

Response to consultation on the ad personam mandate on potential need for changes to the governance and funding of EFRAG

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Contact person:	Philippe Angelis, Policy Advisor, Financial Reporting	E-mail:	angelis@insurancееurope.eu
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QUESTION 1 – DUE PROCESS

Do you agree that the above reflects the key due process steps for open and transparent non-financial standard setting? If not, which other steps would you advise me to consider or to remove?

We agree with the work plan and public consultation due process steps described in the consultation document. As we have noted in our response to the previous consultation on the potential need for changes to the governance and funding of the European Financial Reporting Advisory Group (EFRAG), we advocate for a due process very similar to the one which currently exists for dealing with financial reporting matters.

QUESTION 2 - MEMBER STATES AND NATIONAL PUBLIC AUTHORITIES

Considering the proposed new governance structure (see section 5 EFRAG proposed new core structure) at what level do you consider that the relevant national authorities should be involved and should they be members or observers:

- ***EFRAG General Assembly?***
- ***The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?***
- ***The Non-Financial Reporting Board?***
- ***TEG for Non-Financial Reporting?***

Should a Consultative Forum (similar to the Consultative Forum of Standard Setters in the Financial Reporting pillar) or any other form of advisory committee; be created for the Member States and national public authorities?

A number of those national public authorities who have responsibilities for non-financial reporting at a national level should be represented and be members of both the Non-Financial Reporting Board and Non-Financial Technical Expert Group. However, there would not be space for all 27 member states to be present and therefore an approach would be needed to ensure appropriate involvement and representation. The most relevant authorities may vary per country. In some it could be within the financial reporting standard setter, in others it maybe within other bodies (not least because not every member state has its own financial reporting standard setter). The member states should identify relevant experts/representatives.



Member states and national public authorities' current representation on the EFRAG general assembly should remain. They should also have appropriate representation on the EFRAG Board responsible for the oversight of the Financial and Non-Financial Reporting Boards.

Representation of member states and national public authorities on the Non-Financial Board and Non-Financial technical expert group (TEG) should be based on expertise and quality of candidates.

We support the creation of a consultative forum, much like the Consultative Forum of Standard Setters in the financial reporting pillar, as long as it remains a purely consultative mechanism by which all countries can provide a relevant non-financial reporting expert to ensure that there is a forum where all EU member states can raise any specific issues and communicate and contribute to the debate on non-financial reporting.

QUESTION 3 - EUROPEAN INSTITUTIONS AND AGENCIES

Considering the proposed new governance structure (see section 5 EFRAG proposed new core structure) at which level do you consider European institutions and agencies should have representatives and should they be members or observers:

- **The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?**
- **The Non-Financial Reporting Board?**
- **TEG for Non-Financial Reporting?**
- **The Working Groups?**

Should a Consultative Forum or any other form of advisory committee; be created for European Institutions and Agencies to provide input to the TEG for Non-Financial Reporting and the Non-Financial Reporting Board?

Relevant European institutions should be granted observer status on the Non-financial Reporting Board and Non-Financial TEG as is the case with the Financial Reporting Board. We do not take the view that ESMA should be treated differently than other European institutions in this context.

The European Commission, as the main funder of EFRAG, should retain its current involvement on the General Assembly and should also be on the future EFRAG Board.

The European Commission should also be represented on the Non-Financial Reporting Board, Non-Financial TEG and all relevant working groups as an official observer, like it is the case today for financial reporting matters.

Experts from the European institutions and agencies should be eligible for membership of the working groups where they have individuals with the necessary expertise and experience, but not as an automatic right.

We do not take the view that a consultative forum or any form of advisory committee is needed, given that the above approach provides opportunities for EU institutions to follow EFRAG's work and provide input.

QUESTION 4 - PRIVATE SECTOR AND CIVIL SOCIETY

Considering the proposed governance structure (see section 5), at which level do you consider private sector and civil society ought to have representatives:

The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?

- **The Non-Financial Reporting Board?**
- **TEG for Non-Financial Reporting?**
- **The Working Groups?**

We take the view that the non-financial reporting pillar should be a public-private partnership like in the financial reporting pillar, where EFRAG has been very successful in working with, and leveraging off of the private sector's expertise. Ultimately, any output produced in the field of reporting (financial or non-financial) needs to pass the test of being implemented in practice. The private sector should play a key role in the standard setting work – and representation should be equivalent to what currently exists for dealing with financial reporting matters with representation at Board, TEG and working group levels. We therefore support that the private sector and civil society be represented on the Non-Financial Reporting Board, TEG and relevant working groups.

For example, the Insurance Accounting Working Group (IAWG) has played a valuable role in the development of EFRAG views. A similar approach, involving expert industry groups should be used for non-financial reporting matters. In the case of insurance, it may be possible to avoid the need for a new expert group and use the same insurance expert group (with some additional experts involved) could be used to provide input to both the financial and non-financial TEG.

As the largest institutional investors in Europe, insurers can make a significant contribution at both Board and technical levels. Being both preparers and major users of financial and non-financial information, insurers' contributions should be taken into account throughout the standard setting drafting process.

QUESTION 5 - SMEs

Considering the proposed governance structure (see section 5), at which level do you consider SMEs (SMPs) should be represented:

- **The EFRAG Board responsible for the oversight of the Non-Financial Reporting Board (see diagram in the Preliminary Report)?**
- **The Non-Financial Reporting Board?**
- **TEG for Non-Financial Reporting?**
- **A SME- focused Working Group?**

Would it be sufficient to seek input of SMEs/SMPs in the public consultation and outreaches rather than involve them in the governance bodies?

