

FEEDBACK STATEMENT

Jean-Paul Gauzès' second public consultation on his ad personam mandate on potential need for changes to the governance and funding of EFRAG

March 2021

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DISCLAIMER

The ad personam mandate is a mandate EVP Dombrovskis conveyed to Jean-Paul Gauzes personally. This feedback statement is his personal responsibility and includes his personal summary of the feedback provided by respondents to his Consultation Document and indications on how he addressed that feedback in his final report.

The Feedback Statement has therefore not been subject to the review of the EFRAG governance bodies: EFRAG General Assembly, EFRAG Board and the European Lab Steering Group.

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INTRODUCTION

This feedback statement summarises the main feedback I received from my Consultation Document 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) and how I have considered the feedback in preparing my final recommendations.

The objective of this second public consultation was to seek input on my proposals for changes to the governance structure of EFRAG as laid down in my [progress report](#) to the European Commission of 6 November and to obtain input on a number of additional matters in order to make my proposals operational.

My report with the final recommendations is published on the [EFRAG website](#).

RESPONSES FROM CONSTITUENTS

I have received and considered comment letters from 47 constituents of which 46 have been made publicly available on EFRAG [website](#). In addition, I received input in the form of emails and out of meetings with stakeholders.

I have also received input from a questionnaire to the Member States represented in the Accounting Regulatory Committee to seek their input on the possible involvement of National Authorities.

The comment letters received came from a broad range of constituents including European organisations, ESG organisations, National Standard Setters, business associations, professional organisations, listed companies, EU authorities and individuals.

The list of respondents is included in the Appendix to this feedback statement.

SUMMARY

Respondents generally expressed support for the proposals in the Consultation Document and suggested a number of clarifications and improvements that have been considered in the final drafting of the recommendations.

Most respondents supported the constitution of a separate pillar for non-financial reporting on the basis that the standard-setting activity would be substantially different from EFRAG's current role in advising the European Commission on the endorsement of IFRS Standards and influencing the IASB standard setting process.

Respondents however emphasised the need to ensure connectivity between the financial reporting and non-financial reporting activities when having two separate pillars. They made a number of useful suggestions that have been considered in the final recommendations. Several respondents underlined the need for inclusiveness of stakeholders and indicated that the range of non-financial reporting stakeholders is wider than that of financial reporting stakeholders.

Respondents generally supported the core governance principles (in particular transparency and inclusiveness) enumerated in the Consultation Document. Suggestions were made to make the due process more responsive and flexible considering the urgent needs of standard setting and the rapidly changing external environment and evolving societal expectations.

Most respondents agreed that EU non-financial reporting standards must be built on existing reporting standards and frameworks to the greatest possible extent. Therefore, relevant existing non-financial reporting standard setting organisations and initiatives needed to be closely associated with any future standardisation work.

Several respondents favoured the establishment of a consultative body such as the Consultative Forum of Standard Setters involving National Authorities and other relevant organisations, priorities and resources permitting.

Most respondents considered that the operations of the European Lab should be continued to foster innovation by identifying and sharing good practices and that it should address both financial reporting and non-financial reporting topics.

A number of respondents suggested to reconsider the name of EFRAG in the context of a dual activity. A suggestion was to rename EFRAG as European Corporate Reporting Advisory Group (ECRAG).

DETAILED ANALYSIS OF THE INPUT RECEIVED ON THE QUESTIONS CONTAINED IN THE CONSULTATION DOCUMENT

QUESTION 1 – DUE PROCESS

Main feedback received

Respondents generally agreed that steps suggested in the Consultation Document reflected the key due process steps for open and transparent non-financial reporting standard setting. They underlined that a proper due process is critical for the long-term credibility and independence of the non-financial reporting standard setter.

Some respondents, while supporting the proposals, indicated that the actual level of detail of due process step will depend on the mandate that EFRAG would receive from the European Commission and what would be the recommendations of EFRAG's Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards, and how they would be considered by the European Commission.

Some respondents also invited EFRAG to stay open minded on how the due process steps may need to evolve over time in a rapidly changing external environment and with evolving societal expectations. Fast-moving developments in science and technology, policy and regulation, social movements, and customer organisations mean that the material sustainability issues of today for a particular company are likely to be different in several years' time in terms of composition and operational, strategic or financial impact.

