

c/o KAMMER DER STEUERBERATER UND WIRTSCHAFTSPRÜFER
SCHOENBRUNNER STRASSE 222-228/1/6
A-1120 VIENNA
AUSTRIA

TEL +43 (1) 81173 228
FAX +43 (1) 81173 100
E-MAIL office@frac.at
WEB <http://www.frac.at>

January 5, 2021

European Financial Reporting Advisory Group (EFRAG)
35 Square de Meeûs
B-1000 Brussels
Belgium

Comments on Jean-Paul Gauzès' "Consultation Paper on the Ad Personam Mandate"

Dear Mr Gauzès,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on the Consultation Document on your ad personam mandate to provide recommendations on potential need for changes to the governance and funding of EFRAG.

Principal authors of this comment letter were Christoph Pelger, Gerhard Prachner, Anita Seiwald, and Alfred Wagenhofer. In order to ensure a balanced Austrian view on the consultation, the professional background of these authors is diverse.

Best regards,

Romuald Bertl
Chairman

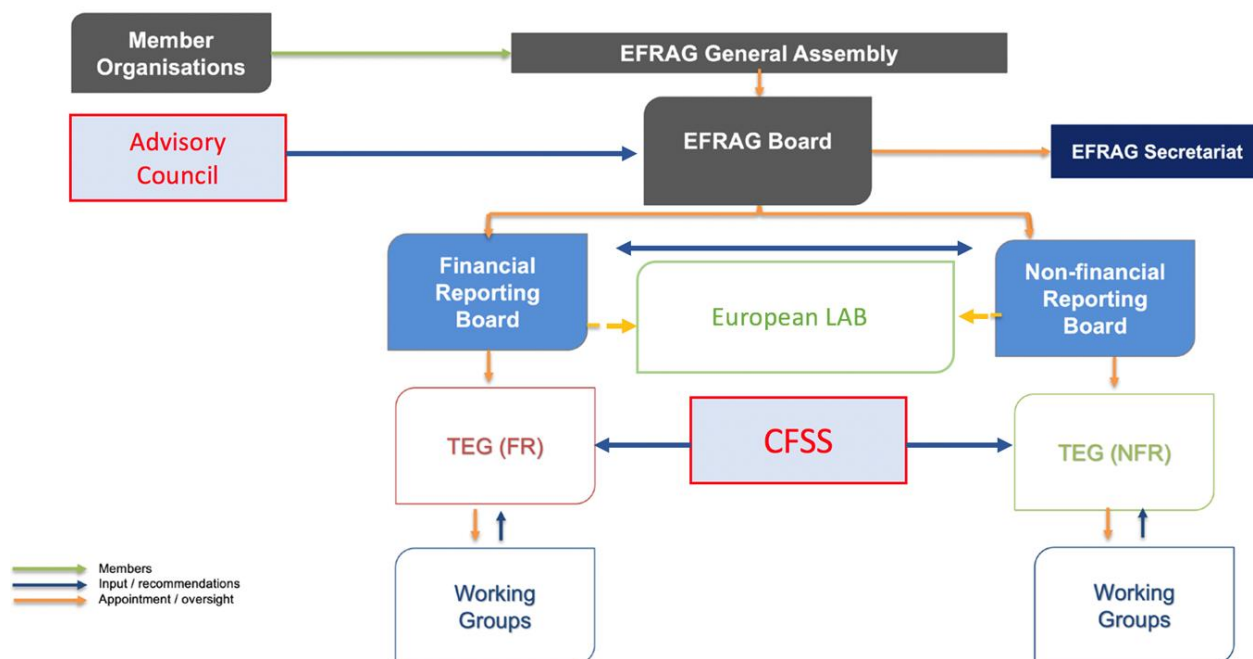
GENERAL COMMENTS

We appreciate that the consultation document incorporates several suggestions we had made in our response to the questionnaire from 1 October 2020. We broadly agree with the proposed structure in Chapter 5 because it

- leaves the well-functioning organizational structure for financial reporting intact and adds the non-financial reporting pillar as a parallel and symmetrically organized structure.
- This parallel structure offers sufficient flexibility for the NFR pillar to develop its own NFR standards or to endorse existing, widely used NFR standards from other organisations for use in the EU. As we emphasized in our previous response, we strongly favour a global solution to NFR standards, which can be incorporated in the proposed structure.

