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Sent by e-mail:
To: nominations@efrag.org
Cc: jean-paul.gauzes@efrag.org

Brussels, 6 January 2021

Subject: Response to the Consultation document on the ad-personam mandate on potential need for changes to the governance and funding of EFRAG

Dear Mr. Gauzès,

We are pleased to respond to your consultation document on the ad-personam mandate on potential need for changes to the governance and funding of the European Financial Reporting Advisory Group (EFRAG) (Consultation).

Accountancy Europe welcomes the governance and funding proposals if EFRAG were to be entrusted with a standard-setting mandate for non-financial information (NFI) reporting, while the current advisory activities and respective processes in EFRAG for financial reporting remain unchanged. However, a certain level of flexibility and simplification might be needed considering the limited resources and emerging issues.

Hereinafter, we have summarised some important points of our response.

A broad and inclusive NFI Advisory Council

Accountancy Europe suggests setting up an NFI Advisory Council to act as a sounding board that is consulted on all significant decisions on NFI. It would sit in parallel to the NFI reporting standards decision making body, i.e., the newly proposed NFI Board. It could also cover some of the outreach activities to enable an agile, yet robust due process.

The NFI Advisory Council would include representatives from EFRAG member organisations, European Union (EU) institutions and authorities, EU Member States, national public authorities, key NFI stakeholders and NFI standard setters.

As a result, this NFI Advisory Council would be broad and inclusive (e.g., include more than 50 representatives), and would allow for the other NFI bodies to be small and effective.

Proposed governance structure

Supervisory Board

Accountancy Europe supports establishing a Supervisory Board (i.e., an EFRAG Board as addressed in the Consultation) responsible for the overall governance and oversight of EFRAG's financial and NFI reporting activities. It is important that this be independent, therefore, the Chairs of the two reporting boards (financial and NFI) should not be members of this body.

NFI Board

We also support establishing an NFI Board to approve NFI reporting standards. In addition, we suggest it also be the body responsible to nominate the members of the NFI technical expert group (TEG) for appointment by the Supervisory Board. The NFI Board could be composed of representatives of the member bodies of EFRAG with relevant NFI experience and competencies.

TEG for NFI reporting

We also support establishing an NFI TEG to review, discuss, and ultimately recommend NFI reporting standards for approval to the NFI Board. However, we suggest the drafting of these standards be done by the permanent staff in EFRAG, with experience in developing and writing standards.

Working Groups

Considering the variety and complexity of topics, different and specialised Working Groups could be established to address specific NFI areas. The permanent EFRAG staff developing and writing standards could consult with the specialised Working Group when drafting the related NFI reporting standard. For example, a small and medium-sized enterprise (SME) Working Group could help address the needs of SMEs and develop simplified NFI reporting standards for SME.

EU institutions and authorities could be included as observers in the NFI reporting pillar levels that best fit their relevance and expertise, as long as independence and separation of powers is maintained.

In terms of interconnectivity, the financial and NFI reporting boards and TEGs could inform and liaise operationally with one-another (e.g., by inviting members of other's bodies to contribute in their own).

Due process for NFI reporting activities

We suggest adopting a robust due process for the NFI reporting activities of EFRAG which is agile enough to address important issues timely and is dynamic enough to adapt to changing and emerging circumstances and NFI topics.

The due process for NFI reporting standard setting would be affected by the mandate EFRAG receives and could be further simplified if EFRAG would be entrusted with endorsing future global NFI reporting standards, whilst setting NFI reporting standards important for the EU public policy objectives.

Cooperation with other standard setters and initiatives

Accountancy Europe supports a "building block" approach to NFI reporting standard setting: the base would be global standards for market transparency, achieved by the coordination, cooperation and consolidation of global NFI initiatives catalysed by the EU leadership in NFI reporting. Additional 'blocks' of EU NFI reporting standards could be added to that, where necessary.

Under this scenario, EFRAG's role would be to endorse global NFI reporting standards in the EU and to develop the added "block" of EU NFI reporting standards important for the EU public policy objectives.