The following suggestions were made related to dynamic nature of the due process:

- An “accelerated” due process could be considered to address issues in a timely manner. In particular when the European standards are developed on the basis of the work done by another international organisation. Effect studies may not be needed in the beginning for standards on certain topics since the need is self-evident.
- Some steps could be considered as ‘good practice’ rather than as a compulsory ‘core’ due process to be applied in all instances. This could for instance be the case for the publication of additional materials to support the exposure drafts such as project summary and education material.
- The due process may entail acceptance of a certain level of experimentation to ‘enable’ non-financial reporting to keep pace with changing information needs and deliver standards that are urgently needed.
- An annual improvements of non-financial reporting standards could be considered to adapt to changing and emerging circumstances.

How the feedback was considered in the final recommendations

A number of suggestions made by respondents have been considered in the final recommendations in particular:

- The need to have a robust yet agile and adaptable due process to meet urgent standard-setting needs and a fast-moving landscape. Therefore, all the steps described in the recommendation may not need to be applied mechanically or sequentially in all instances.
- Where and to the extent possible, the due process of existing non-financial reporting initiatives should be taken into account and duplication should be avoided.
- The consideration of means to elicit feedback from a wider range of stakeholders in consultations including the ones who may not normally have the resources to participate in a formal due process.
- Undertaking field tests and other forms of research before a project is included in the work plan should include scientific review and adequacy with EU policy analysis, and other forms of effects analysis but should not be undertaken for topics where the need is self-evident.

- Considering a Due Process Handbook (due to its limited size the EFRAG Administrative Board as a whole could play the role that a Due Process Oversight Committee would play).

QUESTION 2 – MEMBER STATES AND NATIONAL AUTHORITIES

Main feedback received

Most respondents agreed that ensuring appropriate accountability towards Member States, representation of Member States (through their National Authorities) within the governance structure was a critical matter. Respondents were not clear what was meant by National Authorities and what would be the relevant authority in a specific country, for example some saw it as the government/ministry and others as the National Standard Setter.

Most respondents supported the constitution of a consultative body similar to the Consultative Forum of Standard Setters in the Financial Reporting pillar that would include Member States (National Authorities) with the relevant expertise. This could address the fact that effective engagement is complicated by the high number of potentially concerned National Authorities, due to the diverse range of sustainability matters that should be addressed by the non-financial reporting standards. It could also allow for the involvement of all Member States.

A wide range of views were expressed as to the nature and extent of the involvement Members States and their National Authorities.

In addition to the above feedback from the public consultation, a specific questionnaire was sent to the Member States represented in the Accounting Regulatory Committee to seek their input on the possible involvement of National Authorities. Responses were received from Nine Member States representatives highlighting, and consistent with the public consultation feedback indicated that:

- National Authorities from all Member States should have the opportunity to participate in the process of developing the non-financial reporting standard and should be involved on different stages and not just for final approval of the non-financial reporting standards.
- Member States or National Authorities should be represented in EFRAG’s General Assembly and have a possibility to nominate representatives for the EFRAG Boards and EFRAG TEGs; however, not every Member State needs to be represented on the EFRAG Boards or EFRAG TEGs.
- It should be up to each Member State take its own decision on its involvement in the governance of EFRAG. In particular, National Authorities that are responsible for drafting legislation regarding financial and non-financial reporting should determine who should be involved.
- Several respondents favoured the establishment of a consultative body such as the Consultative Forum of Standard Setters. One respondent saw no need for such a consultative body and suggested a mandatory consultation process involving Member States representatives.
- Some suggested that the National Standard Setter would be the appropriate National Authority representing the Member State which would also help interconnectivity. Others suggested that it could be the National Standard Setter at technical level and the Ministry at General Assembly level.

How the feedback was considered in the final recommendations

The feedback received from the questions relating to the representation of various groups of stakeholders, including the involvement of National Authorities, (Questions 2 to 5 in the Consultation Document) has been considered in formulating an overall approach that is detailed below.

The final recommendations propose a balanced representation of stakeholders through the creation of two more Chapters in addition to the two existing Chapters in the EFRAG General Assembly (“European Stakeholders Organisations” and “National Organisations” (National Authorities/Ministries or National Standard Setters or other forms of bringing national stakeholders together). The two new Chapters will consist of members representing the European institutions, authorities and agencies

and the Civil Society (NGOs, academics, trade unions and consumer organisations). EFRAG Member Organisations forming part of the above Chapters need to provide a financial contribution to EFRAG. If organisations or institutions would not meet the criteria for full membership or by statute, or decision cannot become full EFRAG Member Organisations, an associate membership could be entered into including an associate membership cooperation agreement.

EFRAG is incorporated as a private organisation (AISBL) and Member Organisations would appoint the members of the Administrative Board as well as members of the Reporting Boards belonging to their Chapter upon recommendation of the EFRAG Administrative Board and upon nomination of the EFRAG Member Organisations.

