

European non-financial reporting standard-setting

Invitation to contribute to the mandate on the potential need for changes to the governance and funding of EFRAG

Comments from ACCA
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SUMMARY

ACCA is pleased to contribute our views to assist M Gauzès with the mandate to consider the changes in EFRAG's governance and finance required to support its role in setting non-financial reporting (NFR) standards for Europe. We have done so using the questions raised in the annex to the consultation document.

We set out our suggestions below in answer to the specific questions raised in the consultation. We are conscious that the revisions to non-financial reporting in Europe are not yet finalised, for example in terms of the scope of companies that will be required to comply, the topics to be covered and the balance between EU level and member state requirements. Some aspects of the structure may need to be adjusted to reflect the final form of the revision.

SPECIFIC COMMENTS

1. Due process

ACCA agrees the steps outlined are likely to lead to open and transparent non-financial reporting (NFR) standard setting. Additionally, we recommend that:

- agenda consultations (step 1) are supplemented by research to identify potential NFR issues on which to consult. This will encourage idea generation by consultees. In effect employing this recommendation makes field tests (step 2) and consultations an iterative process
- engagement with global NFR initiatives (step 3) could expand beyond 'considering their views' to include instances when collaboration with or endorsement of these initiatives is the desired outcome
- the exposure draft (steps 4, 5 and 7), the final standard or associated implementation guidance (steps 9 and 10) references inherent limitations of NFR together with potential mitigations, and
- educational content (steps 7 and 10) explicitly references implementation guidance, such as illustrative examples.

2. Member states and national public authorities

As a minimum, the relevant national authorities, including those representing SMEs, should be involved as follows:

- a similar approach to that adopted for the current 'endorsement' model approach employed for financial reporting (FR) standards. This will ensure a consistent approach and interconnectivity between the resulting FR and NFR standards.
- observers at each level of the NFR governance structure, to ensure transparency and understanding of the decision-making process.

However, as EFRAG's remit for NFR extends to the development of standards potentially beyond the 'endorsement' model, and given these NFR standards address many diverse societal issues, their development should include proactive engagement with relevant national authorities to ensure a fair reflection of the issues. There should be representation of the relevant national authorities on the EFRAG and NFR boards. In addition, a Consultative Forum would enable this proactive engagement to be extended to a larger number of member states and authorities, with the size of the forum balanced by employing either rotational membership or optional membership based upon the state's or authority's expression of interest.

3. European institutions and agencies

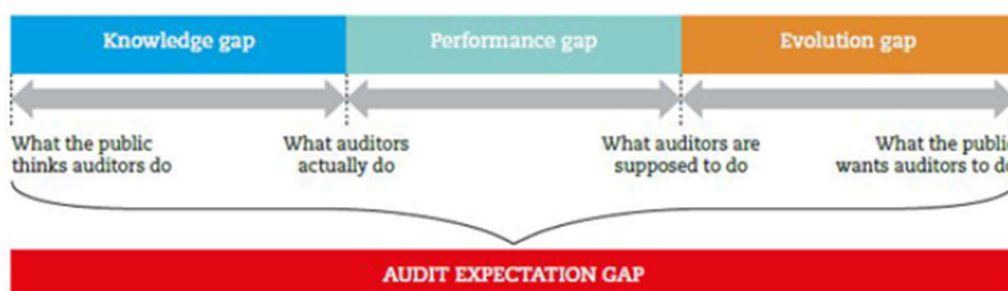
ACCA's response is akin to that to question 2: these institutions and agencies, such as ESMA, ECB and EIOPA, bring benefits of their specialist knowledge and skills. As with their current role within EFRAG we suggest the relevant institutions and agencies would have observer status on the NFR Board.

Additionally, EFRAG should look to capture insights from an outside of Europe perspective. This broader than Europe perspective will be of assistance for preparers and users of NFR with global business interests. A Consultative Forum provides an effective and potentially efficient mechanism for obtaining this broader perspective, while still maintaining an appropriately sized TEG and Board for NFR.

