

Rome, 28<sup>th</sup> October 2020

**To:** [Nominations@efrag.org](mailto:Nominations@efrag.org)  
**Cc:** [jean-paul.gauzes@efrag.org](mailto:jean-paul.gauzes@efrag.org)  
**From:** Alfredo Romano  
**Re:** Response to the questionnaire on governance and funding of EFRAG.

Dear EFRAG,

Thank you for the opportunity of providing my contribution to EFRAG. Please find here below my personal advices on the specific questions posed in the questionnaire.

Best regards,

Alfredo Romano



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## 1. Governance – Structure and due process

**1.1** Q: Standards need to be developed in the public interest and no individual category of stakeholder may exercise undue influence: How can it be best ensured that standards are developed based on an inclusive and transparent due process? What should be the characteristics of such a due process?

**A: In order to ensure an inclusive and transparent due process, EFRAG may:**

- **preliminarily produce a “Standards Development Process Guidelines” and get approval from all the involved stakeholders;**
- **require periodic audit / external assurance to ensure that works and process are aligned with the provisions of the Guidelines.**

1.2 Q: Relevant European institutions and agencies shall be invited to be fully involved in the development of future standards, including the European Securities and Markets Authority (ESMA): How can these European Institutions and agencies be involved in the development of future standards and in the standard setter? Should there a particular role for ESMA?

**A: Involvement of relevant European institutions may materialize through:**

- **their participation in the drafting and approval of the above “Standards Development Process Guidelines”;**
- **one or more representatives participating to the EFRAG works so taking responsibility of the outcome;**
- **a formal voting procedure for each Standard produced.**

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1.3 Q: To permit relevant national public authorities to provide input about whether any future standards are responsive to the public interest, how can these authorities be included in the governance of the non-financial reporting pillar? Which authorities would be the most relevant and how should they be involved?

**A: National public authorities may be involved through:**

- **an initial call for consultation reserved to public institutional stakeholders**
- **one or more representatives participating to the EFRAG works so taking responsibility of the outcome.**

**Suggested authorities to be included:**

- **Ministry of Treasury, Ministry of Economic Development, Ministry of Industry & Production; ...**
- **Authority of Stock Markets, Authority of Financial & Insurance Institutions, ...**

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1.4 Q: Should private sector and civil society representatives be involved in the standard setting work? If so, what would be suitable options for doing so in a balanced way? Which stakeholders<sup>1</sup> should be involved? Should the standard setting pillar be a public-private partnership like in the financial reporting pillar?

**A: Representatives from private sector and civil society should be certainly involved as they are key stakeholders. However, the level of their participation and influence on the formation and voting of the Standards should be regulated in order to ensure that no private interest gets into any potential conflict with the general public interest of the Standards. For example, their involvement may materialize in mandatory opinion / voting which however remain advisory.**

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1.5 Q: If there were to be SME standards derived from the future EU non-financial reporting standards, how should the SME angle be addressed in the governance and in the standard setting process?

**A: In terms of process, SME Standards may be a “lighter” version derived from the general Standards. This would allow SME to invest reasonable internal resources for the adoption of the Standards.**

**In terms of governance, EFRAG may create a separate structure dedicated to SMEs with responsibility of deriving from the general Standards a lighter version for SMEs.**

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1.6 Q: Which governance structure would you foresee for the EFRAG EU non-financial reporting standard setting pillar? How would this fit in the overall EFRAG governance structure? What relation would there be with the financial reporting pillar, if any?

**A: in designing its governance structure EFRAG may benefit of the experience and best practices of other existing standard-setting organizations (such as for example GRI or SASB).**

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## 2. Governance – Cooperation with standard setters and other initiatives

2.1 Q: Any future possible EU non-financial reporting standards must be built on existing reporting standards and frameworks to the greatest possible extent:

- How can the relevant existing standard-setting organizations be closely associated in future standardisation work? How would you see cooperation and involvement?
- More broadly, how should cooperation with existing public and/or private initiatives producing international standards and framework be established, to ensure that any future non-financial reporting standards applying in the EU build to the greatest extent possible on existing standards and frameworks?
- How can the EU non-financial reporting standard setting have a global impact?

**A: I envisage a very close collaboration with relevant existing standard-setting organizations since these standards can be a direct source of inspiration for EU non-financial reporting standards.**

**Furthermore, EFRAG may consider the opportunity to select and enter into close relation with one existing standard-setting organization which best adheres to EU NFRD requirements and adopt it as EU non financial reporting Standards, ensuring future continuous development in partnership with the selected existing standard-setting organization.**

**Close collaboration with relevant existing standard-setting organizations will also be necessary since EU non-financial reporting standards will require to build and maintain correspondence tables with all other existing EU / non EU Standards.**

**EU non-financial reporting standards will have a global impact as far as they will be designed and recognized internationally as high-quality standards. Making EU non-financial reporting standards mandatory for non-EU companies who want to work with EU will no doubt also enhance global impact.**

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2.2 Q: How to establish an appropriate coordination between the financial and non-financial reporting so as to ensure that financial and non-financial reporting provide an integrated view of the performance, position, development and impacts of reporting companies?

**A: Financial and non financial reporting should be part of the same statutory reporting process. Timing of production should be aligned so that one unique corporate document contains both the financial and non financial views. This would allow stakeholders to evaluate the company through financial and non financial information made available at the same time with the same cut-off date.**

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### 3. Possible changes to finance of EFRAG

**3.1 Q: What ideas do you have for financing of the non-financial reporting pillar? Should the financing reflect the public-private partnership?**

**A: I envisage a public financing for the setup and maintenance of the EU non-financial reporting standards framework, while private companies will have to invest internally to adjust their organizations to EU Standards requirement and process.**

### 4. Do you have any other comments you want to share?

- **The labelling “non-financial reporting” may sometimes generate confusion as may (wrongly) suggest that the report is about non-financial information. Instead we know that ESG matters have relevant financial dimensions and impacts which are represented in the non-financial reporting. It may be worth to think about a more ESG-related naming ? (such as for example “Sustainability Report”, ESG Report”, “CSR Report”, ...);**
- **“Tagging” functionality to make non-financial reporting “machine-readable”, which makes easy and fast executing effective data analysis and comparison, is perceived by operators as a key to ensure a successful adoption of the reporting.**
- **Assurance of non-financial reporting along with assurance of ESG data sourced from data providers may constitute a key element for the successful adoption and recognition of non-financial reporting.**

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