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Consultation document on the Ad Personam Mandate of the EFRAG's President

Dear Jean-Paul,

Thank you very much for the opportunity to comment on your Ad Personam mandate.

As already stated in our response to your previous consultation, we are supportive of EFRAG **becoming the European centre of expertise on corporate reporting**. Potential future combined role of EFRAG in financial (maintaining the current role in providing endorsement advice) and non-financial reporting could be a major advantage in developing non-financial reporting standards for use in the EU. The EFRAG has built up an excellent reputation in terms of expertise and due process, including transparency, governance, consultation process (which may include field tests, impact analyses and outreach), public accountability and thought leadership. It is exactly this reputation that would be needed to give NFR-standards the required level of credibility.

We would like to share with you a number of key considerations on the internal structure and governance of EFRAG that we believe will ensure that EFRAG continues to deliver the high-quality input for which it is recognized not only in the field of financial but also non-financial reporting.

Internal structure

While we agree on the creation of separate Boards for non-financial and financial reporting given the different set of expertise required for each, we also believe there should be an **oversight body at the highest level which will be responsible for strategic considerations on the integrated reporting as well as for considerations of interaction and possible spill over effects between financial and non- financial reporting** with the objective to understand and **avoid any possible unintended consequences**. We would therefore envisage that the **EFRAG Board proposed roles and responsibilities are extended to encompass these considerations**. It could become an EFRAG Supervisory Board to clearly distinguish the role and responsibilities with Non-financial (NFR) and financial reporting (FR) Boards.

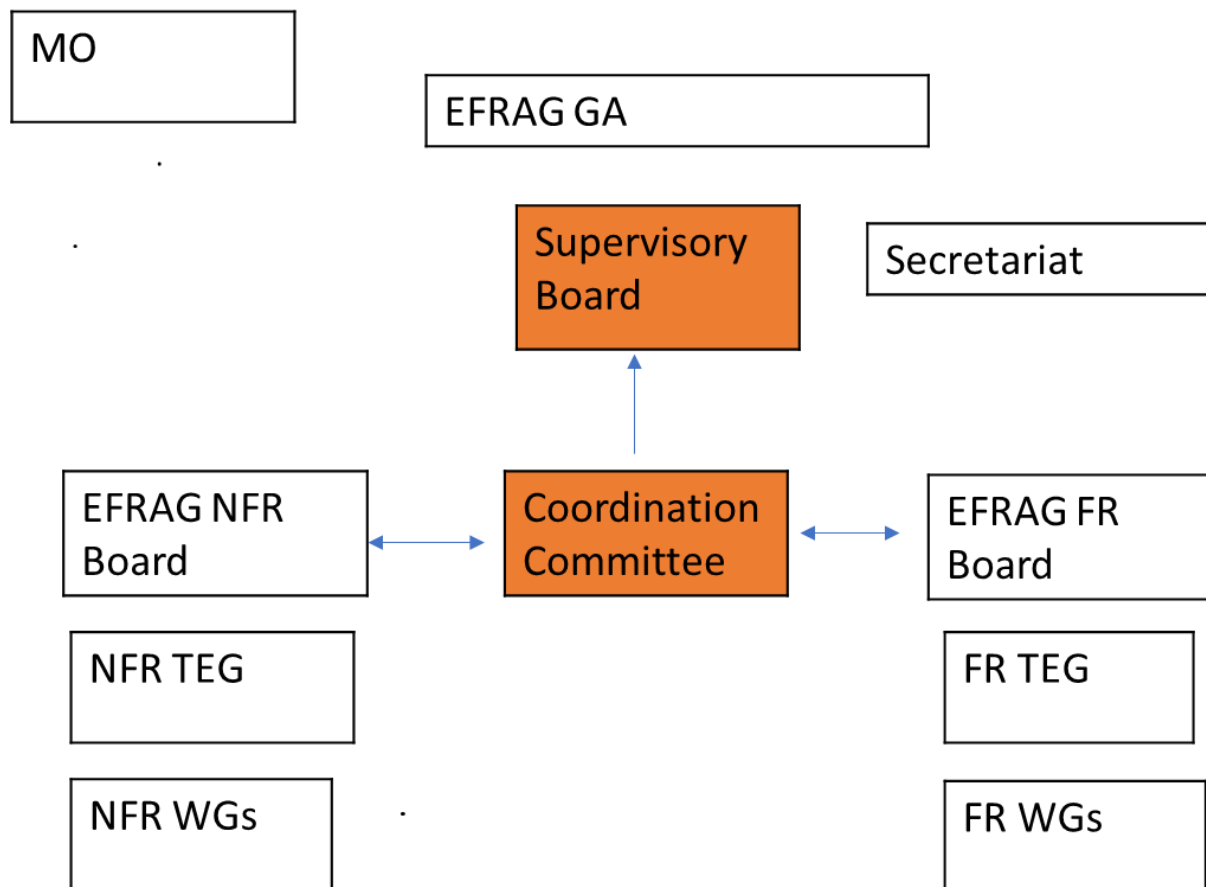
The EFRAG Supervisory Board should be assisted by a **Coordination Committee consisting of several members from both Boards whose main role would be to ensure coordination between EFRAG's NFR and FR Boards**.