The President of EFRAG Administrative Board will be elected and appointed by the EFRAG General Assembly while the Chair of each of the Reporting Boards will be appointed by the EFRAG General Assembly following nomination by the European Commission in consultation with the European Parliament and the Council.

As suggested in the feedback received, it will be up to the Members States to designate their representatives as part of the 'National Organisations' Chapter. It is noted that not every Member State may be willing or able to be represented at the different levels of the governance. Thus, grouping of some Member States may be necessary to keep a reasonable size for the bodies. Also, to become an EFRAG Member Organisation in the National Organisations Chapter, the National Organisation has to contribute to the financing of EFRAG.

The suggestion made by many respondents to form a consultative forum of non-financial standard setters and, where applicable, other relevant National Authorities and existing (global) non-financial reporting initiatives and other players (on the model of the one existing for financial reporting) —has also been integrated in the recommendations to foster regional and international cooperation with other standard setters and initiatives in the world. Such a forum that will advise the Non-Financial Reporting TEG (NFR TEG) in a similar way that EFRAG CFSS (Consultative Forum of Standard Setters) advises the Financial Reporting TEG (FR TEG) and the Non-Financial Reporting Board (NFRB).

The suggestion to form a large advisory council has not been retained in the recommendations as it is considered that the legitimate place to debate on strategy and orientations is the EFRAG General Assembly itself (enlarged – four Chapters), where all categories of stakeholders are represented. In that context it is envisaged that beside its statutory role under the Belgian Law, the General Assembly would also meet two times a year to debate strategic issues and orientations. The EFRAG Administrative Board would prepare these discussions.

QUESTION 3 – EUROPEAN INSTITUTIONS, AUTHORITIES AND AGENCIES

Main feedback received

Most respondents agreed relevant European institutions, authorities and agencies shall be invited to be involved in the development of future EU non-financial reporting standards. In particular, European Supervisory Authorities (ESAs) should also be involved in the technical process as early as possible in order to ensure alignment between non-financial reporting and the European requirements in sustainable finance.

Some also suggested that the European Commission, as the main funder of EFRAG, should retain a role similar to its current involvement as an official observer at the General Assembly, the future EFRAG Administrative Board and at the NFRB, NFR TEG and all relevant Working Groups.

How the feedback was considered in the final recommendations

As explained in the response to Question 2, European institutions, authorities and agencies will be represented as one of the four Chapters in the General Assembly.

In this context, the relevant European authorities and agencies will be offered full membership of the non-financial reporting pillar allowing them to be involved in the development of the non-financial reporting standards as members of the governance bodies responsible for setting these standards: the NFRB and NFR TEG and their Working Groups where relevant.

QUESTION 4 – PRIVATE SECTOR AND CIVIL SOCIETY

Main feedback received

Consistent with the input received from the first consultation, respondents overwhelmingly supported 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. It was also generally recognised that a broader inclusion of stakeholder groups compared to the financial reporting pillar would be needed.

Respondents generally agreed that, like for the financial reporting pillar, the non-financial reporting pillar should be set as a public-private partnership, housed within EFRAG's current legal entity, where the private sector is directly involved in the standard setting work.

It was noted in particular that expertise on non-financial reporting is scarce and mainly present in academics, some consultancies, private standard setters and a limited number of NGOs; and therefore, there is a need for their representation. It was important to have a balanced representation of national authorities, representatives of civil society (including academics) and the private sector and the inclusion of members should be based on recognised sustainability expertise and knowledge of best practices on non-financial reporting and should be as inclusive as possible.

Regarding the level at which they should be involved:

- The most represented view was that the private sector and civil society should be represented at all levels of governance: the EFRAG (Administrative) Board, the NFRB the NFR TEG and in the relevant Working Groups.
- Some considered that representation of private sector and civil society would be of most value on the NFRB and the Working Groups because of the expertise they can bring there. Some considered that the involvement should be only at NFR TEG and Working Group level.

How the feedback was considered in the final recommendations

Consistent with the feedback received regarding the need to have a proper representation of the private sector and the civil society, and as explained in the response to Question 2, it is proposed that the private sector and the civil society are included in the Chapters represented in the EFRAG General Assembly and therefore, through their nomination rights, be represented in the different governance and technical bodies of the non-financial reporting pillar.

QUESTION 5 – SMES

Main feedback received

Many respondents supported the constitution of a permanent working group dedicated to SMEs. It was noted that SME representatives with relevant non-financial reporting knowledge could form this SME-focused Working Group while Small and Medium Practitioners (SMPs) working with SMEs with relevant reporting knowledge could also be included.