We envision the following adapted structure for EFRAG and explain in the subsequent responses to the questions our amendments, in particular:

- We suggest giving an active role to the Consultative Forum of Standard Setters (CFSS), as is the case under the current EFRAG organisation.
- We suggest establishing an Advisory Council at the EFRAG Board level. This Advisory Council should have representatives from a wide range of constituencies, stakeholders, and other interested groups that are affected by FR and NFR standards and should give advice to the EFRAG Board on strategic aspects.



SPECIFIC COMMENTS

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?

We generally agree with steps for public meetings and documents and for the work plan and public consultation. Since the stakeholders interested in and affected by NFR standards are more heterogeneous than for financial reporting standards, such a detailed process seems appropriate if the NFR Board develops NFR standards from scratch.

If the NFR Board considers adopting existing, widely used NFR standards developed by other organizations we believe that the work plan and public consultation can be significantly reduced, which reduces the burden of EFRAG institutions and that of its stakeholders, is more timely and less costly. We suggest developing an abbreviated due process for the endorsement of existing 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?

The relevant national authorities should be represented in the General Assembly through their membership in EFRAG (the Member Organisations), similar to the current organisation of EFRAG. National authorities should continue to be involved in the EU legislative process of endorsing standards, for example, with a comment process in writing.

Moreover, we consider including a CFSS, again similar to the current organisation of EFRAG, as indispensable to ensure that national public authorities (or their delegated institutions, which varies across member states) are heard and consulted in FR and NFR standard setting. Due to the fact that the technical issues are likely to differ between FR and NFR, we believe that the CFSS should self-organise into two groups, one that consults with the TEG(FR) and the other with the TEG(NFR). For cross-cutting issues and interconnectivity between FR and NFR the full CFSS should be the consulting body. The main reason to suggest self-organisation of the CFSS along FR and NFR is

that this gives member states the flexibility to send different or the same experts for consultations on FR and NFR.

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?

European institutions and agencies should be observers on the EFRAG Board, the FR Board and the NFR Board.

We do not see the need for a specific advisory body for these institutions and agencies if they are already observers on the relevant decision-making bodies.

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?**

We believe that private sector and civil society organisations can become members of EFRAG and as such be part of the General Assembly. Through the General Assembly, they can have a say on the selection of the members of the Boards.

Since representatives of private sector and civil society organisations have valuable expertise in different and complementary fields, experts from such organisations should be welcomed to apply to become members of the respective TEGs or Working Groups in which they hold expertise. Representatives of the private sector and civil society may become members of the TEG and Working Groups by going through the normal application and nominating process for these bodies.

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?

Whether SME representation is relevant depends on the regulations within the EU. If they are affected by NFR standards, they should be given formal participation. If they are unaffected by NFR standards, there is no formal reason for participation. Yet, even if they are legally unaffected, they may face pressure from large customers that are subject to NFR reporting, particularly if the reports require information about the supply chain.

Moreover, since the technical work requires broad expertise, SME representatives should be welcomed to apply to become members of the TEGs or Working Groups that find their expertise valuable by going through the normal application and nominating process.

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?

We appreciate the proposal with the parallel organisational structure for the FR and NFR pillars. As we stated in the General Remarks, we consider it important to have sufficient flexibility for the NFR pillar to develop its own NFR standards and to endorse existing, widely used NFR standards from other organisations for use in the EU. This structure allows to find a global solution to NFR standards, which is very important to us.

If the EFRAG standard setting process includes evaluating and endorsing existing standards, cooperation with the organisations whose standards are evaluated or should be endorsed is essential. Regarding the development of NFR standards and frameworks by other organisations, a similar role to EFRAG's efforts vis-à-vis the IASB could be envisaged. Along this line, EFRAG could provide a "European voice" by participating in the respective consultations of other NFR standard setting organisations, e.g., by submitting comment letters.

Alternatively, if EFRAG were to develop its own standards, cooperation with other standard setters and initiatives with expert knowledge should be welcomed, and it can consist of joining Working Groups in the respective field.

In any case, informal exchange of ideas and thoughts should be sought as input to NFR standard setting.

Question 7 – EFRAG Board

What in your view should be the maximum size the new EFRAG Board?

Which stakeholders should be represented and in which proportion?

Should there be observers? If so, who should be the observers?

