

FINAL REPORT

on the *ad personam* mandate on

POTENTIAL NEED FOR CHANGES TO THE GOVERNANCE AND FUNDING OF EFRAG

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DISCLAIMER

The ad personam mandate is a mandate EVP Dombrovskis conveyed to Jean-Paul Gauzes personally. This report is his personal responsibility and includes his personal recommendations. The report has therefore not been subject to the review of the EFRAG governance bodies: EFRAG General Assembly, EFRAG Board and the European Lab Steering Group.

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EXECUTIVE SUMMARY

Executive Vice-President Valdis Dombrovskis invited me to provide recommendations, on an ad personam basis, about potential changes to the governance and financing of EFRAG, if the latter were entrusted with the development of EU non-financial reporting standards. Formally, such standards would constitute technical advice to the European Commission. Only the European Commission, subject to scrutiny powers of the European Parliament and of the Council, would be able to make the standards legally binding.

I have formulated the recommendations set-out in this report after considering feedback from two public consultations and extensive outreach activities. These are summarised in a feedback statement annexed to my report.

Governance

I propose to create a new non-financial reporting pillar alongside EFRAG's existing financial reporting pillar. A separate pillar for non-financial reporting would be needed as the activity of developing non-financial (sustainability) reporting standards is substantially different from EFRAG's current role of influencing international work on accounting standards, including providing input and comment to the IASB, and providing endorsement advice to the European Commission. EFRAG's existing responsibilities linked to financial reporting standards will continue essentially unchanged in the financial reporting pillar. Appropriate coordination and interconnectivity between the two pillars will be ensured in the proposed governance.

The non-financial pillar must have a robust governance structure and due process, and a sustainable funding structure in order to be accepted by the public sector and by private stakeholders.

The non-financial reporting pillar, similar to the financial reporting pillar, would be housed within EFRAG's current legal entity and organised as a public-private partnership, with a balanced representation of National Authorities, representatives of the civil society (including academics) and the private sector. The involvement of both the public and private sector provides legitimacy, ensures access to the necessary expertise and underlines the inclusive nature of the governance structure.

I propose to offer the relevant European authorities and agencies full membership of the non-financial reporting pillar, allowing them to be directly involved in the development of the non-financial reporting standards as full members of the governance bodies responsible for setting these standards: the Non-Financial Reporting Board and the Non-Financial Reporting TEG. This is different from the financial reporting pillar in which they currently have only an observer role.

To ensure a balanced representation of stakeholders, I propose to extend membership of EFRAG's General Assembly with two new Chapters representing relevant **European institutions, authorities and agencies, and civil society**. The **EFRAG General Assembly** would consequently have the following Chapters:

- **European Stakeholder Organisations** (private sector including preparers, users and the accountancy profession organised, if needed, on a sector basis).
- **National Organisations** (National Authorities/Ministries or National Standard Setters or other forms of bringing national stakeholders together)
- **European institutions, authorities and agencies** (ECB, ESAs and other relevant institutions and bodies)
- **Civil society** (including NGOs, academics, trade unions and consumer organisations)

The Member Organisations forming part of a Chapter will nominate their representatives in the various governance bodies of EFRAG. The independence of EFRAG will be guaranteed by the balanced composition of its governance and technical bodies whereby a single member (or members representing a single Chapter) of these bodies cannot exercise undue influence.

EFRAG's General Assembly, in addition to its legal tasks in accordance with Belgian company law, will provide a discussion forum for the member organisations to debate on strategy and broader orientations.

The recommended governance structure includes an Administrative Board responsible for EFRAG's organisation, administration, finance and due process. The President of the Administrative Board will be appointed by EFRAG's General Assembly.

EFRAG's technical work will be carried-out under the responsibility of two separate Reporting Boards:

- A **Financial Reporting Board** (FRB) that would essentially continue the current role of the existing EFRAG Board in the IFRS endorsement process and contributing to the IASB standard setting process including research activities. The only significant change to the financial reporting pillar would be that the current EFRAG Board's administrative tasks and responsibilities would be transferred to the Administrative Board.
- A newly formed **Non-Financial Reporting Board** (NFRB) that would be responsible for all positions expressed within its area of competence, including setting the work plan and approving draft standards submitted to the European Commission. The NFRB may also develop non-binding guidance documents or other material to support implementation of the future EU sustainability reporting standards.

The members of the two Reporting Boards will be appointed by the General Assembly upon their nomination by Member Organisations and on recommendation of the Administrative Board. The Chairs of the Reporting Boards will be nominated by the European Commission after consultation with the European Parliament and the Council, reflecting the nomination procedure for the Chair of the current EFRAG Board. Members of the Reporting Boards should commit to serve in the public interest and be free from conflicts of interest.

The NFRB will review the NFR TEG proposals. If necessary, the NFRB will set out why it considers that the draft standard does not meet the needs of EU legislation and ask the NFR TEG to reconsider its proposal. If an agreement cannot be reached, the NFRB will submit the proposed standard to the European Commission accompanied by a reasoned opinion setting-out why it considers that the standard does not meet the needs of EU legislation. It would be for the European Commission to provide the final arbitration about the points at issue.

To ensure their independence, relevant European authorities and agencies will have the possibility to have their reasoned opinions annexed to the NFRB's proposed standards submitted to the European Commission for adoption. These opinions will be attached to the proposed standard and will be an integral part of the proposal to the European Commission.

Each Reporting Board would be assisted in its area of competence by a **Technical Expert Group** (TEG) and will appoint the members of its TEG (this would continue the practice used in EFRAG's current work on financial reporting). The TEG for non-financial reporting (NFR TEG) will be responsible for developing draft standards with the input from Working Groups and Advisory Panels and for recommending these draft standards for approval to the NFRB.

Interconnectivity between the two pillars will be ensured by observership of the Chair of the FRB in the NFRB and vice-versa and of the Chair of the FR TEG in the NFR TEG and vice-versa. The two Board and TEGs will also organise regular joint meetings.

A Consultative Forum of National Authorities, non-financial reporting standard setters and existing global initiatives and other players will be established. This Forum will be consulted by the NFRB and the NFR TEG for advice on the draft standards.

Cooperation with other standard setters and initiatives

While focusing on the EU's specific policy, regulatory, and technical requirements, and the timing constraints stemming from existing EU law, my proposals reflect the co-construction approach with relevant international standard setters and global initiatives foreseen in the recommendations of the EFRAG Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards. This approach should be based on a two-way exchange of experience, expertise, tools and content, feeding one another with the ultimate goal of fostering coherence and consistency between EU and global sustainability reporting.

In this context, the NFRB and NFR TEG would strive to contribute to sustainability reporting progress globally by:

- Making the outcome of its standard-setting activities available to international partners and initiatives;
- Establishing bilateral relationships that could include joint projects;
- Promoting and participating in global convergence efforts on a co-construction basis; and
- Participating in fora dedicated to fostering coherence and integration of corporate reporting as a whole (including connectivity between financial and sustainability reporting).

The European Corporate Reporting Lab @ EFRAG

The European Lab's activities could be continued, subject to resource availability and priorities permitting. There may be a lower level of activity or no activity in the first period of the EU non-financial reporting standard setting process in order to prioritise this work stream.

Funding

The creation of a new pillar for non-financial information would represent a significant expansion in EFRAG's activities requiring additional funding, technical expertise and skills.

The funding model should be transparent, equitable and well understood by candidate Member Organisations that may wish to join the non-financial reporting pillar, the financial reporting pillar or both.

The funding of the existing financial reporting pillar should not be affected by the new activities except for its participating to the charges of structure and administration which should be proportionate.

The non-financial pillar should have its own separate source of financing while safeguarding EFRAG's ability to set standards independently without real or perceived undue influence from any interest groups. It is estimated that an initial additional budget for the non-financial reporting pillar in the first year(s) of 3 million euro is needed.

The funding structure of the non-financial pillar should reflect the public- private sector partnership model of EFRAG. It should be linked to the membership of EFRAG. However, the public (European Union) funding should play a leading part for the non-financial reporting pillar, given its public interest mission in standard setting.

