Think Ahead ACCA

European non-financial reporting standard-setting

Invitation to contribute to the *ad personam* mandate of EFRAG Board President Jean-Paul Gauzès

Comments from ACCA
October 2020

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Further information about ACCA's comments on the matters discussed here can be requested from:

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SUMMARY

ACCA is pleased to contribute our views to assist Mr Gauzès with the mandate to consider the changes in its governance and finance that might be needed if EFRAG took on the role of setting non-financial reporting (NFR) standards for Europe. We have done so using the questions raised in the Annexe to Mr Gauzès letter.

OUR RESPONSES TO SPECIFIC QUESTIONS RAISED

1 Governance – structure and due process

1.1 Inclusive and transparent due process

A proper due process will be vital for the standard setting body making the decisions about NFR standards – for these purposes we will refer to it as the European Non-financial Reporting Standards Board (ENRSB). However, the due process needs to apply to any supervisory board and any advisory groups to assist the work of the ENRSB.

Sources of best practice to guide the due process should include the IFRS Foundation (including the IASB), but also EFRAG's existing process. The ENRSB meetings should be open to all interested parties to observe.

Transparency should include the agenda, papers being considered, deliberations and decisions, but also the responses to consultations. We recognise there may be strictly limited matters where transparency may not be appropriate. All of this needs to be provided in a timely fashion.

1.2 Relevant European institutions

ESMA will have a special status in this regard, given that the application of any standards developed are likely to affect most companies listed on regulated exchanges. ESMA should have a seat on the ENRSB either as a full member or an observer. It may be appropriate for the EBA and EIOPA to be included as well.

1.3 Relevant national public authorities

National public authorities should be involved with ENRSB because of the primary regulation of listed companies held at member state level, but also because the scope of application of the standards might extend beyond listed companies and any regulations may be enacted at the member state level. The relevant public authorities will be those predominantly having the above responsibilities. As with other parties, not all such authorities from all member states may be able to have a place on the ENRSB, so the allocation needs to reflect the size of economies and a range of member states. There should be an advisory forum for public authorities not directly on the ENRSB.

1.4 Public-private partnership

Yes, the ENRSB should have members from the private sector as well as public. The principal involvement should be from companies within the scope of the standards, users of their reports (investors, analysts, credit rating agencies) and auditors, if assurance is to be provided. NFR in Europe needs also to reflect general societal concerns about the impact of these companies. We would expect that these concerns would principally be represented on the ENRSB by the public authorities and channelled through them. There are many other non-governmental groups interested as well, but giving these groups board representation may be difficult to do while maintaining balance between their varied interests on the one hand and not making the board cumbersomely large on the other. As already noted, advisory/consultative groups should be set up to extend the range of parties involved in setting the standards.

1.5 SME standards

If there are standards developed for SMEs, then appropriate expertise and representation needs to be included on ENRSB.

We see substantial risks of a 'trickle down' effect with the requirements of any NFR standards via supply chain requirements. Whether specific SME standards are developed or not, there needs to be a consultative body made up of those knowledgeable about SMEs and those who represent them.

1.6 Governance

If the ENRSB is to be incorporated in the existing EFRAG structure, then we would suggest that a new supervisory body or board is established that could oversee and maintain the independence of the ENRSB and the existing EFRAG board. Its main functions would be to set a budget, raise funds and make appointments to the two boards. Its composition would reflect the public-private partnership approach outlined above, particularly reflecting the financial contributors. It would not in any way be involved with decisions on the NFR standards or on IFRS endorsement. See our comments to Q4 below.

2 Governance – co-operation with existing standards and other initiatives

2.1 Existing reporting standards and frameworks

We agree that building on existing standards and frameworks is essential. Formal collaboration agreements and memoranda of understanding are likely to be needed with the main existing bodies. Five of the principal ones have signed a statement of intent[1] to work together which should make co-operation with the ENRSB easier to establish. Collaboration with any sustainability standards board established by the IFRS

[1] Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, signed by CDP, CDSB, GRI, IIRC and SASB, 11 September 2020

Foundation as envisaged in their current consultation will also be needed. This will also allow European developments to be coherent with the global standards that might be developed by these other bodies. Given the criteria for appointment to the ENRSB, this co-operation may be enhanced by shared board members.

2.2 Co-ordination between financial and non-financial reporting

There are significant overlaps between the two and co-ordination will be best achieved by agreements to work together between the ENRSB and the IASB as concerns the listed companies within scope of application of the EU standards. The existing EFRAG structure could assist with this. If the scope is widened significantly to other large enterprises for example, then the co-ordination will be principally with the national public authorities referred to in 1.3 above.

EFRAG's finances

The existing work of EFRAG on IFRS should not be impacted by any new role in NFR standards setting.

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.

Other comments

The objective of the mandate is to set out issues if EFRAG were to take on NFR standard setting. However, we would note that the problems of changing the existing EFRAG structure into one suitable to take on the new role may be very significant. It is possible that setting up a completely new body may be the better answer.

The advantages of doing so might include the clear separation of funding and staff resources between the IFRS function and the NFR function, without any questions of whether there had been a diversion of resources for one to the other or cross-subsidies. It would also leave the existing governance of EFRAG as it is.

On the other hand, there might be some loss of co-ordination between financial reporting and NFR.