Therefore, we suggest EFRAG to collaborate with the IFRS Foundation, CDP, the Value Reporting Foundation, the Climate Disclosure Standards Board (CDSB) and the Global Reporting Initiative (GRI), to set the respective roles and task to avoid inefficiencies (e.g., output and funding) and to timely address the urgent issues at hand.

Funding

Accountancy Europe agrees that the added tasks to be performed under the NFI reporting pillar will require significantly more human and financial resources in EFRAG. We support a public-private partnership model to standard setting by which resources are provided by the public institutions which benefit from the work of EFRAG and the private organisations that are members of EFRAG.

EFRAG's current private sector organisations already contribute both financially and in kind to EFRAG for its financial reporting activities and should be prepared to continue to make these contributions in kind, including for EFRAG's NFI reporting activities.

On the other hand, considering that NFI standards activities, at a minimum, will include setting a specific EU "block" of standards, the EU and its Member States should foresee an appropriate public budget. The EC should contribute by directly funding EFRAG and by influencing the main beneficiaries (e.g., Member States, preparers, users) to do so as well.

* * *

We kindly refer to Annex 1 of this letter for our detailed responses.

Please do not hesitate to contact Hilde Blomme (hilde@accountancyeurope.eu) in case of any questions or remarks.

Sincerely,



Olivier Boutellis-Taft

Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 35 countries that represent close to 1 million professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond. Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX 1: JEAN-PAUL GAUZÈS CONSULTATION DOCUMENT – QUESTIONS FOR CONSULTATION

We are pleased to provide below our detailed responses to the questions.

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?

- (1) Accountancy Europe agrees that the items in paragraph 3.5 of the Consultation Document (Consultation) are appropriate to ensure a robust due process for non-financial information (NFI) reporting standard setting. However, we suggest adopting an “accelerated” due process which is robust and addresses important issues timely.
- (2) NFI reporting should address critical topics such as environmental, social and governance (ESG) ones, value drivers usually not measured in monetary terms and internally generated intangibles. Therefore, NFI reporting standards are needed urgently to address urgent risks, including climate change¹.
- (3) Therefore, we suggest the European Financial Reporting Advisory Group (EFRAG) NFI Advisory Council (see paragraphs 11 – 15) is used to fulfil some of the steps listed in paragraph 3.5 of the Consultation, such as ‘additional broad stakeholder consultation, if needed through field tests, surveys, public hearings and roundtable meetings’.
- (4) On the other hand, in order to allow for a timely due process on NFI reporting standard setting that quickly addresses urgent issues, we suggest considering some elements of the due process listed in paragraph 3.5 of the Consultation as ‘good practice’ rather than ‘core’. These ‘good practice’ elements could include:
 - publication of additional materials to support the exposure draft (e.g., podcasts, webcasts, educational material)
 - publication of materials accompanying a standard such as project summary and education material.
- (5) Furthermore, we noted that an effect analysis is included in different steps of the proposed due process under paragraph 3.5 of the Consultation. We support evidence based standard setting, however, we suggest this be balanced in the right way for standard setting to be as agile as possible, by for instance not needlessly duplicating effect analysis efforts.
- (6) In addition to the ‘core’ items part of a robust due process, we suggest including annual improvements of non-financial (NFI) reporting standards to adapt to changing and emerging circumstances and NFI

¹ Based on the United Nations Environmental Programme’s *Emissions Gap Report 2020*, the world is heading for a temperature rise in excess of 3°C this century – far beyond the Paris Agreement goals of limiting global warming to well below 2°C and pursuing 1.5°C. See: <https://www.unenvironment.org/emissions-gap-report-2020>

topics. As evidenced by the coronavirus outbreak, NFI topics are dynamic: they can emerge quickly, and their prominence can change over time. Therefore, we suggest establishing an equally dynamic due process.