Some conditioned the creation of a SME/SMP-focused Working Group on the revised NFRD resulting in non-financial reporting requirements for SMEs. Other respondents considered that the Working Group is needed regardless of the establishment of SME non-financial reporting standards due to the trickle-down effect on SMEs that results from their being part of the supply chain of larger groups.

Some considered that; besides the Working Group, SMEs should be represented at all governance levels (EFRAG Administrative Board level, the NFRB Level, and NFR TEG). Others considered that the representation is needed only at the NFR TEG level.

Conversely, some respondents considered that SMEs should not be systematically represented at all. Public consultation would be sufficient to involve SMEs.

How the feedback was considered in the final recommendations

The final recommendations retain the suggestion made by many to have a permanent SMEs/SMPs Working Group. The Working Group will ensure that the perspective of SMEs/SMPs is considered from the early stage of developing standards.

SMEs /SMPs should also be represented in the NFR TEG because of the importance of the trickle-down effect and the need to consider the impact of SMEs during the standard setting process. The member with SMEs/SMPs background should have an adequate non-financial reporting profile.

Whether a broader representation will be needed will depend on whether the revised NFRD will create non-financial reporting requirements for SMEs. In such case, SMEs and SMPs could be represented at higher governance levels such as the NFRB.

QUESTION 6 – COOPERATION WITH OTHER NON-FINANCIAL REPORTING STANDARD SETTERS AND INITIATIVES

Main feedback received

Respondents underlined that EU non-financial reporting standards must be built on existing reporting standards and frameworks to the greatest possible extent. Therefore, relevant existing non-financial reporting standard-setting organisations and initiatives needed to be closely associated with any future standard-setting work. There was a strong call for connectivity and dialogue between international and European standard setters and initiatives.

The Chairs of the NFRB and NFR TEG should be represented at the EU-backed International Platform for Sustainable Finance to encourage collaboration.

How the feedback was considered in the final recommendations

As indicated in the Consultation Document, the involvement with existing (global) non-financial reporting initiatives will depend on further clarification on how the EU non-financial reporting standards will be created and how they will be built on or derived from the existing standards and frameworks whilst recognising European specificities including the need to transform this into level 2 legislation. In turn, the EU should also be involved in the international sustainability reporting standard-setting process.

The European Lab Project Task Force on the elaboration of possible EU non-financial reporting standards recommends building on and contributing to the work of relevant existing (international) non-financial reporting standard-setting organisations and initiatives under a partnering and co-construction spirit. While focusing on the EU political, regulatory, cultural, technical and timing constraints, a co-constructive approach with relevant other international standard setting initiatives should be aimed at based on a two-way exchange of experience, expertise, tools and content, with the ultimate goal of fostering coherence and consistency between EU and global sustainability reporting.

In this context, the NFRB and NFR TEG could contribute to sustainability reporting progress globally by:

- Making the outcome of its standard setting activities available internationally;
- Establishing confident bilateral relationships that could include joint projects;
- Promoting and participating to global convergence efforts on a co-construction basis; and
- Participating in fora dedicated to fostering coherence and integration of corporate reporting as a whole (including connectivity between financial and sustainability reporting).

Cooperation agreements could be signed with the relevant non-financial reporting standard setters and initiatives so that a two-way exchange of experience, expertise, tools and content can take place.

The EFRAG Administrative Board should advise the EFRAG General Assembly on the form of cooperation and with existing (global) non-financial reporting initiatives while taking into account that this cooperation may develop over time and should be reciprocal in nature. EFRAG's governance should be sufficiently flexible to allow different forms of involvement of the initiatives.

QUESTION 7 TO 9 – EFRAG BOARD, NON-FINANCIAL REPORTING BOARD (NFRB) AND NON-FINANCIAL REPORTING TECHNICAL EXPERT GROUP (NFR TEG)

Main feedback received

Respondents generally supported the core governance principles enumerated in the Consultation Document. The Consultation Document did not specifically ask constituents whether they supported the proposed organisation structure but focused on gathering input to make the proposed structure operational as regards the role, size and composition of the different governance and technical bodies.

EFRAG Administrative Board

Most respondents agreed with the separation of the oversight function and the standard-setting function and underlined that the EFRAG Administrative Board should be independent.

