setting. The EC would need to make sure that the necessary funding is guaranteed for both the financial and non-financial reporting whilst supporting the public interest mission, the multi-stakeholder model and independence of EFRAG. Public funding would also avoid the so called 'free rider' problem whereby organisations have access to the work of EFRAG given that EFRAG works in the public interest, without making any corresponding financial contribution to the EFRAG budget. The EC could have a catalyst function in stimulating national and European organisations to fund EFRAG. In the longer term, a financing in form of levies or any other legal basis would ensure a sustainable financing of EFRAG, notably of the non-financial reporting standard setting activity.
- 6.7. Any funding model should be transparent, equitable and well understood by candidate member organisations that may wish to join the non-financial reporting pillar or both.
- 6.8. Since EFRAG is working in the European public interest; all its documents, deliverables and also the standards would be in the public domain and EFRAG will not earn revenue by charging for deliverables or standards.
- 6.9. Existing non-financial information initiatives or standard setters are, for a large part of their budget, funded by philanthropic foundations that are actively involved in the sustainability agenda and through bilateral donor aid funding of countries. These foundations are often global in nature but some have a European focus. Their interest is in the consolidation of existing initiatives and creation of a global non-financial reporting standard setting body.
- 6.10. Philanthropic funding is usually short term in nature. It could be considered to obtain a contribution from philanthropic foundations for the initiation of specific projects that are catalytic in nature. Another possibility would be to have an additional fundraising or donor mechanism to solicit contributions from interested stakeholders that are interested in supporting the work but are not directly involved in the work.

ADEQUATE LEVEL OF FUNDING

- 6.11. The level of sustained funding needed to support the European Commission's objectives will depend on further clarification of the actual aims and ambitions of the European Commission and the Parliament in relation to the EU non-financial reporting standards and the recommendations resulting from the mandate on preparatory work on possible EU non-financial reporting standards. Depending on how these standards are recommended to be developed (with different scenarios possible), different sizes of budgets can be envisaged.
- 6.12. Factors that determine the adequate funding level are:
- **Standard development:** the cost of developing a standard consists of two main components, namely staff and experts and multi-stakeholder engagement process.
 - **Governance:** the scope and volume of standards to be developed may require a professional standard setting board (compensated) with an independent appointment process, and due process oversight.
 - **Advocacy and communication:** to ensure standards remain current while also ensuring that they are supported by all relevant stakeholder groups including civil society, labour unions and investments institutions.
- 6.13. The level of the budget can only be estimated when there is further clarity regarding the nature of the EU non-financial reporting standards. Nonetheless, there will be clear synergies with EFRAG's existing structure notably in terms of offices, support and communications staff. The budgets of the existing initiatives differ widely, ranging from 2.5 to 9 million euros.

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?

ANNEX: SUMMARY OF ALL THE QUESTIONS RAISED IN THE CONSULTATION DOCUMENT

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?

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?

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?

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?

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?

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?

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)?

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?

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?

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?

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?



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