- (7) On another note, it is our understanding that the main assumption under this Consultation is that EFRAG would set NFI reporting standards. However, we note that this has yet to be mandated by the European Institutions (EU) following the Non-Financial Reporting Directive (NFRD)² revision proposals by the European Commission (EC). Therefore, we suggest clarifying the main assumptions on the role of EFRAG and as a result the role of the EC in the all the EFRAG bodies.
- (8) Resultantly, we also point out that the due process of standard setting would be affected by the mandate EFRAG receives. For example, the due process could be simplified if EFRAG were to be entrusted with endorsing global NFI reporting standards (e.g., of the Sustainability Standards Board under the IFRS Foundation³), and on top of those setting NFI reporting standards specific for EU policy requirements.
- (9) Under the scenario above, EFRAG would not need to duplicate a standard-setting due process for NFI reporting standards if it would endorse global standards as they would have already gone through a robust due process under the future global NFI standard setter. Instead, it would apply a due process for endorsing global NFI standards. Despite this, a robust due process would still be necessary when developing any additional EU “block” of NFI reporting standards.
- (10) Nonetheless, we emphasise and support the need for a robust accelerated due process for setting at least EU specific NFI reporting standards.

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?

- (11) Similarly to the Consultative Forum of Standard Setters in the financial reporting pillar, Accountancy Europe supports creating an NFI Advisory Council, or an NFI Consultative Forum. It would include Member States and national public authorities with the relevant expertise. Its role should be to act as a sounding board that is consulted to give advice on all significant decisions on NFI to be made in EFRAG, particularly when approving NFI standards.
- (12) In addition to the Member States and national public authorities, every member organisation of EFRAG should be allowed to appoint an NFI reporting representative to the new NFI Advisory Council.

² Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, see: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095>

³ IFRS Foundation, *Consultation Paper on Sustainability Reporting*, see: <https://www.ifrs.org/projects/work-plan/sustainability-reporting/comment-letters-projects/consultation-paper-and-comment-letters/#consultation>

Representatives of key players within the NFI reporting area would increase inclusiveness and should be welcomed.

- (13) This NFI Advisory Council could be fairly large (e.g., include more than 50 representatives). Consulting with such a vast stakeholder representation could also cover some NFI outreach EFRAG would be expected to undertake in view of its NFI activities.
- (14) The NFI Advisory Council would make the organisation broad and inclusive whilst keeping the EFRAG boards and NFI technical expert group (TEG) small and effective. It would sit in parallel with the NFI reporting standards decision making body, i.e., the newly proposed EFRAG NFI Board.
- (15) As a result, we suggest adding the current Consultative Forum for Financial reporting and the new NFI Advisory Council within the proposed governance structures as described in Chapter 5 of the Consultation.

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?

- (16) Similarly to their current role under the financial reporting pillar, we suggest that EU institutions and authorities be included in the **same** capacity, i.e. as observers, in all the levels of the NFI reporting pillar that best fit their relevance and expertise.
- (17) Accountancy Europe agrees that relevant EU institutions and authorities be involved in the EFRAG NFI reporting pillar as long as independence and segregation of powers is respected. For example, the NFI reporting standard setting body should be separate from the respective supervisory authority.
- (18) Finally, as noted in paragraphs 11 – 15 of our response, we support creating a broad NFI Advisory Council to consult on important NFI matters. Relevant EU institutions and agencies with the necessary expertise could also be included in this NFI Advisory Council.

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?*

- (19) Accountancy Europe suggests private sector and civil society with the relevant expertise be members in all levels of the NFI reporting pillar subject to the respective admission and due process.
- (20) They would also continue to be involved in the enlarged EFRAG General Assembly, contributing for both financial and NFI reporting matters.

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?