Respondents generally agreed that members of the EFRAG Administrative Board would be appointed by the EFRAG General Assembly. Suggestions for the EFRAG Administrative Board included:

- Further clarify the role and how members will be selected and appointed.
- Refer to it as EFRAG Supervisory or Oversight Board rather than just EFRAG Board which may create confusion.
- Members of the EFRAG Administrative Board should be different (and especially different Chairs) from the members of the two Reporting Boards as the oversight role should remain segregated from the technical / operational role. The Chairs could have a standing invitation to participate in the EFRAG Administrative Board, without having voting powers.
- The role of the EFRAG Administrative Board should include ensuring adequate funding, setting up an adequate due process, ensuring and maintaining relationships with stakeholders, nominating, and appointing of members in the Reporting Boards and appointing members of the TEGs upon the nomination of the Reporting Boards.

Suggestions for size ranged from 8 to 40 members but most indicated a size of around 20. The EFRAG Administrative Board should include representatives from the financial reporting and the non-financial reporting pillars in equal terms and represent the wide range of stakeholders. Some respondents considered that the EFRAG Administrative Board should be composed 'high calibre' members.

Non-Financial Reporting Board (NFRB)

Respondents generally supported the proposed description of the role of the NFRB although a few asked for clarifications of its role and the distinction with the Administrative Board (see above). Suggestions for size ranged from 10 to 25 members, with most suggestions of around 16 members, to stay manageable and operational.

The NFRB composition should reflect technical expertise and diversity of business and market experience with balanced representation of civil society organisations, academics, private sector and public entities, and the inclusion of members with recognised sustainability expertise and knowledge of best practice on related reporting.

Mixed views were expressed on who should nominate NFRB members:

- Some agreed with the proposal that NFRB members should be appointed by the EFRAG General Assembly upon the recommendation of the Reporting Boards or the Administrative Board.
- But others considered that the NFRB should be appointed directly by the EFRAG Administrative Board.

Some considered that there should be capacity for guest contributors to NFRB meetings from the NFR TEG, Working Groups as well as external sources of expertise. This may be useful in discussions relating to the approval of some non-financial reporting issues requiring specialist knowledge.

Non-Financial Reporting TEG (NFR TEG)

Respondents generally supported the proposed description of the role of NFR TEG although some considered that the setting of a NFRB and the technical reinforcement of the staff of the Secretariat may decrease the need for a permanent NFR TEG.

Many agreed that NFR TEG members be appointed by their respective Reporting Boards with possibly a 'clearance' by the EFRAG Administrative Board (subject to adherence to the nomination process, geographical and gender balance). Some suggested appointment by the EFRAG Administrative Board upon recommendation of the Reporting Boards. Only a few suggested that NFR TEG members should be appointed by the General Assembly upon recommendation of NFRB.

Some suggested that the size of the NFR TEG should be similar to (or not exceed) the size of the FR TEG (16 members). Some suggested a higher number, for instance between 24 and 40.

Connectivity between the two pillars

To ensure connectivity between the financial reporting and non-financial reporting pillars, the following suggestions were made (not mutually exclusive):

- Liaison of the NFRB and the FRB by some members, or by the Chair of the one Board being observer on the other (a similar suggestion was made for the TEGs). Very few however suggested cross memberships;
- Setting up a coordination or liaison committee between the two Reporting Boards;
- Regular joint meetings of the Reporting Boards and of the Reporting TEGs; and
- European Lab used as vehicle for innovation could play a role in interconnectivity.

How the feedback was considered in the final recommendations

Some respondents' suggestions have been integrated in the final recommendations in particular to better explain:

- Why the choice was made to have two separate Reporting Boards?
- What would be the expected roles of the different bodies (including clarifying the name of the EFRAG Administrative Board) what their expected size and composition would be and how the members of the different bodies would be appointed?

Regarding the interconnectivity between the financial reporting and non-financial reporting pillars, the final report recommends that:

- The Chair of each Reporting Board will be an observer on the other Reporting Board to support interconnectivity between both Reporting Boards.
- The Chair of each TEG will be an observer on the other TEG to support interconnectivity between both TEGs.
- Joint meetings on a regular basis could also be considered for both the Reporting Board and the TEGs.

Regarding the possible creation of a coordination (or liaison) committee between the two Reporting Boards and/or TEGs, it has been considered more appropriate to leave the decision to the Reporting Boards as to the opportunity and modalities of work of such a committee considering their work plan and priorities and after ensuring that interconnectivity is considered in a systematic way.