INTRODUCTION

MANDATE

The European Commission is preparing a legislative proposal for the revision of the Non-Financial Reporting Directive (NFRD). In parallel, the European Commission has mandated EFRAG to undertake preparatory work for the elaboration of EU non-financial reporting standards. This mandate is being carried out by a multi-stakeholder [European Lab Project Task Force \(PTF-NFRS\)](#).

In addition, Executive Vice-President Valdis Dombrovskis has [invited me](#), on an ad-personam basis, to provide recommendations on potential changes to the governance and financing of EFRAG, if it were entrusted with the development of EU non-financial reporting standards. His invitation was accompanied by an [Annex](#) that provides the context within which the question of European non-financial reporting standards under the NFRD are being considered (see Appendix).

PUBLIC CONSULTATIONS AND PROGRESS REPORT

On 1 October 2020, I issued a first public invitation to comment to a wide range of stakeholders to help me to develop the proposals for possible changes to the governance and funding of EFRAG. This invitation to comment was in the form of a letter with an accompanying questionnaire with responses requested by 30 October 2020.

I used the input received to prepare my progress report with preliminary proposals, which was submitted to the European Commission on 6 November 2020 and published on [EFRAG's website](#).

For the first public consultation, I received close to 50 responses and carefully considered all of them. The letters received are uploaded on the [EFRAG website](#).

I also received various additional contributions in different forms such as through email responses and online meetings with individual organisations that requested these due to the circumstances arising from the COVID-19 crisis.

All these contributions (including those received after I submitted my progress report) have helped me to further elaborate the proposals for a second public consultation laid out in the [consultation document](#) published on 29 November with an initial deadline of 6 January 2021 that was extended to 13 January at the request of several constituents.

The objective of the second consultation was to seek input on my proposals for changes to the governance structure of EFRAG taking into account the new competencies which would be needed at EFRAG and to obtain input on a number of additional matters not addressed in the progress report in order to make my proposals operational.

In response to the second public consultation, I have received and considered comment letters from 47 constituents, of which 46 have been made publicly available on the [EFRAG website](#). In addition, I received contributions in the form of emails and through meetings with stakeholders.

I have also received input from a questionnaire to the Member States represented in the Accounting Regulatory Committee to seek their input on the possible involvement of National Authorities.

The comment letters received on both public consultations came from a broad range of constituents including European organisations, ESG organisations, National Standard Setters, business associations, professional organisations, listed companies, EU authorities and individuals.

OVERALL FEEDBACK

Respondents generally expressed support for the proposals in my consultation document.

Most respondents supported the establishment of a separate pillar for non-financial reporting on the basis that the standard setting activity would be substantially different from EFRAG's current role in advising the European Commission on the adoption of financial reporting standards and influencing the IASB's standard setting process.

Respondents however emphasised the need to ensure connectivity between the financial reporting and non-financial reporting activities, when having two separate pillars. They made a number of useful suggestions that have been considered in my final recommendations. Several respondents underlined the need for inclusiveness towards stakeholders and indicated that the range of non-financial reporting stakeholders is wider than that of financial reporting stakeholders.

Respondents generally supported the core governance principles (in particular transparency and inclusiveness) enumerated in my consultation document. Suggestions were made to make the due process more responsive and flexible considering the urgent needs of standard setting and the rapidly changing external environment and evolving societal expectations.

Most respondents agreed that EU non-financial reporting standards must be built on existing reporting standards and frameworks to the greatest possible extent. Therefore, relevant existing non-financial reporting standard-setting organisations and initiatives needed to be closely associated with any future standardisation work.

Several respondents favoured the establishment of a consultative body such as the Consultative Forum of Standard Setters involving National Authorities and other relevant organisations.

Most respondents considered that, subject to priorities and resources permitting, the operation of the European Lab should be continued to foster innovation by identifying and sharing good practices and should address both financial reporting and non-financial reporting topics.

A feedback statement providing more information on the input received and how it has been addressed in my final recommendations is being issued together with this report.

EXPRESSION OF THANKS

I very much appreciate the trust given to EFRAG and to me personally by Executive Vice-President Valdis Dombrovskis and the Commissioners by submitting the mandates to EFRAG. I look forward to their decisions on the EU non-financial reporting standard setting.

I would like to thank all those that have responded to the two public consultations and to the questionnaire to the Member States and other forms of input that I have received. I have very carefully considered all this valuable input. I thank also Hocine Kebli and Saskia Slomp from the EFRAG Secretariat for their support in preparing my recommendations.



Jean-Paul Gauzès

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Chairman of the European Lab Steering Group

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CHAPTER 1: EFRAG'S CURRENT ORGANISATION AND GOVERNANCE

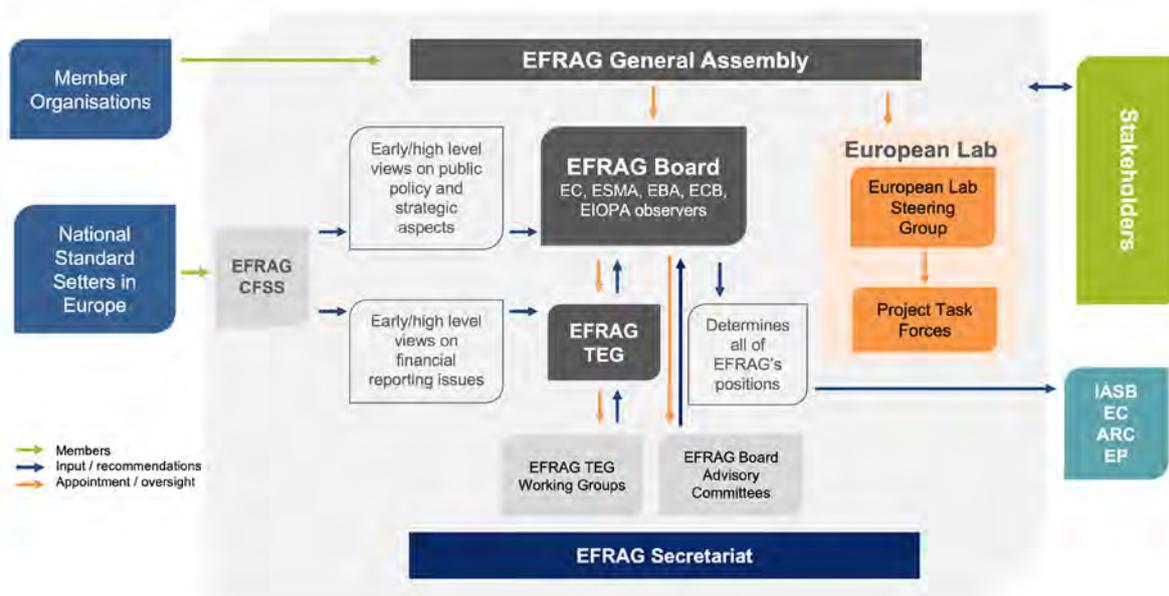
EFRAG'S CURRENT MISSION

- 1.1 EFRAG's mission is to serve the European public interest by developing and promoting European views in the field of financial reporting and ensuring that these views are properly considered in the IASB's standard-setting process and in related international debates. EFRAG ultimately provides advice to the European Commission on whether newly issued or revised IFRS Standards meet the criteria of the IAS Regulation for endorsement for use in the EU, including whether endorsement would be conducive to the European public good.
- 1.2 EFRAG seeks input from all stakeholders, and obtains evidence about specific European circumstances, throughout the standard-setting process and in providing its endorsement advice. Its legitimacy is built on transparency, governance, due process (which may include field tests, impact analyses and outreaches), public accountability and thought leadership. This enables EFRAG to speak convincingly, clearly and consistently, and be recognised as the European voice in financial reporting.
- 1.3 EFRAG is operating in a fast-evolving environment. It is attentive to the need to adapt its activities and its governance to meet new opportunities and challenges in corporate reporting.

EFRAG'S CURRENT GOVERNANCE

- 1.4 The current structure of EFRAG is presented in the chart below.