- (21) Accountancy Europe agrees with the small and medium enterprises (SMEs) considerations in the Consultation: NFI reporting is relevant for SMEs too as they are part of the value chain. On the basis of cost considerations, we support simplified NFI reporting standards for SMEs.
- (22) In order to ensure the development of adequate simplified SME NFI reporting standards, SME representatives with relevant NFI reporting knowledge could form the SME-focused NFI Working Group. Small and medium practitioners (SMPs) working with SMEs with relevant NFI reporting knowledge could also be included in this Working Group. This group would consult with the permanent staff which has standard setting expertise (see paragraphs 43 – 47), could build on or work from the full set of NFI reporting standards applicable in the EU and develop simplified SME standards. These standards would then be discussed in the NFI TEG and approved at the EFRAG NFI Board level.
- (23) Despite their size when compared to larger and listed companies, collectively SMEs form an important part of the economy without which the ambitions of the Green Deal⁴ cannot be achieved. However, NFI reporting for SMEs would depend on how they are addressed under the revised NFRD in terms of scope (i.e., whether they will be mandatorily or/and voluntarily included in the scope) and content (i.e., comprehensive or simplified NFI standards).
- (24) Nonetheless, we suggest providing a roadmap to moving from voluntary to mandated simplified standards for SMEs. For example, as a transitional measure, SMEs could apply these standards on a voluntary basis for a few years (e.g., 3 to 5 years) in order to adapt and obtain experience.

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?

- (25) We suggest EFRAG to collaborate with the International Financial Reporting Standards (IFRS) Foundation, the Value Reporting Foundation (to be created by the merger of the International

⁴ European Commission, *A European Green Deal*, see: https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB)⁵, the Climate Disclosure Standards Board (CDSB) (if the latter has not yet joined the Value Reporting Foundation⁶), and the Global Reporting Initiative (GRI) towards a common end goal: global NFI reporting standards.

- (26) The International Organization of Securities Commissions (IOSCO) noted in its open response⁷ to the open letter of CDP-CDSB-GRI-IIRC-SASB⁸ that the IFRS Foundation could provide the governance element whereas these NFI organisations could provide the content for NFI reporting standards necessary to move towards a global comprehensive corporate reporting system.
- (27) The EFRAG and these organisations may undertake joint projects to inform one-another and improve efficiency. However, ambitions for global NFI reporting standards should not slow down the progress and momentum ongoing in Europe.
- (28) It is important to clearly specify the respective roles and tasks in these collaborations to avoid inefficiencies such as overlapping work, output and funding (see paragraph 62), as well as to timely address the urgent issues at hand.
- (29) Accountancy Europe supports global standards for market transparency and additional European standards to achieve EU public policy objectives where necessary. Therefore, we suggest adopting a “building block” approach to standard setting. The baseline would be a global set of NFI reporting standards, applicable to all companies globally, which will help improve market transparency. This could be achieved by the coordination, cooperation and consolidation of the aforementioned global NFI initiatives catalysed by the EU leadership in NFI reporting. The EU may supplement with added “blocks” of EU specific requirements important for EU public policy agenda.
- (30) Under this scenario, EFRAG’s role in NFI reporting activities would be to endorse global NFI reporting standards in the EU as well as to develop the added “block” of EU NFI reporting standards important to address the public policy requirements.

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?

⁵ IIRC and SASB announce intent to merge in major step towards simplifying the corporate reporting system, see: <https://www.sasb.org/wp-content/uploads/2020/11/IIRC-SASB-Press-Release-Web-Final.pdf>

⁶ CDSB News, *The Value Reporting Foundation – What is next for CDSB?*, see:

<https://www.cdsb.net/harmonization/1125/value-reporting-foundation-%E2%80%93-what-next-cdsb>

⁷ IOSCO, *Open response to the open letter from CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) proposing avenues for Working together to meet the needs of the capital markets*, see: <https://www.iosco.org/library/speeches/pdf/20201029-Erik-Thed%C3%A9en.pdf>

⁸ CDP, CDSB, GRI, IIRC, SASB, *Open Letter to Erik Thedéen, Director General of Finansinspektionen, Sweden, Chair of the Sustainable Finance Task Force of the International Organization of Securities Commissions (IOSCO)*, see: <https://29kjwb3armds2q3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Open-Letter-to-Erik-Thedeen-Chair-of-the-Sustainable-Finance-Task-Force-of-IOSCO.pdf>

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)?