EFRAG General Assembly

As described above, the EFRAG General Assembly consists of EFRAG Member Organisations in four Chapters (the first two existing in EFRAG's current structure):

- European Stakeholder Organisations (private sector organisations including preparers, users and the accountancy profession organised, if needed, on a sector basis)

- National Organisations (National Authorities/Ministries or National Standard Setters or other forms of bringing national stakeholders together)
- European institutions, authorities and agencies (ECB, ESAs and other relevant institutions, authorities and agencies)
- Civil society (including NGOs, academics, trade unions and consumer organisations)

The existing Chapter of European Stakeholder Organisations (private sector organisations) is based on a sector model with six sectors: accountancy profession sector; corporate sector, banking sector, insurance sector, user sector and possibly a SME/SMP sector. As noted in the section Question 5 – SMEs; the representation of SMEs/SMPs at the different levels of EFRAG’s new governance will depend on whether the revised NFRD will create non-financial reporting requirements. In such an eventuality, SMEs and SMPs could be represented at higher governance levels including the General Assembly and the NFRB.

EFRAG Member Organisations forming part of the above Chapters need to provide a financial contribution to EFRAG. If organisations or institutions would not meet the criteria for full membership or by statute, or decision cannot become full EFRAG Member Organisations, an associate membership could be entered into including an associate membership cooperation agreement.

The EFRAG General Assembly will appoint:

- The President and the members of the EFRAG Administrative Board upon nomination by the EFRAG Member Organisations;
- The Chair of each of the Reporting Boards following nomination by the European Commission in consultation with the European Parliament and the Council (see below);
- The members of the Reporting Boards upon nominations by EFRAG Member Organisations and recommendation by the EFRAG Administrative Board.

In addition to the role described above, the EFRAG General Assembly would provide a discussion forum for the EFRAG Member Organisations to debate on strategy and broader orientations relevant for the environment in which EFRAG’s activities take place.

EFRAG Administrative Board

The role of the EFRAG Board charged with oversight (renamed EFRAG Administrative Board for the sake of clarity and distinction of the Reporting Boards) has been clarified to better emphasise that it will be responsible for the EFRAG’s organisation, administration, finance, due process, and oversight of all EFRAG’s bodies, but will not play a role in the development of the standards themselves. The EFRAG Administrative Board will also ensure a proper liaison of EFRAG with all relevant stakeholders and maintenance of relationships.

In line with the feedback received, the EFRAG Administrative Board will have a limited number (minimum ten) including its President, the Chairs of the two Reporting Boards in an advisory/observer capacity without voting rights, and representatives from each of the four Chapters of Member Organisations represented by the Chapters in the General Assembly (but this could be in a different proportion) and meeting the required profile. The number could be lower if there are not sufficient EFRAG Member Organisations in the Chapter.

In response to comments made by many respondents, it was clarified in the final recommendations that the members of the EFRAG Administrative Board should be different from the members of the two Reporting Boards as the oversight role should remain segregated from the technical / operational role.

As indicated in the previous sections, members would be nominated by the EFRAG Member Organisations and appointed by the EFRAG General Assembly.

EFRAG Non-Financial Reporting Board (NFRB)

The role and responsibilities of the Non-Financial Reporting Board have also been clarified in the final recommendations.

This includes being responsible for defining the standard-setting work program, appoint the members of the NFR TEG, review and approve the draft and final Standards or other guidance prepared and recommended by the NFR TEG and ensure interconnectivity with the FRB. In doing so, the NFRB will also consider the European public good dimension that will not be addressed by the NFR TEG.

The decision process was also clarified to state that the NFRB will review the NFR TEG proposals. If necessary, the NFRB will set out why it considers that the draft standard does not meet the needs of EU legislation and ask the NFR TEG to reconsider its proposal. If an agreement cannot be reached, the NFRB will submit the proposed non-financial reporting standard to the European Commission accompanied by a reasoned opinion setting out why it considers that the standard does not meet the needs of EU legislation. It would be for the European Commission to provide the final arbitration about the points at issue.

The relevant European authorities and agencies will have the possibility to have their reasoned opinions annexed to the NFRB's proposed non-financial reporting standards submitted to the European Commission for adoption. These opinions will be attached to the proposed standard and will be an integral part of the proposal to the European Commission.

The NFRB will have maximum 20 members including its Chair. As mentioned in the EFRAG General Assembly section, NFRB members will be appointed by the EFRAG General Assembly based on nominations by the EFRAG Member Organisations and will need to meet the expert profile of an NFRB member covering the broad range of stakeholders. The Chair of the Financial Reporting Board will be observer on the NFRB (and vice versa) to support interconnectivity between both Reporting Boards. Joint meetings on a regular basis could also be considered (see above section Connectivity between the two pillars).

The NFRB will cooperate with the existing (global) non-financial reporting initiatives within the framework defined by the EFRAG General Assembly.

Finally, as explained in the response to Question 2, the suggestion to form a Consultative Forum of non-financial reporting standard setters and initiatives and National Authorities has also been integrated in the recommendations including the involvement of global non-financial reporting standard setters and initiatives, to foster regional and international cooperation.