EFRAG'S STRUCTURE



1.5 The EFRAG General Assembly consists of the EFRAG Member Organisations divided into two Chapters: European Stakeholder Organisations and National Organisations. These provide the private funding of EFRAG. The EFRAG General Assembly appoints the EFRAG Board which consists of two pillars: European Stakeholder Organisations and National Standard Setters. The EFRAG Board President is nominated by the European Commission after having consulted the European Parliament and the Council.

1.6 The current EFRAG Member Organisations (as of 31 December 2020) are:

European Stakeholder Organisations Chapter:

- Accountancy Europe
- Business Europe
- European Association of Co-operative Banks (EACB)
- European Banking Federation (EBF)
- European Savings and Retail Banking Group (ESBG)
- European Federation of Accountants and Auditors for SMEs (EFAA)
- European Federation of Financial Analysts Societies (EFFAS)
- Insurance Europe

National Organisations Chapter¹

- Grouping of five Danish organisations
- Autorité des Normes comptables (ANC)
- Accounting Standards Committee of Germany (ASCG)
- Organismo Italiano di Contabilità (OIC)
- Commission des Normes comptables (CNC)
- Dutch Accounting Standards Board (DASB)
- Instituto de Contabilidad y Auditoria de Cuentas (ICAC)
- The Association for Generally Accepted Principles in the Securities Market (Sweden)
- Financial Reporting Council (FRC)

1.7 In anticipation of the UK's withdrawal from the EU, the FRC informed EFRAG that, from the start of the transitional period foreseen in the Withdrawal Agreement, it would no longer participate in the governance and decision-making bodies in which it had a seat. Their representatives therefore ceased to participate in the EFRAG Board and the General Assembly meetings but continued in the technical discussions in EFRAG TEG and its working groups. The FRC has paid in its full contribution to EFRAG for 2020.

1.8 The withdrawal of the FRC was confirmed at the end of the transition period and the organisation will no longer pay its membership contribution. The FRC's withdrawal from EFRAG will be legally enacted. This could be done when EFRAG's statutes are amended to create the non-financial pillar proposed in this report. The withdrawal of the FRC does not preclude the consideration of specific forms of technical cooperation with the UK, as for other non-EEA countries.

¹ The Austrian Group of Standard Setters will be admitted to the EFRAG membership by the EFRAG General Assembly of 25 March 2021.

- 1.9 The EFRAG Board decides on all EFRAG positions and is also responsible for certain governance and oversight activities. The EFRAG Technical Expert Group (EFRAG TEG), supported by its Working Groups and Advisory Panels, provides technical advice to the EFRAG Board. EFRAG CFSS (Consultative Forum of Standard Setters), consisting of all National Standard Setters in Europe, provides input to EFRAG TEG, and where applicable directly to the EFRAG Board.
- 1.10 The European Lab consists of a European Lab Steering Group appointed by EFRAG's General Assembly and directly accountable to it, and Project Task Forces that are responsible for carrying out the European Lab's projects.

CHAPTER 2: EFRAG'S NEW MISSION AND PRINCIPLES OF ORGANISATION

- 2.1 If EFRAG were entrusted with the development of EU non-financial reporting standards, its new mission would be substantially different from its present mission of influencing the IASB and providing endorsement advice.
- 2.2 I therefore propose to create a new non-financial reporting (NFR) pillar alongside EFRAG's existing financial reporting pillar. This new pillar would be housed within EFRAG's current legal entity.
- 2.3 Developing non-financial (sustainability) reporting standards is substantially different from EFRAG's current role of influencing international work on accounting standards, including providing input and comment to the IASB, and providing endorsement advice to the European Commission.
- 2.4 Standard setting has specific processes and activities, and it is also in many respects a larger responsibility because the standard setter issues requirements that need to be complied with when enacted into law.
- 2.5 Enlarged responsibilities would arise even if formally, such standards would constitute technical advice to the European Commission and only the European Commission, subject to scrutiny powers of the European Parliament and of the Council, would be able to make the standards legally binding.
- 2.6 However, these two reporting activities shall cooperate and exchange views and where possible be interconnected and draw on synergies to form an integrated view of the companies' reporting.
- 2.7 The creation of a new pillar with responsibility over non-financial reporting means that EFRAG's existing responsibilities linked to financial reporting standards will continue essentially unchanged in the financial reporting pillar.
- 2.8 It is crucial for a standard setter to have a good and robust corporate governance and due process and a sustainable finance in order to get accepted by the public sector and the private stakeholders.
- 2.9 The recommended governance principles would be as follows²:
- Independent;
 - Open and transparent;
 - Due process;
 - Publicly accountable;
 - Legitimate ;
 - Balanced (multi-stakeholder) membership;
 - Adequate funding;
 - Serving the European public interest;
 - Accessibility;
 - Truthfulness; and
 - Efficiency.

² These principles are in line with the Principles for Credible and Effective Sustainability Standards Systems issued by the International Social and Environmental Accreditation and Labeling.

PUBLIC – PRIVATE PARTNERSHIP

- 2.10 The non-financial reporting pillar, similar to the financial reporting pillar, should be organised as a public-private partnership. The private sector should be directly involved in the standard setting work and contribute its technical expertise. The public sector should be directly involved to ensure that standard-setting work is carried out in the public interest. It is therefore important to have a balanced representation of National Authorities, representatives of civil society (including academics), and the private sector. The selection of members and persons participating in the work of the new non-financial reporting pillar should be based on recognised sustainability expertise and experience of best practice on related reporting processes and requirements. This also calls for a governance structure that is as inclusive as possible. Involvement of both the public and private sector provides legitimacy, ensures access to the necessary expertise and underlines the inclusive nature of the governance structure.
- 2.11 The independence of EFRAG is guaranteed by the balanced composition of the governance and technical bodies whereby a single member or category of members of these bodies cannot exercise undue influence.

REPRESENTATION OF MEMBER STATES AND NATIONAL AUTHORITIES

- 2.12 To ensure appropriate accountability towards Member States, representation of Member States (through their National Authorities) within the governance structure is a critical matter. The National Authorities participating in the governance structure should bring expertise relevant to non-financial reporting.
- 2.13 Therefore, National Organisations (National Authorities/Ministries or National Standard Setters or other forms of bringing national stakeholders together) will be invited to be Member Organisations of EFRAG and will form one of the four Chapters that form the EFRAG General Assembly. The Member Organisations forming part of this Chapter will appoint their representatives in the various governance bodies of EFRAG for the seats allocated to them.
- 2.14 A Consultative Forum will be set up for the Non-Financial Reporting Board (NFRB) and the Non-Financial Reporting Technical Expert Group (NFR TEG) which will bring together representatives with relevant expertise of the National Authorities, National Standards Setters of the Member States and other players (see below) and will be consulted for advice on the draft non-financial reporting standards (see paragraph 4.19).

REPRESENTATION OF EUROPEAN INSTITUTIONS, AUTHORITIES AND AGENCIES

- 2.15 European institutions, authorities and agencies will be offered full membership of the non-financial reporting pillar of EFRAG, and will form one of the four Chapters in the EFRAG General Assembly (see paragraphs 4.1 and following).
- 2.16 In the existing financial reporting pillar of EFRAG, European institutions, authorities and agencies are represented as follows:
- The European Commission, the European Supervisory Authorities (ESAs) and the ECB participate in the EFRAG Board in an observer capacity.
 - The ESAs and ECB, the IASB and the European Commission are invited to attend EFRAG Technical Expert Group and Working Group and Advisory Panel meetings as observers.
- 2.17 I propose that the relevant European authorities and agencies would be directly involved in the development of the non-financial reporting standards as full members of the bodies responsible for setting these standards, in particular the NFRB. This would provide European authorities and agencies with a stronger voice than they currently have in the financial reporting pillar (in which they currently have only an observer role).
- 2.18 In order to preserve their independence, I propose that these authorities and agencies would have the possibility to annex their reasoned opinions to the NFRB's proposed non-financial reporting standards when they are submitted to the European Commission for adoption. In other words, these opinions will be attached to the proposed standard and will be an integral part of the proposal to the European Commission.