- (31) Accountancy Europe notes that a broad and inclusive NFI Advisory Council (e.g., 50 members) would allow for the financial and NFI reporting boards to remain smaller in size.
- (32) We agree that the EFRAG Board should be entrusted with governance and oversight activities of EFRAG as a whole. This would include engaging in the following:
- ensuring adequate funding both for financial and NFI pillars
 - setting up a robust due process and ensuring the EFRAG activities adhere to it
 - ensuring and maintaining relationships with stakeholders
 - nominating and appointing the members in the financial and NFI standards activities boards
 - appointing the members in the financial and NFI TEGs, upon the nomination of the respective financial and NFI Boards.
- (33) As per the above, and in order to avoid any confusion with the other EFRAG Boards (for financial reporting and for NFI reporting), we suggest renaming this body to “Supervisory Board”. Indeed, this name would fit this body best, considering its overall oversight and governance duties and responsibilities.
- (34) We suggest that the Supervisory Board representatives be from the financial and the NFI reporting pillars and be in equal terms. We do not foresee any obstacles that could arise from this mixed representation.
- (35) On the composition of the Supervisory Board, we suggest revising the ideas under paragraph 5.9 of the Consultation in order to ensure independence of this body and avoid any self-review risks. Particularly, the Chairs of the two reporting boards (financial and NFI) should not be members of the Supervisory Board. However, they could be consulted when needed.

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?

- (36) As noted in paragraph 31 of our response, a broad NFI Advisory Council would also allow for a small NFI Board. This would enable the NFI Board to be as efficient and quick as possible when addressing urgent NFI matters.
- (37) We suggest the NFI Board be composed from existing and new member bodies of EFRAG representatives with the relevant NFI experience and competencies, in equal proportions. In our opinion, the members of the NFI Board should be nominated and appointed directly by the Supervisory Board.

- (38) In order to ensure segregation of duties with the Supervisory Board, the NFI Board and the Financial Reporting Board should have independent Chairs (i.e., not be chaired by neither the President or Vice-President of the Supervisory Board).
- (39) Accountancy Europe agrees that the role of the NFI Board should be to review and approve the NFI reporting standards recommended by the NFI TEG. In addition, we suggest the NFI Board to be the body responsible to nominate the members of the NFI TEG for appointment by the Supervisory Board.
- (40) We think interconnectivity between the financial and NFI reporting boards can be ensured if these bodies inform and liaise operationally with one-another. This could be done by inviting members of one-another to sit in each-other's bodies. For example, the chair and a member of the NFI Board could be observers in the Financial Reporting Board, and vice-versa.
- (41) As noted in paragraphs 11 - 15 of our response, we suggest EU institutions and agencies be part of the NFI Advisory Council, which should sit in parallel with the NFI 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?

- (42) Accountancy Europe supports having an NFI TEG composed of members competent in NFI to review and discuss NFI reporting standards and to recommend them for approval to the NFI Board. In line with our comments in paragraphs 31 and 36, we suggest the size of the NFI TEG be calibrated in such a way that efficiency is optimised.
- (43) Based on paragraph 5.21 of the Consultation, the NFI TEG would also be the body responsible for elaborating and drafting NFI reporting standards to be recommended to the NFI Board. However, we suggest the drafting be done by permanent staff in EFRAG (preferably part of the EFRAG Secretariat), with experience in developing and writing standards. In case this permanent staff is part of the NFI TEG, they should not have voting rights, and neither should they be subject to the normal nomination and appointing process of NFI TEG members.
- (44) However, we are conscious that it may not be possible to find and retain permanent staff or NFI TEG members knowledgeable and able to address all NFI areas. Therefore, we suggest establishing different Working Groups to address different NFI topics. The members of these Working Groups should be selected based on their expertise on the topic matter being addressed and for which a standard will be drafted by the permanent staff.
- (45) For example, when working on a climate standard, a Working Group with experts in climate topics and climate reporting could be set up. However, a totally new Working Group with different experts may need to be formed when addressing water topics. As a result, the permanent staff with expertise in developing and writing standards could consult and engage on research activities with the specialised Working Group when drafting the related NFI reporting standard.