4. Private sector and civil society

The breadth of issues and their likely interest to the private sector and civil society necessitates the need for mechanisms to capture their view in support of shaping standards. Their input should have a major impact within the TEG and working groups, here they can bring specific knowledge relating to:

- How specific NFR issues may differ outside of Europe
- Achievement of the UN Sustainable Development Goals
- Ensuring reporting is both relevant and easily understandable for the multi-stakeholder users of NFR. This will aid reducing any 'knowledge' or 'evolution' expectation gap, the definitions of which were provided for the work of auditors in 'Closing the Expectation Gap' (ACCA 2019)¹ but can be easily adapted to what users expect of reporting.



Private sector (including reporting companies, investors, and assurance providers) and civil society should have some representation on the EFRAG and NFR Boards. A consultative forum would also be needed in order to balance a full range of input while limiting the size of the boards to ensure they remain workable.

However, the combination of governance structure (NFR Board, TEG, working groups and Consultative Forum) and the wide range of issues that NFR standards will address calls for a significant number of participants, hence may provide EFRAG with the challenge of populating and managing the governance structure.

5. SMEs

SMEs are central to the success of NFR and the achievement of long-term fair and sustainable societies. They are likely to be a significant part of the supply chain due to the sheer proportion of SMEs relative to the total number of organisations (99 per cent of all OECD nation firms) and therefore likely to be subject to the trickle-down effect of the NFR requirements applicable to larger organisations.

¹ <https://www.accaglobal.com/in/en/professional-insights/global-profession/expectation-gap.html>

SMEs are a heterogeneous population², therefore SME principles for this population are best shaped within an SME-focused working group, who through representatives on the TEG share the working group's SME principles. The way NFR standards become directly applicable to SMEs, whether mandatory and/or with proportionate adjustment, may necessitate a review of this suggested arrangement.

6. Cooperation with other standard setters and initiatives

Wherever possible EFRAG should develop standards through adoption of pre-existing global reporting initiatives, such as CDP, CDSB, GRI, IIRC, SASB and TCFD, further supporting the much-needed convergence to create coherent and cohesive corporate reporting³. Prospectively, in the development of new or updates to standards and frameworks, such as TNFD or from current initiatives, EFRAG should seek to employ a more proactive role in the shaping of outputs of these initiatives, perhaps through membership of their boards and working groups.

The IFRSF have recently proposed the creation of a Sustainability Standards Board (SSB) for the development of NFR standards⁴. We recommend that EFRAG as a minimum seek to influence the shaping of these standards, similar to how it is done through its membership of the IFASS⁵ for the development of IASB FR standards, this will aid alignment and connectivity between

- European and International NFR
- European NFR and European endorsed IFRS

An ideal outcome for many preparers and users of NFR standards and information would be for EFRAG and IFRSF to collaborate in the development of a single set of globally accepted NFR standards.

7. EFRAG Board

The wider range of stakeholders with an interest in NFR necessitates a larger EFRAG Board than that required purely for FR standards; this will ensure that stakeholder issues are represented. The proportion of representation should be balanced for the impact of NFR standards may have on preparers, users and broader society. To ensure timely, reliable and relevant decision-making, care is needed to ensure that Board size is not too large, and members are sufficiently equipped to appreciate the integrated nature of NFR and FR issues. Good communication with the NFR and FR Boards will be needed to understand their needs in relation to appointments and resources.

8. Non-Financial Reporting Board

Employing the following practices may help managing the negative impacts of boards that are too large and enable continued access to the necessary skills and experience, such as

- representation by a single nominated expert for a specific issue from each of the TEG and working groups

² <https://www.oecd.org/industry/smes/SME-Outlook-Highlights-FINAL.pdf>

³ IIRC and SASB merger <https://www.accaglobal.com/my/en/news/2020/november/ACCA-statement-IIRC-SASB-Nov2020.html> and <https://impactmanagementproject.com/structured-network/statement-of-intent-to-work-together-towards-comprehensive-corporate-reporting/>, signed by CDP, CDSB, GRI, IIRC and SASB, 11 September 2020

⁴ <https://cdn.ifrs.org/-/media/project/sustainability-reporting/consultation-paper-on-sustainability-reporting.pdf>

⁵ <https://www.efrag.org/About/Facts#subtitle1>

- guest attendees for specific specialist issues, these could be sourced from the underpinning groups or external sources.