- 2.19 European authorities and agencies with high technical expertise on sustainability matters such as environment, social, human rights or corruption including the European Environmental Agency (EEA) and the European Union Agency for Fundamental Rights (FRA). These would be invited to form part of the European institutions, authorities and agencies Chapter of EFRAG's General Assembly. The European Commission's Platform for Sustainable Finance would also be invited.
- 2.20 The European institutions authorities and agencies should ensure policy coherence and enforceability of the standards by advising on aligning requirements in the proposed non-financial reporting standards with existing legal (reporting) obligations. They should highlight any inconsistencies with these obligations that they identify during the standard setting process.

REPRESENTATION OF THE PRIVATE SECTOR AND CIVIL SOCIETY

- 2.21 The private sector and civil society representatives, including NGOs, with a clear and recognised expertise on non-financial reporting topics, should be involved in the non-financial reporting standard setting work.
- 2.22 Relevant private sector and civil society stakeholders may include:
- Financial and non-financial entities with securities listed on EU regulated markets;
 - Large non-listed companies;
 - Other categories of financial market participants as defined in Article 2(1) of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector;
 - Small and Medium-Sized Enterprises (SMEs);
 - Auditors, assurance providers and accountants;
 - Investors, including where relevant smaller or retail investors;
 - Sustainability rating agencies and providers of ESG-related indices or benchmarks;
 - Non-Governmental Organisations active in the areas covered by the NFRD;
 - Trade unions; and
 - Academics specialising in the field of corporate reporting and sustainability.
- 2.23 SMEs and Small and Medium-sized audit Practitioners (SMPs) should also be represented in the NFR TEG because of the importance of the trickle-down effect (as SMEs are often part of the supply chain of larger entities) and the need to consider the impact of SMEs during the standard setting process. The members with SMEs/SMPs background should have an adequate non-financial reporting profile. In addition, a separate Working Group dedicated to SME matters could be created reporting to the NFR TEG, composed of the SMEs and SMPs working with SMEs with relevant non-financial reporting knowledge and experience.
- 2.24 Whether a broader representation will be needed will depend on whether the revised NFRD will provide for non-financial reporting requirements or standards for SMEs. In such an eventuality, SMEs and SMPs could be represented within the NFRB.

CHAPTER 3: DUE PROCESS

- 3.1 A rigorous and transparent due process must underpin standard setting. Proper due process is critical for the long-term credibility and independence of the standard-setter. It is, however, not an end in itself but a means to an end, leading to the development of high quality and proportionate standards in the public interest.
- 3.2 As regards the organisation of the non-financial reporting standard setting pillar, a sound due process adapted for standard setting with features of the due process existing for financial reporting matters would be recommended.

EFRAG'S EXISTING FINANCIAL REPORTING DUE PROCESS

- 3.3 The due process described in the Maystadt report currently applied to the financial reporting pillar and designed to ensure that standards meet the public interest would also apply to the non-financial reporting pillar.
- 3.4 Since its establishment, EFRAG has put in place, for its financial reporting activities, a transparent public due process that has developed over time. This due process allows all European constituents to put forward their views for consideration by EFRAG. It ensures that the diversity of environments (accounting and economic) and views in Europe are taken into account in determining EFRAG's positions.
- 3.5 EFRAG's legitimacy is built on its transparency, governance, due process, public accountability and thought leadership. As part of its due process, EFRAG publishes draft positions for public consultation, undertakes field tests and other forms of effect analyses, organises outreach events (some of which are especially targeted at users of financial statements), undertakes special surveys, and publishes the results in feedback statements and publishes final positions.
- 3.6 EFRAG contributes to evidence-based standard setting by undertaking quantitative studies and effects analyses that are part of the development of EFRAG's comment letters and endorsement advice. These are also increasingly becoming an important part of EFRAG's research work.
- 3.7 All technical discussions are held in public meetings of the EFRAG Board and EFRAG TEG. These meetings are webcasted and recordings are made available after the respective meetings on EFRAG's website. The supporting papers for the public sessions of both EFRAG Board and TEG meetings are publicly available on EFRAG's website.

DUE PROCESS FOR THE NON-FINANCIAL REPORTING PILLAR

- 3.8 A robust yet agile and adaptable due process is necessary to meet urgent standard-setting needs within a rapidly moving landscape. Therefore, all the steps described below, based on the financial reporting due process and principles may not need to be applied mechanically or sequentially in all instances. In some circumstances, an accelerated due process may be appropriate whereby a core of necessary due process steps would be defined.
- 3.9 The due process steps would be laid down in a due process handbook, which would include the following steps and elements:

Public meetings and documents:

- Debating and developing technical proposals in public meetings including the recording of meetings for later consultation;
- Supporting documents for the public meeting are publicly available;
- Discussion and decision summaries are made available after meetings;
- Public discussions with other non-financial reporting standard setters;

Governance:

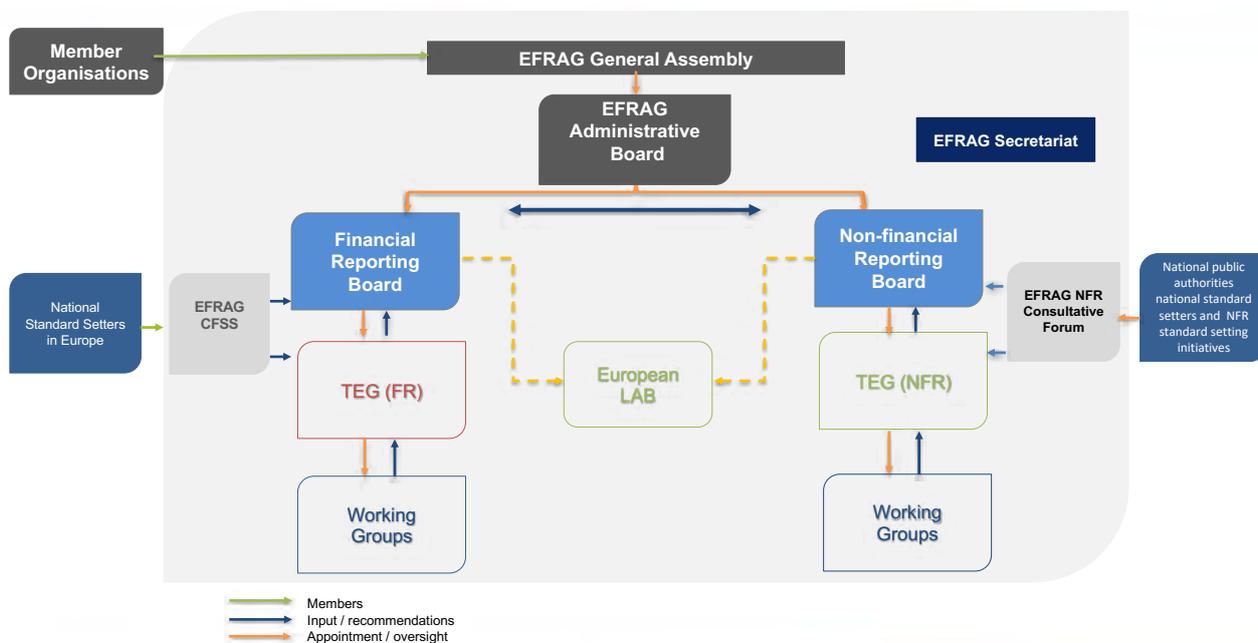
- Clear voting arrangements for approving documents at various stages of the due process;

Work plan and public consultation:

- Agenda consultations (appropriate frequency to be determined) to define non-financial standard-setting priorities and develop project work plan;
- Undertaking field tests and other forms of effects analyses before a project is included in the work plan including scientific review and adequacy with EU policy analysis, and other forms of effect analysis. This step should not be undertaken for topics where the need is self-evident;
- Exposure drafts including a basis for conclusions and initial effects analysis and/or other due process documents such as discussion papers open for comment for a sufficient period of time;
- Additional broad-stakeholder consultation, if needed through field tests, surveys, public hearings and roundtable meetings;
- Publication of additional materials to support the exposure draft (e.g., podcasts, webcasts, educational material);
- Consideration of feedback received from public consultation process, publication of comment letters received and issuance of feedback statements;
- Publication of standard/s accompanied by a basis for conclusions and effects analysis;
- Publication of materials accompanying a standard such as project summary and education material; and
- Post-Implementation Reviews (PIRs) conducted at an appropriate time to identify and address potential implementation issues encountered after adoption of standards. Such PIRs will have to consider relevant requirements of EU law and be consistent with the European Commission's better regulation agenda.³

³ See https://ec.europa.eu/info/law/law-making-process/planning-and-proposing-law/better-regulation-why-and-how_en.

