

**Responses to the Consultation Document on potential need for changes to the governance and funding of EFRAG**

EFRAG Board President  
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Dear Jean Paul,

ICAC welcomes the opportunity to provide input to this second consultation on the additional aspects that were not, or not fully, addressed in the first consultation.

**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?**

Yes, we agree with the steps of the due process, the work plan and public consultation proposed, with features common to the due process existing for financial reporting matters.

**QUESTION 2 - MEMBER STATES AND NATIONAL PUBLIC AUTHORITIES**

**a) 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?



The relevant national authorities need to continue being members of the organization alongside EFRAG sharing its experience and supporting. We consider that the proposed structure that splits the current structure in two branches, one financial and another non-financial, it is suitable to develop the future Non-Financial Information Standards and to continue the EFRAG activity related to the International Financial Information Standards.

Because of the technical complexity, we consider also appropriate that each Board relies on its own TEG group. The EFRAG Board responsible for overseeing above the two Boards will be necessary to coordinate all the EFRAG activities.

The national authorities should also be involved in a similar way that they are at present since the EFRAG financial Standards activity has proven that the structure has achieved the goals of representativity, collecting the views and interests of the different jurisdictions.

**b) 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?**

We support the creation of a Consultative Forum for the Non-Financial Reporting matters similar al CFSS that currently exists within EFRAG as the CFSS is a forum where all Member States are informed about all the latest developments about the financial standardisation process, and where all Member States can express its views and possible national issues relating these latest developments, contributing to shape the EFRAG final position.

**QUESTION 3 - EUROPEAN INSTITUTIONS AND AGENCIES**

**a) 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?



**b) 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?**

The main European Institutions and Agencies should be involved in non-financial standard setting process. This responsibility could be conducted by taking part in the EFRAG Board as observes. We also think that these organizations could be part of a Consultative Forum in order to provide input to the TEG for Non-Financial Reporting and the TEG for Financial Reporting.

**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?

Private sector and civil society could have representatives in the different future working groups to reflect best market practices and their expertise as well as to ensure the feasibility of the requirements. Due the fact that there is a multiplicity of stakeholders, this participation will require a balanced representation in order to avoid undue influence.

**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?**

It is foreseeable that SMEs will also be impacted by the non-financial information and their points of view about this matter should be taken into account. We reckon that a SME-focused Working Group would be appropriate, as SMEs interests will also be represented in the normal functioning of the EFRAG through the participation of the SMEs members organisation.

**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?**

The main features of a closely cooperation with current reporting initiatives are the benefits of international comparability that this could bring. It is also important to facilitate compliance for companies that are already doing well with existing global initiatives without having to force themselves to change if the improvement is not clear and justified. It might not be necessary to develop standards from the very beginning, wherever possible, on existing global sustainability standards. Apart from this, there are already adopted global sustainability standards by many large companies, so there would be easier to implement the European Non-financial Standards if there had a great consensus approval.

The model to be selected for a close cooperation should be designed in such a way as to ensure a link and consistency between Financial and Non-Financial Reporting Standards. For instance, through cooperation agreements and participation in the governance structure of EFRAG that guaranties and enhances this cooperation.

**QUESTION 7 - EFRAG BOARD**

- a) **What in your view should be the maximum size the new EFRAG Board?**
- b) **Which stakeholders should be represented and in which proportion?**
- c) **Should there be observers? If so, who should be the observers?**
- d) **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?**



- e) **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)?**

We consider that, as it occurs currently, it has to be balanced the maximum representativeness of the members organisation and the practical decision-making ability. The long-term funding of the EFRAG, with the changes required because of the new responsibilities of the EFRAG, will have to be taking into account. The structure should be as less complex as possible to be functional, but it is necessary to preserve the independence in the competences of both financial and non-financial information, and given the different nature of each one, the existence of two differentiated pillars is inevitable.

We think that, for technical reasons, the members of both TEGs and the European Lab could be appointed by their respective Boards, the Non-Financial Reporting Board and the Financial Reporting Board.

#### QUESTION 8 - NON-FINANCIAL REPORTING BOARD

- a) **What in your view should be the maximum size of the new Non-Financial Reporting Board?**
- b) **Which stakeholders should be represented and in which proportion?**
- c) **Should there be observers? If so, who should be the observers?**
- d) **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?**
- e) **How can the interconnectivity between the Financial Reporting Board and the Non-Financial Reporting Board be ensured?**

About the size of the non-financial Board and stakeholders representation we refer to our previous answers. It would be reasonable that the members of the non-financial Board should be appointed by the EFRAG General Assembly on recommendation of the Board, as at present, this system works well for the Financial Standards Board.

The interconnectivity can be done through an oversight of the EFRAG Board over both non-financial and financial Boards, regular exchange of information and mutual representation at technical working level, being this coordination task one of the principal reasons that make indispensable that exists an oversight Board in the new EFRAG structure.



#### QUESTION 9 - TEG FOR NON-FINANCIAL REPORTING

- a) What in your view should be the maximum size of the new Non-Financial Reporting TEG?
- b) Which stakeholders should be represented and in which proportion?
- c) Should there be observers? If so, who should be the observers?
- d) 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?
- e) How can the interconnectivity between the Financial Reporting TEG and the Non-Financial Reporting TEG be ensured?

We refer to our previous answer.

#### QUESTION 10 - ACTIVITIES OF THE EUROPEAN LAB

- a) Do you agree that there is a need for a European Lab activity in the revised EFRAG governance structure?
- b) Do you agree that the European Lab could address both non-financial reporting and financial reporting activities?
- c) Do you have other comments or suggestions regarding the activities of the European Lab?

The European Lab was created to address the new challenges related to the financial information and non-financial information. We think that is prudent to maintain the European Lab in this early stage of non-financial information although in the future the structure could be simplified if the double structure of decision-making and technical support proves its effectiveness and sufficiency. The European Lab was mandated by the Commission and not an EFRAG initiative, in consequence the Commission has the power to decide its future.

#### QUESTION 11 – FUNDING

Considering the proposed governance structure in this consultation document:

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





- b) 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?**
- c) Would a levy at national or European level be feasible?**
- d) What alternative financing mechanism would you suggest being considered?**

We reckon that the public interest that will cover the future EFRAG it is a convincing reason to establish a system of public funding in its majority. It would be also advisable to maintain in certain degree the contribution of the private sector, linking this contribution to its presence in the EFRAG structure.

If you have any other questions, please do not hesitate to contact us.

Yours sincerely,

Santiago Durán Domínguez  
Chairman of the ICAC

