

EFRAG DUE PROCESS PROCEDURES FOR FINANCIAL REPORTING



EFRAG DUE PROCESS PROCEDURES – FINANCIAL REPORTING - PROCESS

EFRAG CONSULTATION ON ITS DUE PROCESS PROCEDURES

- On 19 September 2024, EFRAG published an Exposure Draft (ED) setting out the due process requirements to be followed by EFRAG. The deadline for comments is 31 December 2024 ([website](#)).
 - [EFRAG Exposure Draft - FR Due Process Procedures-September 2024.pdf](#)
 - [PowerPoint Presentation \(efrag.org\)](#)
- EFRAG's due process is based on interaction with and input from stakeholders. Accordingly, stakeholders' acceptance of the DPP for EFRAG's financial reporting activities is essential. This is why this ED on FR DPP has been developed and issued for public consultation.

COMMENT LETTERS RECEIVED

EFRAG RECEIVED 11 COMMENT LETTERS WHICH HAVE BEEN UPLOADED INTO THE WEBSITE

CL01 Olivier Christian	Individual person
CL02 BusinessEurope	Preparer organisation - EU
CL03 The Swedish Corporate Reporting Board	National Standard Setter- Sweden
CL04 Accountancy Europe	Professional Organisation - EU
CL05 OIC	National Standard Setter – Italy
CL06 FAR	Professional organisation - Sweden
CL07 ICAC	National Standard Setter – Spain
CL08 Forvis Mazars	Auditor - France
CL09 DASB	National Standard Setter – Netherlands
CL10 ASCG	National Standard Setter – Germany
CL11 AFRAC	National Standard Setter - Austria

- ✓ The consultation raised constructive feedback from a wide range of stakeholders
- ✓ The respondents represent various stakeholder groups, including individuals, preparers, market organisations, professional organisations, auditors, and national standard setters from different countries

KEY MESSAGES RECEIVED (1/2)

- There was a consensus that **formalising the Due Process Procedures is a positive step forward** and that it would enhance the legitimacy and effectiveness of EFRAG's activities and enhance transparency and stakeholder confidence in EFRAG's work.
- Stakeholders expressed some concerns and suggested potential improvements, in particular:
 - ✓ It was deemed **essential to keep flexibility within the DPP** to address unique circumstances.
 - ✓ To closely monitor EFRAG decision-making process and commit to **regular review and update of EFRAG DPP** to incorporate best practices and ensure continuous improvement and independence.
 - ✓ **To consider a 30-day comment period on EFRAG's consultations as the minimum and not as a standard.** When a minimum comment period cannot be followed, EFRAG should notify its stakeholders as soon as possible about consultation timeline.
 - ✓ To **align or merge due processes for financial and sustainability reporting.**
 - ✓ **To further clarify certain DPP elements**, including Chapter 1 objectives, role of the EFRAG Secretariat, abstention rules, and accelerated due process details, etc.

KEY MESSAGES RECEIVED (2/2)

- ✓ **Earlier availability of agenda papers** (beyond the minimum 5 days) was suggested.
- ✓ **Resource constraints in the financial reporting pillar and the resulting reliance on outsourcing were highlighted as concerns.** Respondents expressed concerns about the lack of resources in the financial reporting pillar and the tensions it creates within EFRAG. Outsourcing should be a last resort alternative, in the absence of in-house knowledge or due to a lack of resources (subject to a quality control over the work of service providers should be implemented over the life of the project).
- ✓ A **faster endorsement advice process** was also recommended.
- ✓ Some were concerned with the **excessive flexibility of paragraph 6.11** on comment letters received (e.g. allows for late respondents to submit their letters after the EFRAG FR TEG meeting).
- ✓ Finally, even if comment letters are confidential, stakeholders suggested **EFRAG should disclose the types of organisations (or individuals) that submitted them.**

Overall, the feedback was supportive of EFRAG's efforts, offering constructive suggestions to enhance the effectiveness, transparency, and inclusivity of its standard-setting activities.

THE EFRAG SECRETARIAT RECOMMENDATIONS (1/2)

- Include in the DPP clearer **guidelines to illustrate how flexibility will be applied in practice**
- **To highlight importance of early impact assessments when deemed necessary** for a more informed and effective process
- **Add a stakeholder feedback mechanism** on topics related to the DPP
- **If a consultation has a comment period of less than 30 days, EFRAG should promptly inform its constituents**
- **Explore/Discuss the feasibility, costs and benefits of potentially merging with the FR and SR Pillar DPPs (even if partially)**
- **Clarify the DPP and/or consider reviewing internal rules on some aspects** (the role of the EFRAG Secretariat, Administrative Board, abstention rules, consequences of dissenting opinions, treatment of confidential comment letters, accelerated due process criteria, etc)
- Consider **improving the availability of agenda papers, beyond the minimum of 5 days on a best effort basis** in particular on proactive projects

THE EFRAG SECRETARIAT RECOMMENDATIONS (2/2)

- Reflect that **EFRAG's Technical Work Plan is developed and amended, taking into account available resources**
- **Clarify outsourcing governance**
- Include how potential **consultations from other bodies than the IASB are addressed in EFRAG's Work Plan**
- Consider **providing more detailed guidance in an appendix**
- Discuss with **the EFRAG FRB its involvement with non-mandatory documents**

THE EFRAG ADMINISTRATIVE BOARD AND DPC RECOMMENDATIONS

- The EFRAG Administrative Board and its DPC supported the Secretariat recommendations and recommended the changes to be included in the draft final FR DPP

NEXT STEPS

ANALYSIS OF THE COMMENTS RECEIVED FROM DPC

- Update and finalisation of FR DPP and feedback statement based on the comments received.

APPROVAL OF THE FR DPP

- Redeliberation process, involving EFRAG FRB and EFRAG FR TEG, agreement by the DPC and recommendation to the EFRAG Administrative Board.
- Approval by the EFRAG General Assembly of the final DPP based on recommendation from EFRAG Administrative Board.

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THANK YOU