CHAPTER 4: EFRAG'S NEW ORGANISATION AND GOVERNANCE



EFRAG GENERAL ASSEMBLY

Composition of the General Assembly

- 4.1 As non-financial reporting is of significant interest to a much wider range of stakeholders than financial reporting, the EFRAG General Assembly should be enlarged to allow additional relevant and interested organisations, such as National Authorities, foundations, NGOs, trade unions and consumer organisations, to participate in and contribute to EFRAG and become EFRAG Member Organisations.
- 4.2 A balanced representation of stakeholders will be ensured through the creation of two more Chapters in addition to the two existing Chapters of EFRAG Member Organisations, i.e. “European Stakeholders Organisations” and “National Organisations” (see paragraph 1.6). The two new Chapters would consist of (i) European institutions, authorities and agencies; and (ii) civil society (including NGOs, academics, trade unions and consumer organisations).
- 4.3 The EFRAG General Assembly would then be composed of EFRAG Member Organisations in four Chapters:
 - European Stakeholder Organisations (private sector including preparers, users and the accountancy profession organised, if needed, on a sector basis).
 - National Organisations (National Authorities/Ministries or National Standard Setters or other forms of bringing national stakeholders together).
 - European institutions, authorities and agencies (ECB, ESAs and other relevant institutions and bodies)
 - Civil society (including NGOs, academics, trade unions and consumer organisations)
- 4.4 The existing Chapter of European Stakeholder Organisations (private sector organisations) is based on a sector model with six sectors: the accountancy profession sector; corporate sector, banking sector, insurance sector, user sector and possibly a SME/SMP sector. As noted in paragraph 2.3; the representation of SMEs/SMPs at the different levels of EFRAG’s

new governance will depend on whether the revised NFRD will provide for non-financial reporting requirements or standards for SMEs. In such an eventuality, SMEs and SMPs could be represented at higher governance levels including the General Assembly and the NFRB.

- 4.5 It will be up to the Members States to designate their representatives as part of the 'National Organisations' category. Not every Member State may be willing or able to be represented at the different levels of the governance. Moreover, groupings across some Member States may be necessary to keep a reasonable size for the bodies.

Role of the General Assembly

- 4.6 In addition to its legal responsibilities under the Belgian Corporate Law, EFRAG's General Assembly would provide a discussion forum for the member organisations to debate on strategy and broader orientations relevant to the environment in which EFRAG's activities take place.
- 4.7 The EFRAG General Assembly would continue to cover all EFRAG's activities. Its role would be to fulfil the legal requirements prescribed by Belgian law. It would also appoint the President of EFRAG's Administrative Board, the Administrative Board's members, and the members of both the Non-Financial Reporting and Financial Reporting Boards as set out in more detail below.
- 4.8 The General Assembly would appoint the Chairs of the Non-Financial Reporting and Financial Reporting Boards based on a proposal by the European Commission, after consultation with the European Parliament and the Council (as is the practice for the President of EFRAG's current Board).

EFRAG BOARDS

EFRAG ADMINISTRATIVE BOARD

Composition of the EFRAG Administrative Board

- 4.9 The Administrative Board will be composed of its President and a minimum of ten members representing each of the four Chapters that make up the General Assembly. EFRAG Administrative Board members should commit to serve in the public interest and be free from conflicts of interest as a pre-condition for being appointed.
- 4.10 The Administrative Board's members would be nominated by EFRAG's Member Organisations and appointed by the General Assembly. They should be of high calibre and ensure that EFRAG is accountable to its stakeholders.
- 4.11 The President of EFRAG's Administrative Board would be appointed by the General Assembly.
- 4.12 The members of the EFRAG Administrative Board should be different from the members of the two Reporting Boards as the oversight role should remain segregated from the technical / operational role. The Chairs of the Reporting Boards would have a standing invitation to participate in the Administrative Board's meetings as observers without voting rights. This would ensure inter alia that the Chairs of the two Reporting Boards can be heard before the Administrative Board takes decisions on the allocation and use of EFRAG's resources.

Role of the Administrative Board

- 4.13 The Administrative Board would be responsible for EFRAG's organisation, administration, finance, due process and oversight of all EFRAG's bodies. It should ensure that the composition of EFRAG's governance and technical bodies reflect an appropriate degree of diversity, including in particular gender and geographical diversity. It would not play a role in EFRAG's technical work, including the development of the standards. The Administrative Board would also ensure that EFRAG maintains a proper liaison with all relevant stakeholders and the maintenance of these relationships.
- 4.14 The Administrative Board may have various committees including a Nominating committee for the appointment of the members of the two Reporting Boards, an Audit and Budget committee, a Remuneration committee and a Due process oversight committee. In practice, I envisage that the Administrative Board's committee structure would largely mirror that which exists under EFRAG's current Board.

- 4.15 The Administrative Board would be responsible for selecting the EFRAG's CEO, who would be responsible for managing EFRAG 's employees and day-to-day operations, as is currently the case. The Administrative Board's Nominating Committee shall also assist the two Reporting Board to pre-select candidates to join the two TEGs. The decision to appoint members of the TEGs shall remain with their respective Reporting Boards (see also paragraph 4.38).
- 4.16 The Administrative Board would approve the due process system used by the Reporting Boards and TEGs, and periodically evaluate the transparency, efficiency and effectiveness of EFRAG's due process.
- 4.17 The Administrative Board would recommend candidates to join the two Reporting Boards to the General Assembly, which would appoint them.
- 4.18 The Administrative Board would ensure that the Reporting Boards and EFRAG TEGs establish appropriate cooperation arrangements with global and other relevant standard setting initiatives, as set-out in Chapter 5 below. The EFRAG Administrative Board will also advise the Reporting Boards and TEGs on the form of cooperation and agreements with (global) non-financial reporting initiatives, taking into account that this cooperation may develop over time and should be reciprocal in nature.

NFR CONSULTATIVE FORUM

- 4.19 A Consultative Forum of National Authorities, non-financial reporting standard setters and existing (global) initiatives and other players would be established to foster regional and international cooperation. This Forum would be consulted by the NFRB and NFR TEG for advice on the draft non-financial reporting standards.
- 4.20 I have not retained the suggestion to create a separate large advisory council as I consider that the legitimate place to debate on strategy and orientations is within the enlarged General Assembly, whose four Chapters represent all categories of stakeholders. The Administrative Board would prepare these discussions about strategy and orientations.

REPORTING BOARDS

- 4.21 Taking into account the new mission that could be given to EFRAG, the technical work will be carried out under the responsibility of two separate Reporting Boards operating under the oversight of the Administrative Board. One Board will be dedicated to financial reporting aspects and essentially continue the work that EFRAG currently carries out related to IFRS Standards, as regards both providing upstream input and comment to the IASB, and the elaboration of endorsement advice to the European Commission. A separate Non-Financial Reporting Board (NFRB) would be charged with overseeing the technical work related to the development of non-financial reporting standards.
- 4.22 The members of these two Reporting Boards will be appointed by the General Assembly following nominations by the EFRAG Member Organisations, and based on a recommendation of the Administrative Board. Members of both Reporting Boards should commit to serve in the public interest and be free from conflicts of interest.
- 4.23 The Chairs of the two Reporting Boards would be appointed by the General Assembly based on a nomination by the European Commission after having heard the European Parliament and the Council. This would replicate the procedure used to appoint the President of EFRAG's current Board.
- 4.24 The Chair of each Reporting Board would be an observer on the other Reporting Board to support interconnectivity between both Reporting Boards. Joint meetings on a regular basis could also be considered.
- 4.25 Each Reporting Board would be assisted in its area of competence by a Technical Expert Group (TEG). This would continue the practice used in EFRAG's current work on financial reporting.
- 4.26 Each Reporting Board will appoint the members of its TEG.
- 4.27 Each Reporting Board would be responsible for all positions within its area of competence, after having considered the technical advice provided by its corresponding TEG and reflecting the results of EFRAG's due process.
- 4.28 Each Reporting Board would have to operate by consensus to the maximum extent feasible, or by a qualified majority (two-thirds) if there is a failure to reach consensus.