Do you foresee any obstacles that may arise were the EFRAG Board charged with oversight to include representatives of the Non-Financial Reporting Board and the Financial Reporting Board?

Should the EFRAG Board appoint the members of both TEGs and the European Lab, or should this be done by their respective Boards (Non-Financial Reporting Board and the Financial Reporting Board)?

The maximum size of the new EFRAG Board should be 16 to 20 members to balance inclusion and workability.

Stakeholders should represent the membership of EFRAG.

There should be observers, namely the European institutions and agencies (see our response to Question 3).

We do not foresee any obstacles that may arise were the EFRAG Board charged with oversight to include representatives of the FR Board and the NFR Board.

The role of the new EFRAG Board is the oversight of the FR Board and the NFR Board. Appointments to the TEG(FR) and TEG(NFR) should be the responsibility of the FR Board and the NFR Board, respectively. Since the European Lab can work on both FR and NFR issues and particularly on interconnections between the two, members of the European Lab should be the joint responsibility of the FR Board and the NFR Board.

Since the primary role of the EFRAG Board is oversight, we suggest considering a name that reflects this role like, for example, EFRAG Supervisory Board.

Question 8 – Non-Financial Reporting Board

What in your view should be the maximum size of the new Non-Financial Reporting Board?

Which stakeholders should be represented and in which proportion?

Should there be observers? If so, who should be the observers?

Should the Non-Financial Reporting Board members be appointed by the EFRAG General Assembly on recommendation of the EFRAG Board or directly by the EFRAG Board?

How can the interconnectivity between the Financial Reporting Board and the Non-Financial Reporting Board be ensured?

The maximum size of the NFR Board should be some 12 to 15 members to balance inclusion and practicability.

Since the users of NFR are from a wider audience and are more diverse than those of FR, the proportion of users should perhaps be somewhat increased and that of auditors perhaps somewhat reduced, relative to the FR Board representation.

There should be observers, namely the European institutions and agencies (see our response to Question 3).

The members of the NFR Board (like those of the FR Board) should be appointed by the General Assembly based on a proposal of the EFRAG 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?

The TEG(NFR) should not be substantially larger than the TEG(FR) to ensure an efficient work.

Similar to the TEG(FR), the membership of the TEG(NFR) should include users, preparers, auditors and academics.

Since the users of NFR are from a wider audience and are more diverse than those of FR, the proportion of users should perhaps be somewhat increased and that of auditors perhaps somewhat reduced, relative to the TEG(FR) representation.

We do not think observers are necessary; they are involved on the level of decision making. In cases that a European institution or agency is directly involved in the topic of a specific NFR standard, the TEG(NFR) or a Working Group may individually invite representatives to the discussions in their respective bodies.

We agree that TEG(NFR) members are proposed by the NFR Board and then appointed by the EFRAG Board if this process is equally applicable to the TEG(FR) and the FR Board proposal.

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?

We agree that the European Lab can be useful in the new EFRAG structure. The Lab should continue to work on overarching themes such as thought leadership, future orientation, and innovation, which is its original objective. Experimentation and good practices are probably gaining importance in an FR and NFR world, as does interconnectivity between them.

Question 11 – Funding

Considering the proposed governance structure in this consultation document:

Should the majority of the funding, or even all the funding, be provided by the European Commission and the Member States?

Is it important that the private sector contributes to the funding and why? Should the public-private sector partnership model also be reflected in the funding?

Would a levy at national or European level be feasible?

What alternative financing mechanism would you suggest being considered?

We agree that adding NFR standard setting (and endorsement, respectively) activities to the current responsibilities of EFRAG will increase the required funding substantially. It is already difficult to rely on funding from member organisations and, therefore, we believe the majority of the funding should be provided by the EU budget directly. It is probably difficult to raise significant funding from the private sector. Centralizing funding at the EU level also helps share the burden fairly, to ensure independence from interest groups and avoid conflicts of interests, as well as effective oversight of EFRAG. Although funding will substantially increase, it is still very small, relative to the funding that flows into other activities in the EU's Green Deal.

Minor shares of funding would come from the Member Organisations, that are included in the decisions within EFRAG's governance structure, and from the private sector, for example, through contributions in kind.

We do not regard levies at the national or European level to be operational for the funding of EFRAG, as this would require substantial additional administrative work.