EFRAG Non-Financial Reporting TEG (NFR TEG)

The final recommendations clarify that NFR TEG members will be appointed by the NFRB (upon recommendation of its Nomination Committee), ensuring the diversity of skills and the diversity of origins, and meeting the expert profile and expertise.

The NFR TEG may have permanent members for the entire duration of their mandate and/or temporary members chosen from among experts in the subject concerned by the standard. In view of the workload involved in drafting standards, the recruitment of certain permanent NFR TEG members could be considered.

The NFR TEG will have maximum 16 members including its Chair.

The NFR TEG will cooperate with the existing (global) non-financial reporting initiatives within the framework defined by the EFRAG General Assembly and taking to account the cooperation established by the NFRB.

The Chair of the FR TEG will be an observer on the NFR TEG (and vice versa) to support interconnectivity between both TEGs. Joint meetings on a regular basis could also be considered (see above section Connectivity between the two pillars).

QUESTION 10 – ACTIVITIES OF THE EUROPEAN CORPORATE REPORTING LAB

Main feedback received

Only a small number of respondents considered that the European Corporate Reporting Lab (European Lab) should be discontinued. A few, however, noted that the European Lab function would be a 'nice to have' rather than an absolute 'must' and would not see the European Lab activity as a priority in terms of time and resource allocation.

Most agreed that the European Lab should continue its work on identifying and sharing good practices and fostering innovation and this should be done for both financial reporting and non-financial reporting subjects. They noted that the European Lab, whose oversight would be carried out by both Reporting Boards, would be at the heart of the connectivity between

financial and non-financial reporting pillars. Some suggested the consideration of cross-cutting issues such as digitisation and verifiability/assurance.

Some suggested to better explain how the European Lab could be integrated within EFRAG's general governance structure and not remain a free-standing organism next to it; and the European Lab Steering Group should be disbanded. The European Lab could be structured in the form of task forces and its members be appointed by the Reporting Boards. Its funding and work programme being overseen by the EFRAG Administrative Board in charge of all oversight matters.

Further suggestions about the activity of the European Lab included the following:

- Encourage the European Lab to look at good practices beyond the EU.
- Evolve beyond showcasing good practices to become a thought leader in the international environment on the nature, direction, and value of corporate reporting. Become more of an incubator stimulating new practices and experimentation occupying the proactive space informing future standard setting (research).
- European Lab could be the space to conduct research projects for both TEGs.
- Consider whether the European Lab could also provide a learning space.

How the feedback was considered in the final recommendations

The final recommendations reiterate the view, supported by most respondents that the activity of the European Lab should be continued subject to resource availability and priorities permitting, although there may be a lower level of activity or no activity in the first period of the EU non-financial reporting standard-setting process. The European Lab should address both financial reporting and non-financial reporting focusing on innovation in reporting and the sharing and promotion of good practices, priorities and resources permitting. However, there may be a lower level of activity or no activity for the first period of the EU non-financial reporting standard-setting process in order to prioritise this work stream.

Further explanations are provided to explain the changes that will be needed to the structure whereby the European Lab will be an activity potentially encompassing several Project Task Forces reporting to the Reporting Boards.

As suggested by some, the European Lab could also, beyond identification of good practice, consider proactive research on some topics (e.g., digitisation and materiality) or help with the development of education-oriented material depending on the availability of resources.

QUESTION 11 – FUNDING

Main feedback received

The Consultation Document sought ideas and input on possible funding structure but did not yet elaborate, on purpose, on concrete proposals. It suggested a separate funding structure of the financial and non-financial reporting activities.

Respondents generally provided general considerations and comments rather than practical suggestions acknowledging that this was a difficult issue to address; all the more in the absence of precision as to the exact terms of the mandate that EFRAG would receive.

Although a few respondents stated that the funding should be either 100% public or 100% private; the vast majority considered that the funding model should be fair, built on objective criteria and reflect a public-private partnership model. Maintaining the public-private partnership organisation model was generally understood as meaning that the public funding would take a preponderant part while a minor share of private contribution would be expected in addition to public funding.

Some noted that the presence of private funding, even in a minor share, was essential to ensure the quality, acceptability, and stakeholders buy-in of any future European non-financial reporting standards.

Several respondents highlighted that the funding structure should avoid creating conflicts of interests. The latter should be closely monitored. Some noted that the existing funding mechanism of the EC for the financial pillar, had rigidity and drawbacks

and would suggest considering if it would be possible to have a different approach in the context of the envisaged broadened mandate of EFRAG to ensure stability to funding rather than the current approach which amplifies volatility.

