

EFRAG
Attn. Mr. Jean-Paul Gauzès - President
35 Square de Meeûs
B-1000 Brussels
Belgium

Secretariaat:
Antonio Vivaldistraat 2-8, 1083 GR Amsterdam
Postbus 7984, 1008 AD Amsterdam

T +31(0)20 301 02 35
F +31(0)20 301 03 02
rj@rjnet.nl
www.rjnet.nl

Our ref : RJ-EFRAG
Direct dial : 0031-6-22973642
Date : Amsterdam, 31 December 2020

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

Dear Mr. Gauzes, Cher Jean-Paul,

In view of the Consultation on the potential need for changes to the governance and funding of EFRAG that you have issued in the context of your Ad Personam Mandate to investigate the possible need for such changes I would like to contribute some thoughts in my capacity as Chair of the Dutch Accounting Standards Board. I have to clarify up-front that these are principally personal observations, the time-line for the consultation was such that we were not able to discuss it in our Board and run our usual due process. For our views with respect to the development of standards for non-financial reporting, I refer to our letter to the IASB Trustees in the context of their consultation on Sustainability Reporting. A copy is attached for your information, notably with respect to our comments on governance and due process. The positions in that comment letter are those of the Dutch Accounting Standards Board and have been established in accordance with our normal due process.

With respect to your consultation I would like to address the following topics:

- Identification of information needs
- Standard setting is different
- Due process
- Oversight
- Funding

I will limit myself to these topics and refrain from answering the specific questions in the consultation document in order to be able to focus on what are essential considerations in my view.

Identification of information needs.

The consultation does not address the identification of information needs in any detail and appears to start from the presumption that information needs are defined by the EU in the legislative proposals for the revision of the Non-Financial Reporting Directive. When that is

indeed the starting point it needs further consideration. Non-Financial Reporting Standards (NFRS) need to address the information needs of a wide group of stakeholders and a robust process needs to be created to identify and prioritize such needs. Companies often use a structured process of stakeholder dialogues to obtain insight into the information needs of their specific stakeholders and it should be considered to include such a process in the envisaged due process. An agenda consultation could be helpful but is unlikely to provide a suitable basis for prioritization from a wide area of diverse stakeholder needs.

Standard setting is different.

The suggestions with respect to the future structure and governance are largely based on the existing EFRAG structures. It is not evident that these are logical starting points for a standard setter which needs to be goal oriented, effective and decisive. Such capabilities require a not-too large board of preferably full-time paid professionals that can act with a sufficient degree of independence and competence. The Board should be equipped with the required technical skills which would make a separate Technical Expert Group superfluous. Too many different decision making bodies will inevitably make standard setting long wiewling and driven by compromise which is against the required goal orientation.

Due process.

The standards will derive their ultimate authority form a sound due process and the respective proposals in the discussion paper must therefore be supported. The underlying notion that the standards will be ‘part of law’ (par.2.2) appears to be at odds with the heavy due process requirements which are customary for standards set by private sector organizations. It should be considered whether it is more effective to limit law making to the overriding objectives and requirements for non-financial reporting and leave detailed standard setting to a private sector organization. A model that has proven to be successful for financial reporting standards.

Oversight.

The proposals suggest an EFRAG Board which will be responsible for the organisation, finances and oversight. That would be an appropriate model to separate responsibility for standard setting from oversight and supervision. A due process oversight committee would be a logical additional committee for such a board. Member states and public authorities that have a responsibility form NFRS should be represented in the board together with national and European organizations. The EFRAG Board should in essence become a non-executive supervisory body with high calibre members that act in the public interests and not as representatives of stakeholder interests.

Funding.

The new standard setter will require significant start-up funding to be able to engage competent staff and develop work processes. It would be logical that this initial phase is funded by a start-up grant from the EC/member states because they are requiring the development of NFRS. Subsequent funding for NFRS should provide a stable and sustainable basis that is shared by the EC and member states either through a model similar to the current funding of the IFRS Foundation or a levy on reporting organizations.

As stated in the introduction these are principally private thoughts that arise when I consider the possible structure of a standard setter for non-financial reporting. It needs to be recognized in my view that standard setting is fundamentally different from the current pro-active and endorsement roles of EFRAG. Therefore, the new structure should be developed on the basis of best practices in standard setting and not necessarily on basis of the existing EFRAG model that works well for its current purpose but not necessarily for standard setting.

Best regards,

A handwritten signature in black ink, appearing to read "Peter Sampers", with a long horizontal flourish extending to the right.

Peter Sampers