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Sent via email only

Dear Mr President,

Dear Jean Paul,

EFAA RESPONSE TO CONSULTATION DOCUMENT ON THE *AD PERSONAM* MANDATE ON POTENTIAL NEED FOR CHANGES TO THE GOVERNANCE AND FUNDING OF EFRAG

EFAA appreciates the opportunity to provide our comments on the [Consultation Document](#) inviting all interested stakeholders to contribute input to preliminary proposals regarding changes to the governance structure and financing of EFRAG if the latter were entrusted with the development of EU non-financial reporting standards.

The European Federation of Accountants and Auditors for SMEs (“EFAA”) represents accountants and auditors providing professional services primarily to SMEs both within the European Union and Europe as a whole. Constituents are mainly small practitioners (“SMPs”), including a significant number of sole practitioners. EFAA’s members, therefore, are SMEs themselves, and provide a range of professional services (e.g., audit, accounting, bookkeeping, tax, and business advice) to SMEs. EFAA represents 13 national accounting, auditing, and tax advisor organisations with more than 350,000 individual members.

GENERAL COMMENTS

We wish to reiterate our general remarks in the response to the initial consultation from 2020.

This response is based on what is presently known about the future direction of the NFRD, for example whether it results in a revised Directive or Regulation, and from an SME / SMP perspective.

EFAA believes that the trickle down and supply chain effects demand greater representation of SMEs, and the SMPs that prepare their financial and non-financial reports, within EFRAG’s technical and governance structures. EFAA believes that the new EU Strategy places even greater emphasis on the pursuit of a sustainable EU economy and society, with a significant reduction in carbon emissions leading to an eventual net zero carbon footprint by 2050 or sooner. This reduction and other important

objectives can only be achieved with the transition of the SME sector which accounts for the majority of private sector GDP, employment as well as environmental, social and governance (ESG) impact. Therefore, we foresee even greater trickle down and supply chain effects with NFR than financial reporting. This of itself is justification enough to have more SME and SMP voices within EFRAG's technical and governance structures. Furthermore, it is only through such representation can we be sure of the effective application of the "think small first" principle and the introduction of "smart regulation".

RESPONSE TO QUESTIONS

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.

It is vital that we elicit input from SMEs and SMPs, who frequently prepare the financial and non-financial reports of SMEs. These groups have limited technical resources and time to respond to or participate in consultation exercises. In order to facilitate and encourage their input, simple, quick, and easy ways of providing input are needed, such as online micro surveys. The IASB for the Comprehensive Review of IFRS for SMEs provided an optional response document and online user survey.

QUESTION 2 - MEMBER STATES AND NATIONAL PUBLIC AUTHORITIES

Considering the proposed new governance structure (see section 5 EFRAG proposed new core structure) at what level do you consider that the relevant national authorities should be involved and should they be members or observers:

- EFRAG General Assembly?
- The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?
- The Non-Financial Reporting Board?
- TEG for Non-Financial Reporting?

Should a Consultative Forum (similar to the Consultative Forum of Standard Setters in the Financial Reporting pillar) or any other form of advisory committee; be created for the Member States and national public authorities?

These bodies have a strong and legitimate interest in ESG matters but may have limited technical expertise on financial reporting. Therefore, we think it appropriate that they be represented on the NFRB. In addition, we believe the EFRAG GA should be populated by those bodies and stakeholders with a strong interest and expertise rather than just those that contribute to EFRAG's funding. This may justify national public authorities being represented on the EFRAG GA. A CF would be useful and could function in an advisory capacity to the NFRB in a similar fashion to the CAGs of the IAASB and IESBA.

QUESTION 3 - EUROPEAN INSTITUTIONS AND AGENCIES

Considering the proposed new governance structure (see section 5 EFRAG proposed new core structure) at which level do you consider European institutions and agencies should have representatives and should they be members or observers:

- **The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?**
- **The Non-Financial Reporting Board?**
- **TEG for Non-Financial Reporting?**
- **The Working Groups?**

Should a Consultative Forum or any other form of advisory committee; be created for European Institutions and Agencies to provide input to the TEG for Non-Financial Reporting and the Non-Financial Reporting Board?

These bodies have a strong and legitimate interest but a need to be independent. In many cases they also have limited technical expertise on financial reporting. Hence, we support they continuing to be involved as observers on the EFRAG Board and the NFRB. A CF, possibly with national public authorities, would be useful and could function in an advisory capacity to the NFRB and TEG-NFRB in a similar fashion to the CAGs of the IAASB and IESBA.

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?

Given that representatives of private sector and civil society such as umbrella organisations for PAOs, which represent a large number of SMPs, have a strong and legitimate interest and may have strong technical expertise on reporting better they be represented as members of the EFRAG Board, the NFRB, TEG-NFRB and WGs.

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?

As we mention above under General Comments, we believe there is a strong case for greater representation of SMEs, and of PAOs which represent SMPs or even SMPs themselves, that prepare their financial and non-financial reports, within EFRAG's technical and governance structures. If the NFRD's scope continues to exclude SMEs it is still critical that they should be represented in EFRAG's structured decision making since trickle-down and supply chain effects stand to intensify with NFR

It is vital that SMEs and SMPs be well represented and integrated at all levels of governance and technical work from the EFRAG Board down to the WGs. This is especially important if EFRAG were to set NFRS applicable for use by SMEs. An SME WG that is responsible for checking that all technical bodies are appropriately considering SMEs and SMPs, and, where it has significant concerns that they are not, has the ability to escalate the matter to the EFRAG Board, would also be welcome. The chair of this WG might sit on and liaise with the NFR Board. If EFRAG were to set NFRS specifically for SMEs, then this WG might be responsible for the technical development and maintenance of these standards and report to the NFRB and NFR TEG.