Appointment of members should be via the EFRAG Board with the potential for nominations to be put forward by EFRAG Assembly members. It is important that the NFRB is, and is seen to be, independent in its decision-making on the NFR standards.

There should be capacity for guest contributors to Board meetings from the TEGs, working groups or external sources of expertise. This may be useful in discussions relating to the approval of some NFR issues, such as those relating to human and natural capital⁶ requiring specialist knowledge.

Almost all NFR issues at some point are likely to have financial implications, and many users will expect to absorb both forms of information (financial and non-financial) from issuing reporting entities. An overarching conceptual framework is an essential mechanism to provide the required connectivity, and therefore there needs to be a mechanism to create and maintain one. Connectivity between the Boards is also needed to address arising current issues of relevance to both FR and NFR, and here the European Lab could be expected to take a key role as a representative member of each FR and NFR Board.

9. TEG for Non-Financial Reporting

ACCA's recommendations raised in response to the questions relating to the NFR Board are relevant here. We are not sure at this stage whether both a TEG and working groups would be needed for NFR. It is possible that, given the range of topics that might be covered, a single TEG may not be needed but a model of working groups advising and reporting to the NFRB might be more appropriate. However, the TEG and working groups are likely to have capacity for a wider membership, with impacts associated with size managed on the basis that contribution to shaping specific standards is made according to relevance, interest and expertise of the member.

Connectivity between the FR and NFR TEGs can be ensured through

- some members being members of both TEGs, with additional responsibility for sharing insight on common issues
- sharing of workplan, meeting agendas, together with minutes of discussions from them
- periodic collaborations of the TEGs, for example in the shaping of workplans and issues that will yield NFR or endorse FR standards, such as those relating to the potential generation of intangibles that are not currently in scope or recognised by FR standards.

The need for connectivity and our recommended suggestions necessitate nominations for both TEGs to be made by the EFRAG Board, which will have a more complete visibility of both FR and NFR issues. The appointment of members to the TEG NFR could be by either the EFRAG or the NFR Board, although appointment by the NFR Board would have the advantage of:

- spreading the appointment administration burden; and
- better supporting the scope for variations in appointment terms and conditions needed to better reflect the variety of work individual members may conduct for the TEG or its working groups.

10. Activities of the European Lab

⁶ <https://integratedreporting.org/what-the-tool-for-better-reporting/get-to-grips-with-the-six-capitals/>

The European Lab has a central role to play in

- horizon scanning to identify issues of relevance to each of the FR and NFR workplans
- identifying the connectivity of FR and NFR issues.

In the fulfilment of this remit, the Lab may need to draw on specialist knowledge, for example related to the lesser reflected integrated capitals of nature and human in business reporting.

11. Funding

ACCA's substantive response to this question in the earlier consultation is unchanged (copied below in italics for reference) and we support the proposal of membership based on funding.

New funding will be required, therefore, and this should reflect the public-private partnership model. The funding model should consider who will benefit from these standards:

- *There is likely to be a benefit to the capital markets as investors are calling for better reporting and so listed companies are the most probable source.*
- *In considering these companies, EFRAG would need to consider the other bodies that may already be funded by corporates, such as IFRS Foundation and the other existing NFR standard setters and frameworks noted above.*
- *Much of the impetus behind any new EU regulations is the interest of society as a whole in NFR. There should therefore be a substantial contribution from public funds.*

Practical ability to contribute should also be considered, which may make it difficult for SME interests for example to do so to any great extent.

Further, levies can be a suitable mechanism for funding the work of EFRAG, although value for money considerations will be needed in addressing their fairness, which may be difficult to determine given the wide range of stakeholders vested in NFR standards and their application.

Finally, a key consideration for funding relates to whether participants to the Boards and underpinning groups will be volunteers or paid.