We do not believe it advisable for the Lab to play the aforementioned coordination role given that the Lab was established with different objectives related solely to non-financial reporting. Consequently, membership of the Lab may not be fit for purpose. The Lab should be integrated

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within the non-financial reporting pillar. Please see below in colour the proposed changes to the structure.



Involvement of public authorities

We believe that within each pillar a two-chapter structure (**public and private**) should be **maintained**, with each chapter allocated 50 percent of the voting rights, to prevent any undue interest.

It is important that the final standard is adopted in the EU legislation either as a level 2 measure or, in a similar way, as the current IFRS by way of EU endorsement with scrutiny of the European Parliament and the Council. As with financial reporting, there should be clear and transparent criteria guiding the standard-setting process, including relevance, reliability, understandability, a true and fair view and the European public good criteria. This is also why a transparent and robust due process, including public consultations and thorough evaluation of the public good criteria, is as important as involvement of experts with right technical expertise and broad understanding of sustainability issues and their impact, when devising the standard. **Involvement of public organisations both at EU and national level, in particular for evaluation of the public good criteria, should be considered. Establishment of a Monitoring Board of Public Authorities could also be considered as a possible option.**

We understand that it may be necessary to associate the three European Supervisory authorities given their expertise and interest in the non-financial reporting and links to the EU regulation. **However, given their role as enforcers, the EFRAG should look at the possibilities of how to involve enforcers in the standard-setting process.**

Involvement of standard setting organisation

While the current fragmentation in the field of non-financial reporting is perceived as an obstacle for efficient and effective reporting, the current material standards and market practices should be taken as a basis for EU standard setting to the extent that they are useful and compatible with the EU legislation. The objective would not be to create a European standard in addition to the existing standards, but rather **encompass the material standards within the single set of EU reporting standards. We would therefore recommend the involvement of the leading standard-setting organisations and initiatives such as the GRI or TCFD in an advisory role.**

Should the IFRS Foundation move towards becoming the global standard setter also in the field of non-financial reporting, we would envisage strong working arrangements between EFRAG and the Sustainability Standards Board under the IFRS Foundation from the outset, as well as a possible **"convergence project"**, should the global standards meet the EU ambitions and considered fit for compatibility with the EU legislative environment. **The ultimate objective should be one single global standard as it is with the IFRS, with 'mutual equivalence' in the interim period.** Such a process should ensure that companies and financial institutions with an international presence do not have to report under two sets of standards, neither should EU companies reporting under the EU standard be required to switch from one to another in a short period of time, requiring double investments and adjustments of processes and IT systems. Such working arrangements will however be possible only when the EFRAG manages to maintain its independence, transparency, due process and public interest angle it has developed, despite being a private sector organisation.

Opening of EFRAG to relevant interested parties with different roles and responsibilities, inclusion of SMEs

While we acknowledge the broad user base of non-financial information, we believe the **focus should be on the information needs of key users, which are capital providers and lenders.** We believe that by addressing the needs of key users, the information need of the other groups of users would be largely satisfied. We would therefore advocate for involvement of **experts from a broad range of industries representing preparers, including SMEs and the key users of non-financial reporting in the standard setting,** which we agree should be free of any undue, biased or political influence.

Funding

We believe that the quality of EFRAG's output is largely due to its public-private character and robust due process; and we believe the public-private partnership should also be maintained for the future, including for non-financial reporting. This public-private partnership could be reflected in the funding. Nonetheless, we believe the funding mechanism of the European Commission needs to be changed to avoid rigidity and counterproductive incentives and to reflect the envisaged broadened mandate from the Commission and to ensure adequacy and stability of funding rather than the current approach which amplifies volatility as it is based on % of the total contributions instead of a fixed contribution. The Commission's funding should cover the core activity which will be the standard setting while the additional funding from private sector could be envisaged for supportive activities such as research, good practices and stimulation of innovation (e.g. corporate reporting sandbox).

Yours sincerely,



Sébastien de Brouwer
Chief Policy Officer