EFRAG'S FINANCIAL REPORTING BOARD (FRB)

- 4.29 As regards the financial reporting pillar, the current structure of EFRAG, which after the Maystadt reform has attained good results, should as far as possible be preserved in its present status, in order not to compromise the quality of EFRAG's performance and the balance of views held among its stakeholders.
- 4.30 The FRB would continue the current role of the existing EFRAG Board in the endorsement process and contributing to the IASB standard setting process including research activities. The only significant change to the financial reporting pillar would be that the current Board's administrative tasks and responsibilities would be transferred to the new Administrative Board.

EFRAG'S NON-FINANCIAL REPORTING BOARD (NFRB)

Composition of the NFRB

- 4.31 As already mentioned before, the NFRB's composition should reflect technical expertise and diversity of business and market experience with balanced representation of civil society organisations, academics, private sector and public entities. Members would clearly need to have recognised sustainability expertise and experience of best practice on related reporting.
- 4.32 The NFRB would have around 20 members including its Chair. The precise composition of the NFRB could be based on an equal representation of national and European authorities (with 6 seats each) and the representation of the private sector and civil society based on 3 seats each for civil society, preparers (non-financial corporations), and investors (financial institutions and asset managers). The audit profession could also be represented on the NFRB with 1 seat. This composition may need to be adjusted depending on the interest that national and European authorities would show to join the NFRB.
- 4.33 Guest contributors could be invited to NFRB meetings from the NFR TEG, working groups as well as from external sources of expertise. This may be useful in discussions on some non-financial reporting issues requiring specialist knowledge.

Role of the NFRB

- 4.34 The NFRB would be responsible for defining the standard setting work plan in its area of responsibility; appointing the members of the NFR TEG; reviewing and approving draft standards prepared by the NFR TEG before they are submitted to the European Commission; and similarly reviewing and approving any other non-binding guidance prepared and recommended by the NFR TEG. The NFRB would also be responsible for overseeing the non-financial reporting research activities to support the standard setting process. It would ensure interconnectivity with the FRB.
- 4.35 In formulating its position about draft non-financial reporting standards, the NFRB will consider the needs of EU law, in particular whether draft standards comply with the requirements of the NFRD.
- 4.36 The NFRB will cooperate with the existing (global) non-financial reporting initiatives subject to the oversight of the Administrative Board as set out in paragraph 4.18.
- 4.37 The possible modalities of cooperation with the existing (global) public and or private non-financial reporting initiatives producing international non-financial reporting initiatives and frameworks are considered in Chapter 5 below.
- 4.38 The NFRB will appoint the members of the NFR TEG upon recommendation of the Administrative Board's Nominating Committee.

Decision Procedure

- 4.39 The NFRB will review the NFR TEG proposals. If necessary, the NFRB will set out why it considers that the draft standard does not meet the needs of EU legislation; in particular, any specific requirements of the NFRD, and ask the NFR TEG to reconsider its proposal. If an agreement cannot be reached, the NFRB will submit the proposed non-financial reporting standard to the European Commission accompanied by a reasoned opinion setting-out why it considers that the standard

does not meet the needs of EU legislation. It would be for the European Commission to provide the final arbitration about the points at issue.

- 4.40 In line with the approach set-out in paragraph 4.28, the NFRB will operate by consensus to the maximum extent feasible, or by a qualified majority (two-thirds) if there is a failure to reach consensus.
- 4.41 The relevant European authorities and agencies will have the possibility to have their reasoned opinions annexed to the NFRB's proposed non-financial reporting standards submitted to the European Commission for adoption. These opinions will be attached to the proposed standard and will be an integral part of the proposal to the European Commission.

TECHNICAL EXPERT GROUPS

- 4.42 The EFRAG TEGs provide technical advice to their respective Reporting Boards.
- 4.43 The EFRAG TEG members are appointed by their respective Reporting Boards, supported by the Administrative Board's Nominating Committee for the pre-selection process.
- 4.44 The TEGs appoint the members of their Working Groups and Advisory Panels, decide on the scope of their work and terms of reference.
- 4.45 The two TEGs would work independently of each other but would ensure that an ongoing exchange of views is in place to support interconnectivity in the consideration of financial reporting and non-financial reporting developments. In particular, the Chair of each TEG will be observer on the other TEG to support interconnectivity between both TEGs. Joint meetings on a regular basis could also be considered.
- 4.46 Each EFRAG TEG operates by simple majority decisions, but situations may be specified where a qualified majority will apply.
- 4.47 The current rules for composition and functioning of the existing TEG will continue to be applicable to the new Financial Reporting TEG.

Composition of the NFR TEG

- 4.48 The NFR TEG members will be appointed by the NFRB, after a call for candidates, ensuring the diversity of skills and origins and their meeting the required profile and expertise. The NFRB will be assisted by the Administrative Board's Nominating Committee.
- 4.49 The members of the NFR TEG will be chosen for their experience and expertise in the drafting of standards and for their subject matter expertise in the non-financial reporting domain. In line with paragraph 4.13, the composition of the NFR TEG should reflect an appropriate degree of diversity.
- 4.50 The NFR TEG may have permanent members for the entire duration of their mandate and/or temporary members chosen from among experts in the subject covered by the standard during a certain period for a specific project. In consideration of the workload involved in drafting standards, the recruitment of certain full time NFR TEG members paid by EFRAG could be considered.
- 4.51 The NFR TEG will have maximum 16 members including its Chair.

Role of the NFR TEG

- 4.52 The exact role of the NFR TEG is expected to be determined, at least initially, by the outcome of the revision of the NFRD.
- 4.53 The NFR TEG will be responsible for developing standards with help from appropriate Working Groups and recommending these standards for approval to the NFRB.
- 4.54 The NFR TEG will appoint the members of its Working Groups and Advisory Panels, and decide on the scope of their work and terms of reference.

- 4.55 The NFR TEG will receive input from its specialised Working Groups and advisory panels including a SME/SMP Working Group.
- 4.56 The NFR TEG will cooperate with the existing (global) non-financial reporting initiatives within the framework defined by the EFRAG Administrative Board and taking to account the cooperation arrangements established by the NFRB.

Decision Procedure

- 4.57 The NFR TEG will operate by simple majority. But situations may be specified, where a qualified majority will apply.

CONNECTIVITY BETWEEN THE TWO PILLARS

- 4.58 The Chair of the FRB will be an observer on the NFRB (and vice-versa) and the Chair of the FR TEG will be observer on the NFR TEG (and vice versa) to support interconnectivity between both Reporting Boards and between both TEGs. Joint meetings on a regular basis could also be considered.
- 4.59 Furthermore, the Reporting Boards could also consider the appropriateness and merits of setting up a coordination committee (including members of the two Boards and/or TEGs) and the modalities of work of such a committee considering their project work plan and priorities. This could help to ensure that interconnectivity is considered in a systematic way.

WORKING GROUPS, ADVISORY PANELS AND TASK FORCES

- 4.60 A number of new Working Groups/Task Forces/Advisory Panels may be established by each TEG. Each TEG would decide on the need for and mandate for such groups and their composition.
- 4.61 Similar to what currently exists for the financial reporting pillar, the role of Working Groups/Task Forces/Advisory Panels would be to advise and provide input to the TEGs discussions aiming at providing contributions on specific matters.
- 4.62 As indicated above a SME/SMP Working Group focused on non-financial reporting matters for SMEs could be established to ensure that the perspective of SMEs/SMPs and the implications for SMEs are considered in the non-financial reporting standard setting process.