Although not a majority view, the following suggestions were made by some:

- Funding and membership should be inextricably linked. The proportion of the different stakeholder groups should be tied to their contributions to the funding of EFRAG, even though a certain flexibility may be tolerable (in particular for scarcely resourced stakeholders such as civil society).
- Any financial support from Member States would need to be organised at local level and should be left to them as to how this is accomplished as is at present the case in the current structure.
- Introducing a levy on a European level may be complex and would not be in line with the European Treaties that do not foresee a right for the European institutions to charge levies or impose taxes.
- Consider multi-annual basis allocations over a multi-annual basis to ensure a secure and stable footing.
- Recommend guaranteeing a fair percentage of private funding (i.e., 30% private) to ensure a broader representativeness and independence.
- Additional funding could also be sought from existing non-financial reporting initiatives as they are interested in harmonisation and consolidation as well as, in many cases, in achieving a global solution.
- Distinguish the initial phase of standard setting (funded by a start-up grant from the European Commission/Member States because they are requiring the development of EU non-financial reporting standards) from subsequent phases where a stable and sustainable basis that is shared by the European Commission and Member States.
- Seeking seed capital of philanthropic organisations was suggested to be examined.

How the feedback was considered in the final recommendations

The final recommendations reiterate the core principles supported by many respondents that:

- There should be a two-pillar system with a separate funding for each of the pillar so that organisation could decide to fund one pillar and not the other (the general costs would be shared by both pillars).
- Funding and membership should be inextricably linked. The proportion of the different stakeholder groups should be tied to their contributions to the funding of EFRAG, even though a certain flexibility may be tolerable (in particular for scarcely resourced stakeholders such as civil society).
- The funding for the non-financial reporting pillar should support the public-private sector partnership model of EFRAG whereby public (EU) funding should play a leading part for the non-financial reporting pillar, given its public interest mission in standard setting. A fair percentage of private funding (i.e., 40% private) to ensure a broader representativeness and independence would be needed.

The final recommendations also emphasise that the independence of EFRAG is guaranteed by the balanced composition of the governance and technical bodies whereby a single member of these bodies cannot have undue influence. The partition of the public funding may be different for each of the pillar with a larger public funding for the non-financial reporting pillar.

Regarding the needed level of resources, it should be observed that the level of the budget can only be estimated when there is further clarity regarding the nature of the EU non-financial reporting standards. The budgets of the existing initiatives differ widely, ranging from two and a half to nine million euros.

The non-financial reporting pillar would benefit from the existing infrastructure and support and management functions. The resources for the pillar could be increased gradually. The final Report indicates that it is estimated that an initial additional budget for the non-financial reporting pillar in the first year(s) of 3 million euros is needed.

APPENDIX – LIST OF RESPONDENTS TO THE SECOND PUBLIC CONSULTATION

CL	NAME	COUNTRY
01	Fédération Française de l' Assurance	France
02	Association for Generally Accepted Principles in Securities Market	Sweden
03	IIRC	Global
04	DASB	Netherlands
05	Delphine Gibassier	Individual, France
06	EAA	Europe
07	PTF RNFRO	Europe
08	ICAEW	UK
09	Aurélie Faure Schuyer	Individual, France
10	CDSB	Global
11	Allianz	Germany
12	ASCG	Germany
13	EFAA	Europe
14	Accountancy Europe	Europe
15	SASB	Global
16	FESE	Europe
17	MEDEF	France
18	ESBG	Europe
19	EUMEDION	Netherlands/ Europe
20	WWF	Global
21	AFEP	France
22	DELOITTE	Global
23	Liviu Cotoră	individual
24	EY	Global
25	Société Générale	France
26	EBF	Europe
27	PWC	Global
28	AFRAC	Austria
29	OIC	Italy
30	GDV	Germany
31	Nicolas d'Hautefeuille and Jean-Philippe Dorp	France
32	ACCA	UK
33	Insurance Europe	Europe
34	Fondazione OIBR	Italy
35	WICI Europe	Europe
36	EFFAS	Europe

CL	NAME	COUNTRY
37	Amana Shaukat	Individual UK
38	Danish Funding Mechanism	Denmark
39	Frank Bold and SHIFT project	European
40	PRI	Global
41	GRI	Global
42	Eurelectric	Europe
43	EACB	Europe
44	AECA	Spain
45	CNC	Luxembourg
46	ICAC	Spain



EFRAG receives financial support from the European Union – DG Financial Stability, Financial Services and Capital Markets Union. The contents of this feedback statement are the sole responsibility of the Jean-Paul Gauzes and can under no circumstances be regarded as reflecting the positions of the European Union.

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