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European Financial Reporting Advisory Group (EFRAG)
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Dear Mr. Gauzes:

AFRAC is pleased to respond to the questions you raised on your ad personam mandate on non-financial standard setting. We will share our initial views in general and do not attempt to answer each of your questions specifically. The responses are preliminary and are not officially issued by AFRAC. We look forward to a public consultation on the future governance and finance structure of EFRAG to be able to provide more focused views.

Undoubtedly, non-financial standard setting has gained enormous importance and momentum. While we acknowledge the EU's leadership in moving forward in this area, we believe that non-financial reporting standards should be global standards, to ensure comparability of the information and less costly preparation of the reports. Moreover, many of the phenomena in this area, such as climate-related issues, are global themselves and are not served by local reporting standards. For these reasons, the governance should be flexible enough to incorporate such a strategy.

Generally, we support a public private partnership model, where the private sector is involved in the standard setting process and decision-making. The private sector can also be a contributor to the financing, in kind or in cash.

Independence is the key principle and should be adhered to, in case EFRAG will be entrusted with any non-financial standard setting activities. Non-financial information covers a broad area of information, and it addresses the needs of different groups of users or stakeholders. There is non-financial information that complements financial information in financial reports and serves investors. Other non-financial information addresses primarily the needs of a wider society and also political goals. The governance should also be flexible to allow the different stakeholders to participate in areas they have an interest in and are experts. The list of organisations or experts, in addition to those already involved with EFRAG, might include non-listed entities, SMEs, NGOs, sustainability and ESG experts, and others. However, we do not think that supervisory bodies, such as ESMA, should be members; rather they should have observer roles.

A possible new governance and working structure of EFRAG would be as follows.

- A broadened EFRAG General Assembly
- A new EFRAG Advisory Council
- A broadened Board for the supervision of two Technical Expert Groups
- A Technical Expert Group (TEG) for financial reporting (this is already in place)
- A new Technical Expert Group (TEG) for non-financial reporting

As noted above, we strongly believe non-financial reporting standards should be developed globally. There have been several important initiatives already, and the TEG for non-financial reporting should not try to develop their own set of non-financial reporting standards, but work together with other NFI standard setters to develop or adopt a single set of worldwide standards. In fact, other organisations may be part of the TEG for non-financial reporting.

The cooperation with other international NFI Standard Setters (e.g., CDP, CDSB, GRI, IIRC, SASB) is key as EFRAG, from Europe, cannot start from scratch and a blank sheet of paper. These organisations should be involved in the EU non-financial reporting standard setting process, e.g., being part of the new TEG for non-financial reporting. Standards of these bodies could be the bases for the standards mandated in the EU and the EU may decide to just add the respective legal requirements.

It is important to have a transparent and robust due process. We believe that international examples show how such a process could be structured. We want to draw your attention to the IFRS Foundation due process handbook.

We believe that it is of utmost importance that the current financial reporting structure within EFRAG is not impaired by any possible additional tasks that EFRAG might take on. Specifically, the endorsement of IFRSs in the EU should remain as it is, that is, the TEG for financial reporting should be involved and proactive in the process of developing IFRSs and EFRAG should be involved in the process of endorsing IFRSs. Similarly, we envision the task of the TEG for non-financial reporting to be proactive in the development of global standards and then be involved in endorsing these standards. Where needed, the two Technical Expert Groups should coordinate on possible effects of their work on the other's work.

Although the ultimate goal should be to have a set of world-wide accepted non-financial reporting standards, we observe that different parts of the world move at different speeds towards endorsing non-financial reporting standards, and Europe is a leader in the area of non-financial reporting, as part of its sustainability goals. If global standards are lagging behind, the EU will perhaps develop own non-financial reporting standards in selected areas. However, in this case we find it important to clearly mark these standards as interim standards until a global standard is developed and supersedes the interim standard. This avoids creating different non-financial reporting standards in the long term.

For inquiries or further discussions please contact:

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