EUROPEAN REPORTING LAB (EUROPEAN LAB)

- 4.63 The European Lab could continue to operate in the form of task forces to identify good practices, and stimulating innovation and debate related to non-financial reporting. The European Lab could potentially also undertake work on cross-cutting issues with the financial reporting activities (or on financial reporting only).
- 4.64 The members of the European Lab (in the form of task forces) would be appointed by the Reporting Boards, assisted by the Administrative Board's Nominating Committee. The European Lab's funding and work programme would be overseen by the Administrative Board, reflecting the latter's overall responsibility for all administrative and oversight matters.
- 4.65 Depending on the availability of resources, the European Lab may also, beyond identification of good practice, consider proactive research on some topics (e.g., digitisation, materiality) or help with the development of education-oriented material.
- 4.66 The European Lab could also help to foster interconnectivity between financial and non-financial reporting.
- 4.67 The European Lab activities should be undertaken resources permitting and there may be a lower level of activity or no activity for the first period of the EU non-financial reporting standard setting process.

CHAPTER 5: COOPERATION WITH OTHER STANDARD SETTERS AND INITIATIVES

- 5.1 EU non-financial reporting standards must take into account the existing (international) reporting standards and frameworks to the greatest possible extent. Therefore, relevant existing (international) non-financial reporting standard-setting organisations and initiatives need to be associated with any future standard setting work. The exact modalities may be shaped in part by the requirements of the forthcoming proposal to revise the NFRD.
- 5.2 The European Lab Project Task Force on the elaboration of possible EU non-financial reporting standards recommends building on and contributing to the work of relevant existing (international) non-financial reporting standard-setting organisations and initiatives under a partnering and co-construction spirit. (See the report of the [Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards](#) published alongside this report.).
- 5.3 While focusing on the EU's specific policy, regulatory and technical and the timing constraints stemming from existing EU Law, EFRAG's Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards proposed a co-construction approach with relevant international standard setting initiatives. This approach should be based on a two-way exchange of experience, expertise, tools and content, feeding one another with the ultimate goal of fostering coherence and consistency between EU and global sustainability reporting.
- 5.4 In this context, the NFRB and NFR TEG would strive to contribute to sustainability reporting progress globally by:
- Making available the outcome of its standard-setting activities to international partners and initiatives
 - Establishing bilateral relationships that could include joint projects;
 - Promoting and participating to convergence efforts on a co-construction basis; and
 - Participating in fora dedicated to fostering coherence and integration of corporate reporting as a whole (including connectivity between financial and sustainability reporting).
- 5.5 The Administrative Board will ensure that the Reporting Boards and EFRAG TEGs establish proper cooperation including reciprocity with the global and, where relevant, other standard setting initiatives based on the co-construction approach. The EFRAG Administrative Board will advise the EFRAG General Assembly on the form of cooperation and agreements with existing (global) non-financial reporting initiatives taking into account that this cooperation may develop over time and should be reciprocal in nature.
- 5.6 Cooperation agreements could be signed with the relevant non-financial reporting standard setters and initiatives so that a two-way exchange of experience, expertise and tools and content can take place.
- 5.7 The NFR Consultative Forum could invite the relevant non-financial reporting initiatives to participate in its meetings.

CHAPTER 6: RESOURCES

- 6.1 The creation of a new pillar for non-financial information would represent a significant expansion in EFRAG's activities. Standard setting activity will require new technical expertise and skills in EFRAG as well as new tasks to be performed. Adequate human resources of the non-financial standard-setting pillar will be crucial to ensure the development of high-quality and relevant standards in addition to having the expertise and experience in notably the technical bodies.
- 6.2 The non-financial reporting pillar would benefit from EFRAG's existing infrastructure, and support and management functions. The resources for this pillar could be increased gradually.
- 6.3 EFRAG's current premises allow, at least in the start-up phase of the second pillar's activity, to have additional meetings and staff. As regards the secretariat, whose role includes providing logistical and administrative support to the bodies that develop the standards, it will have to be complemented by the recruitment of new staff competent in the field of non-financial reporting and in the preparation of drafting standards. Some current employees may also be assigned to these tasks depending upon the actual work plan for the financial reporting activities.

CHAPTER 7: FUNDING

- 7.1 The funding of the existing financial reporting pillar should not be affected by the new activities except for its participating to the charges of structure and administration which should be proportionate. The non-financial pillar should have its own source of financing, separate from that of the financial pillar. However, organisations could decide to contribute to both pillars. In all circumstances, EFRAG's ability to set standards independently without real or perceived undue influence from any interest groups should be safeguarded.
- 7.2 It should also be recognised that participation in most of the activities of the non-financial reporting bodies would not be compensated. It may thus involve a substantial contribution in kind for concerned organisations and individuals.

FUNDING STRUCTURE

EFRAG's current funding

- 7.3 EFRAG's current funding for the financial reporting pillar originates from both the public sector (the European Union) and the private sector (EFRAG's Member Organisations). Funding by the European Commission is granted through yearly grant agreements.
- 7.4 In addition to cash funding, EFRAG receives contributions in kind provided by the members of the EFRAG Board, EFRAG TEG, the Working Groups and Advisory Panels and the European Lab and its Project Task Forces as well as in the form of free secondments.

Future funding of EFRAG

- 7.5 All EFRAG Member Organisations would in principle need to provide a financial contribution to EFRAG. However, certain key non-financial reporting stakeholders, such as NGOs, may not have the capacity to contribute financially. To be inclusive, financial contributions from these organisations could be limited and a form of associate membership cooperation agreement could be entered into.
- 7.6 The two-pillar system will have a separate funding for each of the pillars so that Member Organisations could decide to fund one pillar or both (the general administrative and overhead costs would be shared equally by both pillars).
- 7.7 Any funding model should be transparent, equitable and well understood by candidate Member Organisations that may wish to join the non-financial reporting pillar, the financial reporting pillar or both.
- 7.8 The funding for the non-financial reporting pillar should also reflect the public-private sector partnership model of EFRAG. However, the public (European Union) funding should play a leading part for the non-financial reporting pillar, given its public interest mission in setting standards to support the implementation of EU law.

Additional funding for the Non-financial reporting pillar

- 7.9 The non-financial reporting pillar funding model should be fair, built on objective criteria and reflect a public-private partnership model. The public funding would take a predominant part while a minority share of private contribution would also be expected.
- 7.10 The funding structure should avoid creating conflicts of interests which should be closely monitored. A preponderance of public funding would minimise the risk of conflicts of interest.
- 7.11 Existing non-financial information initiatives or standard setters are, for a large part of their budget, funded by philanthropic foundations that are actively involved in the sustainability agenda and through bilateral donor aid funding of countries.

- 7.12 Funding and membership should be inextricably linked. The proportion of the different stakeholder groups should be tied to their contributions to the funding of EFRAG, even though a certain flexibility may be tolerable (in particular for scarcely resourced stakeholders such as civil society).
- 7.13 Additional financial support from Member States or National Authorities would be needed.
- 7.14 A fair percentage of private funding (i.e. 40% private) to ensure a broader representativeness and independence should be needed.
- 7.15 The level of the budget can only be estimated when there is further clarity regarding the nature of future EU non-financial reporting standards. The budgets of the existing initiatives differ widely, ranging from two and a half (2.5) to nine (9) million euros.
- 7.16 There will be clear synergies with EFRAG's existing structure notably in terms of offices, support and communications staff. Therefore, it is estimated that an initial additional budget for the non-financial reporting pillar in the first year(s) of 3 million euro is adequate.
- 7.17 This additional funding need of 3 million would be used mainly to cover staff costs and to recruit a half-time NFRB Chair, a full time NFR TEG Chair and 12-15 technical staff. It would also cover additional overhead (excluding the rental and general office costs). The communication and support staff would be shared by both pillars.