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?

Close cooperation with, and possible alignment of standards in so far as core principles and requirements, is to be strongly encouraged especially between the NFRB and any new SSB established by the IFRS Foundation. Harmonization and convergence are important at European and global level. This current model of cooperation on financial reporting is worth emulating for NFR. Some joint meetings and cross membership or, at the very least, observers from both sides participating in Board meetings would be useful.

QUESTION 7 - EFRAG BOARD

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

Which stakeholders should be represented and in which proportion?

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

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

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

Please see also our response to Question 5.

The EFRAG Board will need to have broad representation from key stakeholders who stand to benefit from and be involved with financial and NFR. The Board could have one representative each from the FRB and NFRB.

The whole EFRAG nomination process might most effectively be overseen by a Nominating Committee of the EFRAG Board. The nominations process is complex and is best managed centrally, but the FRB and NFRB should, at least, be involved in specifying the member profiles and in the interviews. A robust nominations process is the key to driving the independence, fair representation, and quality of work of the boards and their TEGs.

QUESTION 8 - NON-FINANCIAL REPORTING BOARD

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

Which stakeholders should be represented and in which proportion?

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

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

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

Please see also our response to Question 5.

This board would need to be populated with a broad range of technical experts from accountants and assurance providers through to environmental management specialists.

The maximum size of the board should probably be around 25 with 20 perhaps optimal.

Observers should be allowed from all EFRAG GA members plus qualified stakeholders.

The NFRB should be appointed by the GA upon recommendation from the EFRAG Board.

The EFRAG secretariat should liaise between the FRB and NFRB, the chairpersons should hold regular meetings and the full boards should convene a joint meeting at least once a year. Their strategic plans should be open for consultation at the same time and should be broadly aligned.

Interconnectivity between the Financial Reporting Board and the Non-Financial Reporting Board could be ensured by the European Lab.

QUESTION 9 - TEG FOR NON-FINANCIAL REPORTING

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

Which stakeholders should be represented and in which proportion? Should there be observers? If so, who should be the observers?

Do you agree that EFRAG TEG members are recommended by the EFRAG Non-Financial Reporting Board but appointed by the EFRAG Board rather than be appointed by the EFRAG Non-Financial Reporting Board?

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

Please see also our response to Question 5.

In the short term we suggest retaining the current model of board and TEG, one of each for financial reporting and NFR. In due course with a more robust funding model in place we wonder whether expanding the role, scope and membership of the FRB and the NFRB would render the TEG superfluous. With significant additional funding EFRAG could employ more staff and they would largely take over the role of volunteer technical experts and thus reduce their number. Staff would therefore be more independent since most volunteers, although they generally do a very good job, usually work for larger firms or specific organizations who have their own vested interests and priorities.

If they are to be retained, then interconnectivity between the Financial Reporting TEG and the Non-Financial Reporting TEG could be ensured by the European Lab.

QUESTION 10 - ACTIVITIES OF THE EUROPEAN LAB

Do you agree that there is a need for a European Lab activity in the revised EFRAG governance structure?

Do you agree that the European Lab could address both non-financial reporting and financial reporting activities?

Do you have other comments or suggestions regarding the activities of the European Lab?

The European Lab could continue to be a research and innovation lab, with strong connections to the academic sector, as well as help ensure the interconnectivity between the Financial Reporting TEG /

Board and the Non-Financial Reporting TEG / Board. The Euro Lab might be tasked with exploring how to fuse together financial reporting and NFR using integrated reporting.

QUESTION 11 - FUNDING

Considering the proposed governance structure in this consultation document:

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

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

Would a levy at national or European level be feasible?

What alternative financing mechanism would you suggest being considered?

In due course EFRAG's funding model needs to be fundamentally reengineered and greatly expanded.

The amount and source of funding should reflect the need for EFRAG's independence and public interest mandate as well as ensure high quality and timely work. EFAA believes that most, if not all, of the additional cost of supporting the additional cost of the proposed structure should be borne by the broad range of key stakeholders that stand to benefit from NFR, as well as EU funds, as NFR activities serve the common European good. To this end we suggest most of the additional funding comes from the European Commission and a levy applied at the European level imposed on companies filing their annual reports. Furthermore, we support the public-private sector partnership model being reflected in the funding.

These changes to funding will take time to implement and risk slowing down EFRAG's reformation.

Hence, we suggest a process of transition. In the short-term the current funding model might prevail and there might be merit in keeping the funding of financial reporting and NFR activities separate. This will help mitigate the risk of funds directed at financial reporting being redirected to support NFR.

However, in the medium-long term that EFRAG migrates to a model whereby much of EFRAG's NFR work is financed by the European Commission and via a levy system.

We greatly appreciate this opportunity to share our points of view at a historical moment for EFRAG.

We strongly believe that SMEs and SMPs should be well represented in the future technical and

governance structures of EFRAG if it is to assume a broader mandate. Only then can we be sure of effective application of the "think small first" principle and the introduction of "smart regulation".

Yours sincerely,



Salvador Marín
EFAA President



Paul Thompson
EFAA Director