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**Re: Consultation Document "On the ad personam mandate – on potential need for changes to the governance and funding of EFRAG"**

Dear Jean-Paul,

OIC is pleased to have the opportunity to provide its comments on the Consultation Document on your *ad personam* mandate on the potential need for changes to the governance and funding of EFRAG.

**General considerations**

- OIC sees favorably the possible extension of EFRAG's activity to non-financial standards in the perspective that this extension represents the natural evolution of the standard setting activity towards a comprehensive corporate reporting of the business activity, through a progressive interconnection between financial and non-financial information.

What is essential in ensuring the interconnection between financial and non-financial standards is that the issuers of the former (National Standard Setters) are immediately fully committed to the development of the latter, while best involving the stakeholders interested in non-financial reporting.

In this model, the full participation of EFRAG's current stakeholders, also in the new non-financial pillar (Board and TEG) appears to be necessary for the success of the initiative.

- OIC gives an overall positive evaluation of the proposed EFRAG reform. However, it notes that the global reference framework for sustainability reporting, which is currently under definition, could undergo major changes which could even lead to reconsidering the appropriateness of the reform itself.

In this perspective, the exact scope of the mandate that the European Commission may entrust to EFRAG and the evolution of the IFRS Foundation initiative are relevant aspects with respect to EFRAG's governance choices.

Furthermore, the interest of current stakeholders in non-financial reporting and the interest of new organizations to actively participate, also in terms of financial contributions, are still unknown and could affect the final architecture that the new EFRAG will have to assume.

Once these aspects have been clarified, in fact, the need to change the current corporate structure and governance arrangements could be more limited and the consequent adjustment work easier.

- As already mentioned, we strongly feel the need for a comprehensive corporate reporting as soon as possible. We believe that a governance model of the standard setter that facilitates the highest level of coordination between the standardization of financial and non-financial information is functional to this objective.

From this point of view, the proposed architecture that includes a Board, two Reporting Boards, two TEGs and the permanence of the LAB, seems rather complex and such as not to facilitate the efficient performance of the activity in a logic of convergence.

In this perspective, at least in the future, the constitution of a single Board could be more functional, which would contribute, in addition to streamlining the structure, also to mix the membership of EFRAG eliminating the differentiations present today between financial and non-financial stakeholders.

However, regardless of the time taken to make any changes to the governance model, the necessary coordination should be carried out immediately within the EFRAG, between the financial and the non-financial pillars according to a predefined due process.

### **Funding (Question 11)**

We believe that the public-private sector partnership model, which characterizes the participation in EFRAG, should also be the guiding principle in the financing model following the reform of EFRAG. However, once the actual cost of the extension to the non-financial reporting activity has been estimated, it would be desirable for the European Commission to consider the possibility of increasing its contribution, given the standard setting function that EFRAG would play.

The document under consultation assumes that the financing of the non-financial pillar should be separated from the financing of the financial pillar, noting that some organizations may decide to contribute only to financial activity and others to non-financial activity only. Others may decide to contribute to both.

Consistent with the objective of achieving an integration between financial and non-financial information within the necessary time, the financing approach envisaged in the proposal appears reasonable at an early stage, especially where the involvement of current stakeholders also in the non-financial reporting pillar should be limited. In any case, from an evolutionary perspective, the financial contributions of the various stakeholders should also flow into a unitary management of resources.

### **General Assembly (GA)**

We believe that participation in the General Assembly must necessarily be subordinated to the payment of a financial contribution according to predetermined criteria valid for all members (current and new), such as to achieve an adequate link between financial contributions and voting rights. The new members belonging to the non-financial pillar, should also be subjects who satisfy some fundamental characteristics from an organizational and qualitative point of view: high standing and adequate expertise in the matter.

The current rules governing the admission of new members should adapt to the need for integration without being distorted.

In order not to disperse the technical contribution of stakeholders without the capacity to contribute financially, bodies, such as the Advisory Group, could be set up and possibly provide some seats for these stakeholders in the technical bodies of the non-financial pillar.

### **EFRAG Board (Question 7)**

A General Assembly with the participation rules represented in the previous point could, as happens today, proceed directly to the appointment of the Reporting Boards.

In this case, the EFRAG Board would only have the administration/oversight functions, except for also assigning it the role of coordination between the two Reporting Boards in order to ensure the interconnection between the two pillars.

Its composition should reproduce that of the current Board, albeit with a smaller number of members, and be integrated with a representation of both the new member organizations that take into account the size of their financial contribution and the other Authorities concerned as observers. The composition of the Financial Reporting Board should remain that of the current Board and that of the Non-Financial Reporting Board should include the new stakeholders without taking responsibility away from the current ones.

### **European Institutions and Agencies (Question 3)**

We think that the European Authorities should assume a role similar to the one they currently hold for financial information that is as observers.

With particular reference to the Supervisory Authorities, this role would respond to the general principle that the standard-setting activity is for subjects other than those who carry out enforcement activities.

### **SMEs (Question 5)**

Should the European regulation impose a non-financial disclosure obligation for SMEs and/or a specific standard for SMEs, we believe that the interest of SMEs should be taken into consideration through their involvement in the Non-Financial Reporting Board and in

the Non-Financial Reporting TEG. If not, the creation of a specific working group may be sufficient.

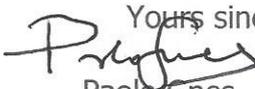
**Cooperation with other standard setters and initiatives (Question 6)**

Cooperation and coordination with the main non-financial standard setters, especially those that today represent a point of reference for operators (see GRI), is certainly important.

The form of involvement is not only linked to the outcome of the work of the EFRAG Project Task Force on non-financial reporting standards and the resulting decisions of the European Commission. In fact, the degree of success of the IFRS Foundation initiative must be considered.

At present, formulating a proposal regarding the forms of collaboration and coordination is not easy. It is to be hoped, as far as possible, that forms of collaboration are sought which favor technical synergies and globally recognized solutions without creating overlapping and operational inefficiencies, in a logic of cost saving.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,  
  
Paolo Gnes  
(OIC Supervisory Board President)