CHAPTER 8: NEXT STEPS

- 8.1 In order to implement the recommended new structure, the following steps would need to be taken whereby some steps can be taken in parallel after having received the European Commission mandate for the non-financial reporting standards work:
- 8.2 Call for additional member organisations to join the EFRAG membership (additional member organisations in the European Stakeholders Organisations and National Organisations Chapters and new member organisations in the European institutions, authorities and agencies and Civil Society Chapters).
- Amending the EFRAG Statutes and Internal Rules.
 - Approval of the new structure, EFRAG Statutes and Internal Rules, and admission of new member organisations by the existing EFRAG General Assembly.
 - Call for candidates for various governance and technical bodies (EFRAG Administrative Board and EFRAG NFRB on basis of nomination of EFRAG Member Organisations and EFRAG NFR TEG on basis only of expertise and experience)
 - Recruitment additional staff.
 - Establishment of NFR Consultative Forum, various Working Groups and Advisory Panels including European Lab Project Task Forces, SME Working Group and EFRAG Administrative and EFRAG NFRB committees.
- 8.3 Some of these steps could be finalised by early 2022, such as amending EFRAG's Statutes and Internal Rules. Others would be dependent on the availability of additional funding, in particular the recruitment of the full complement of technical staff. In the interim, technical work to develop EU non-financial reporting standards could start on a project-mode basis, similar to that used by the Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards. This should allow such technical work to start soon after the European Commission issues its proposal to revise the NFRD.

APPENDIX



VALDIS DOMBROVSKIS
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Mr Jean-Paul GAUZÈS
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Brussels, 25. 06. 2020
AB//mp Ares(2020) S_3738534

Dear Mr Gauzès,

I am writing to you on an ad personam basis, taking into account your current roles as Chairman of the Board of the European Financial Reporting Advisory Group (EFRAG) and as Chairman of the Steering Group of the European Corporate Reporting Lab @ EFRAG (European Lab). I have also considered your former role as member of the European Parliament, in which role you negotiated several important legislative proposals and acted as group coordinator in the Committee on Economic and Monetary Affairs.

In a speech that I delivered on 28 January,¹ I announced my intention to request the launch of technical preparatory work on non-financial reporting, in accordance with the conclusions of the Economic and Financial Affairs (ECOFIN) Council of 5 December 2019 on the deepening of the Capital Markets Union. These conclusions invited the Commission to “consider the development of a European non-financial reporting standard taking into account international initiatives, with specific attention for climate-related disclosures (in order to promote Paris alignment of investment flows).”²

I have written to you, under separate cover, concerning the launch of this technical preparatory work so as to assess the possible content and structure of any future European non-financial reporting standard. The preparatory work will feed into the Commission’s impact assessment related to the forthcoming revision of the Non-Financial Reporting Directive (NFRD), as a European non-financial reporting standard is one option to be considered in this context.

¹ See https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_139.

² See <http://data.consilium.europa.eu/doc/document/ST-14815-2019-INIT/en/pdf>, at page 11.

EFRAG is recognised by market players as the European centre of expertise on corporate reporting. It has a proven record and expertise in financial reporting. Following the establishment of the European Lab in 2018, as requested in the Commission's Sustainable Finance Action Plan, EFRAG has demonstrated the ability to mobilise quickly expertise in non-financial reporting. This led to the publication in February 2020 of the European Lab's first report on good practices in climate-related reporting. I welcome the fact that the European Lab has since launched a second project on the identification of good practices in the reporting of sustainability risks and opportunities.

Notwithstanding the European Lab's success to date, it was not intended as a permanent vehicle to develop European standards. I therefore invite you to consider the potential need for changes to the governance and financing of EFRAG if the latter were entrusted with the development of European non-financial reporting standards in a revised NFRD. In particular, I would like you to assess the involvement of the European Supervisory Authorities, as they play an important role in setting standards for sustainable finance disclosures and transparency, and should be closely involved in developing potential EU non-financial reporting standards. Given the timing of the ongoing impact assessment work, I would welcome your initial input by 30 October 2020, in order to allow sufficient time to consider it as part of the preparation of the Commission's proposal to revise the NFRD. I would welcome your final, detailed proposals by 31 January 2021 so that these can be considered as part of the legislative process.

You will find in the annex a list of considerations that were already identified as key for any eventual European reporting standard system under the NFRD and which appear relevant when considering the governance of any standard setting mechanism.

Should you have any further questions about this matter, please address them to Mr Alain Deckers (contact details: +32 229 92 348, alain.deckers@ec.europa.eu), who heads DG FISMA's corporate reporting unit, the contact point for this file in DG FISMA.

Yours sincerely,



Valdis Dombrovskis

Annex: Context in which the question of possible European reporting standard under the NFRD is being considered

General considerations:

- Standards need to be developed in public interest and no individual category of stakeholder may exercise undue influence over, nor be able to block, the development of the standards. To this end, future governance arrangements in the EU shall ensure that standards are developed based on an inclusive and transparent due process.
- Any future European standards must build on existing reporting standards and frameworks to the greatest possible extent. To this end, relevant standard-setting organisations shall be closely associated in any future standardisation work.
- The European Securities and Markets Authority (ESMA) has a key role to play in this area.
- Relevant European institutions and agencies shall be invited to be fully involved in the development of any future standards. The EEA and the Platform on Sustainable Finance¹ to be established pursuant to the Taxonomy Regulation shall participate as full members in any future standardisation work in order to guarantee consistency between any future standards and relevant EU legislation.
- Any considerations linked to governance of a possible European reporting standard setting mechanism shall be consistent with the recommendations arising in the technical preparatory work about the development of future standards requested by the Commission from EFRAG's European Reporting Lab. This should include the question of appropriate coordination between the financial and non-financial reporting, with a view to ensuring that financial and non-financial reporting provide an integrated view of the performance, position, development and impacts of reporting companies.

Specific considerations:

- Relevant national public authorities should be included in the governance of the non-financial reporting pillar to permit these national authorities to provide input about whether any future standards are responsive to the public interest. If so, which authorities would be most relevant and how should they be involved?
- Should the representation of national authorities in the non-financial pillar governance mirror the current participation of national standard-setters in EFRAG's current Board, and if so, should the relevant national authority necessarily be the national accounting standard-setters currently represented in EFRAG's Board. Moreover, should the role of national authorities in two pillars be necessarily the same?

¹ The Technical Expert Group on Sustainable Finance is fulfilling this role ad interim until the Platform is effectively in place.

- There is need to ensure consistency with the Regulation on sustainability-related disclosures in the financial sector (SFDR) and the Taxonomy Regulation, including related implementing and delegated acts, as well as EU rules on environmental, employment and fundamental rights matters.
- How to establish cooperation with existing public and/or private initiatives producing international standards and frameworks (GRI, TCFD, CDP, SASB, IIRC, the Capitals Coalition (previously known as Natural Capital Coalition, now including Social and Human impacts and dependencies as per respective protocols), the Value Balancing Alliance, UN SEEA, etc.) to ensure that any future non-financial reporting standards applying in the EU builds to the greatest extent possible on existing standards and frameworks. Consider in this context how the EU standard setting could have impact globally?
- Should private sector and civil society representative be involved in the standard-setting work, and if so, what would be suitable options for doing so in a balanced way? Relevant stakeholders might include:
 - Non-Financial Corporations with securities listed on EU regulated markets.
 - Large non-listed companies.
 - Small and Medium-Sized Enterprises (SMEs).
 - Financial Institutions, in particular banks and insurance companies, including both listed and non-listed institutions.
 - Other categories of financial market participants as defined in Article 2(1) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.
 - Auditors, assurance providers and accountants.
 - Other categories of investors, including where relevant smaller or retail investors.
 - Sustainability rating agencies and providers of ESG-related indices or benchmarks.
 - Non-Governmental Organisations active in the areas covered by the (revised) NFRD.
 - Trade unions.
 - Academics specialising in the field of corporate reporting, in particular in sustainability or ESG reporting including environment; social and employee matters; human rights; bribery and corruption.
- The open public consultation that the Commission is currently carrying out on the NFRD review (with deadline for replies by 11 June), might be an additional useful source of information.



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