

POSITION PAPER



Non-financial reporting: EFRAG's possible governance and funding changes

ESBG (European Savings and Retail Banking Group)

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ESBG would like to take the opportunity to share its views on the EFRAG's possible governance and funding changes.

Recognizing the urgency of moving forward in terms of sustainability and improving non-financial reporting, ESBG supports EFRAG as a temporary EU standard contributor for Non-financial reporting, until a global standard setting process is established and there is a global standard setter.

In our view, EFRAG is the natural preference to develop an EU Non-financial reporting standard given its excellent reputation in terms of expertise and due process in this field, including transparency, governance, consultation process (which may include field tests, impact analyses and outreach), public accountability and thought leadership.

We consider the role of EFRAG in the process of standard-setting should be limited to be a drafter, providing advice to the European Commission, maintaining the formal power to adopt the standards in the European Commission. This is why we refer to this new role as an EU standard contributor instead of a standard setter by itself.

Given that the relevant stakeholders for financial and non-financial reporting might not always be the same, changes to the EFRAG's governance appears to be inevitable. The EFRAG governance should be built on two pillars, but it should be one world, integrating or interconnecting between governance over financial and non-financial information reporting activities.

Regarding the changes this new task could require in the governance structure of EFRAG, we believe that it might be necessary to consider a two-pillar structure to deal with non-financial reporting standards alongside the current pillar dealing with financial reporting. We consider that a new Technical Expert Group should be created for the non-financial reporting developments, independent from the current financial reporting TEG, consisting of members with specific experience and expertise on sustainability and non-financial reporting.

For financial reporting, membership of EFRAG Board and General Assembly is already defined. The role and the broad participation of the existing Stakeholders should be ensured, and all voices should be considered. The question arises however whether the membership basis could be extended to some additional relevant members at EU level and at national level both from the private and the public sector. The current EFRAG Board would also be in charge of non-financial reporting, which may require the profile of some of the Board members to be adapted to cover all areas of expertise. In the same terms, the current Nomination Committee would deal with non-financial member's appointments as well, so the same adaptation process proposed for the Board should be applied.

The proposed structure would avoid double approval of strategy, budgets and other tasks that fall under the responsibility of the EFRAG's Board, which would occur if a new Board in charge of non-financial reporting was created, apart from the extra costs containment. In this way, EFRAG Board could be more focused in discussion of other issues rather than technical ones.

Furthermore, creating only one new body (TEG for non-financial reporting) would facilitate the transition in the moment when a global standard setting process is established. In this moment, the new TEG could become an advisory group and contribute with valuable input, avoiding undo new changes in the governance structure.



About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 900 banks, which together employ more than 650,000 people driven to innovate at roughly 50,000 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion in corporate loans (including to SMEs), and serve 150 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking. Our transparency ID is 8765978796-80.



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