- (46) Existing NFI framework and standard setter representatives could be invited in these Working Groups, could be included in the NFI Advisory Council, or could be part of both. Considering their expertise in NFI standard setting, their involvement would help improve the quality of the deliverables.
- (47) For example, when elaborating the NFI reporting standard on climate, EFRAG could invite the Task Force on Climate-Related Financial Disclosures (TCFD), whose recommendations have gained wide acceptance in different jurisdictions, to become part of the climate-related Working Group.
- (48) As noted in paragraphs 25 – 30 of our response, EFRAG should build on the work of existing NFI standards and frameworks. For instance, when working on a climate standard, we suggest EFRAG considers the prototype climate-related financial disclosure standard⁹, built on the global comprehensive corporate reporting system of CDP, CDSB, GRI, IIRC and SASB. This prototype also differentiates between sustainability related financial disclosures, which are important to understand the value creation story of the company, and sustainability reporting standards, which addresses the company's impacts to the environment and society.
- (49) As noted in paragraph 39 of our response, we suggest the NFI TEG members be recommended by the NFI Board but appointed by the Supervisory Board.
- (50) Following our comment in paragraph 40 of our response, interconnected thinking could be achieved if a few members of the one TEG sit in the other's TEG. For example, two members of the financial reporting TEG could sit in the NFI TEG, and vice versa.

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?

- (51) Accountancy Europe believes that having a European Lab to stimulate innovation and debate and to allow for experimentation to develop best practices in corporate reporting, which includes both financial and non-financial reporting, would be beneficial for EFRAG.
- (52) This is different from the current role of the European Lab of preparing for NFI reporting standard setting which would be superseded by the new and enhanced bodies of EFRAG.
- (53) However, as the European Lab is a 'nice to have' rather than a 'must', we realise it might not survive a quest for efficiency of use of resources and simplicity of organisation.

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?

⁹ CDP, CDSB, GRI, IIRC, SASB (2020), *Reporting on enterprise value Illustrated with a prototype climate-related financial disclosure standard*, see: https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf

Would a levy at national or European level be feasible?

What alternative financing mechanism would you suggest being considered?

- (54) Accountancy Europe agrees that the added tasks to be performed under the NFI reporting pillar will require significantly more human and financial resources in EFRAG. We note that organisations which develop standards have annual budgets of 10 million Euros or more, which can be considered an indicator of the necessary effort to engage in standard-setting activity.
- (55) Significant human and financial resources are needed even if existing NFI reporting standards were to be used as a starting point as it would still be necessary to bring together these standards, fill gaps and ensure interconnectivity with financial reporting.
- (56) As per paragraphs 9 -10 of our response, NFI reporting standards activities, at a minimum, will include setting specific EU standards to enable the implementation of the requirements in EU legislation. Therefore, the EU and its Member States should at least foresee a public budget for this standard setting activity.
- (57) We support a public-private partnership model to standard setting by which human but also some financial resources are provided by the private organisations that are members of EFRAG, in addition to the public institutions which benefit from the work of EFRAG.
- (58) Indeed, EFRAG's current private sector organisations already contribute both financially and in kind to EFRAG for its financial reporting activities. These organisations should be prepared to continue to make these contributions of human resources in the future, including for EFRAG's NFI reporting activities.
- (59) We note that the EC has an important role to make sure that the necessary funding is guaranteed by providing the necessary funding itself and by influencing the main beneficiaries to financially contribute to EFRAG. This includes EU Member States, companies, investors, financial institutions, insurance undertakings and the accountancy profession, which should effectively contribute financially in a transparent, proportionate, and fair way to avoid free-rider issues.
- (60) In the longer term, a legal basis would be ideal to regulate these financial contributions, but in the short term, influence and leadership can be exercised outside of legal obligations.
- (61) The NFI private organisations which would join EFRAG in view of its potential mandate to issue NFI reporting standards should also contribute to EFRAG under a similar funding model as that applied to the current member organisations.
- (62) We emphasise that ensuring sufficient funding is of paramount importance. However, many players in the market are currently funding different NFI initiatives and would be reluctant to contribute more if the outcomes of all these initiatives are similar. Therefore, it is important to coordinate, consolidate and collaborate with CDP, the Value Reporting Foundation, CDSB, GRI, the IFRS Foundation and IOSCO in order to prevent any inefficiencies and overlaps.