The SME sector should have representation at the Non-Financial Reporting TEG and a dedicated working group working on SME standards should be established.

We take the view that EFRAG should encourage SME associations to take part in the funding and functioning of EFRAG and group together to meet the required funding level set for other industry sectors, and therefore become a full member of the General Assembly (GA) and qualify, like other full GA members, for a Board seat on the Financial and Non-Financial Reporting Boards.

QUESTION 6 - COOPERATION WITH OTHER STANDARD SETTERS AND INITIATIVES

What do you see as main features of cooperation with the (global) reporting initiatives? What kind of involvement could you consider?

The chair of the Non-Financial Reporting Board and Non-financial TEG should be represented at the European Commission Platform on Sustainable Finance.

While Europe needs to continue to work without delay to develop non-financial reporting standards, over time a global approach is expected and desired. We welcomed therefore that the Commission already asked the Project Task Force on Non-Financial Reporting Standards to take into account global developments in its preparatory work. This should be continued so that the Non-Financial Reporting Board is given a mandate to consider global developments, but also to pro-actively seek to influence global developments to achieve alignment with what is being developed in the European Union. The EC Platform on Sustainable Finance should be one avenue, but not the only way in which EFRAG seeks to carry out this part of its mandate.

QUESTION 7 - EFRAG BOARD

What in your view should be the maximum size the new EFRAG Board? Which stakeholders should be represented and in which proportion? Should there be observers? If so, who should be the observers?

Do you foresee any obstacles that may arise were the EFRAG Board charged with oversight to include representatives of the Non-Financial Reporting Board and the Financial Reporting Board? Should the EFRAG Board appoint the members of both TEGs and the European Lab, or should this be done by their respective Boards (Non-Financial Reporting Board and the Financial Reporting Board)?

We support the overall approach proposed in the consultation paper of having two pillars within EFRAG: one dedicated to financial reporting and one dedicated to non-financial reporting. The future EFRAG Board should have an overarching role, with oversight over both pillars.

We take the view that the EFRAG Board could be composed of potentially 16 members. The seat allocation could be as follows:

- One seat for the EFRAG president
- One seat for a representative of the European Commission
- One seat for a representative of the insurance industry
- One seat for a representative of the banking industry
- One seat for a representative of Business Europe
- One seat for a representative of the accounting profession
- One seat for a representative of user organisations
- One seat for a representative of civil society
- Seats for each of the (currently 8) representatives of European (national) standard setters

In addition, the following should be present at the Board but without voting rights:

- One seat for the chair* of the Financial Reporting Board (without voting rights)
- One seat for the chair* of the Non-Financial reporting Board (without voting rights)

Members of the Board should be named by their member organisations and confirmed by a vote of the General Assembly.

We do not take the view that official observers are needed. Meetings of the future EFRAG Board should be made public. While the Board's role is not to deliberate on technical matters, it should have a role to ensure that the mechanisms in place to ensure the necessary coordination and consistency between the two boards are working and if needed to decide how to resolve conflicts or inconsistencies that have not been addressed between by the Boards.

We do foresee obstacles/conflicts were the EFRAG Board charged with oversight to include voting representatives of the Non-Financial Reporting Board and the Financial Reporting Board and therefore the heads of these Boards should be present but without votes.

*The consultation paper is unclear as to whether the Non-financial and Financial Boards should have the same chairs as the EFRAG Board or if they should each have a separate chair with appropriate experience. There are pros and cons with both approaches. Having separate chairs could be appropriate given the workload involved, expertise needed and governance benefits but having one person fill all three roles could provide significant benefits in terms of efficiency, budget and consistency.

QUESTION 8 - NON-FINANCIAL REPORTING BOARD

What in your view should be the maximum size of the new Non-Financial Reporting Board? Which stakeholders should be represented and in which proportion?

Should there be observers? If so, who should be the observers?

Should the Non-Financial Reporting Board members be appointed by the EFRAG General Assembly on recommendation of the EFRAG Board or directly by the EFRAG Board?

How can the interconnectivity between the Financial Reporting Board and the Non-Financial Reporting Board be ensured?

We take the view that the Non-Financial Reporting Board should be slightly larger than the current Financial Reporting Board as non-financial reporting is of significant interest to a wider range of stakeholders than financial reporting.

In terms of membership, we support having stakeholder representation similar to the one we currently have for financial reporting but extended to civil society stakeholders.

The European Commission and other European institutions should retain observer status on the Non-Financial Reporting Board, like it is the case currently for financial reporting.

Members of the Non-Financial Reporting Board should be appointed by the General Assembly on recommendation by the future EFRAG Board.

It is important that the interconnectivity between the Financial and Non-Financial branches of EFRAG is considered in all its activities. The future EFRAG Board should be ultimately responsible for making sure this is respected, but to ensure the necessary liaison and joint work takes place we take the view that both the Chair of the Financial and Non-Financial TEGs should be responsible for the coordination between the financial and non-financial pillars. The TEG chairs would be able to decide if joint working groups or coordination needs to take place on specific issues. This approach would avoid the need to create additional permanent committees and so keep the structures streamlined and efficient.

QUESTION 9 - TEG FOR NON-FINANCIAL REPORTING

What in your view should be the maximum size of the new Non-Financial Reporting TEG?

Which stakeholders should be represented and in which proportion? Should there be observers? If so, who should be the observers?

Do you agree that EFRAG TEG members are recommended by the EFRAG Non-Financial Reporting Board but appointed by the EFRAG Board rather than be appointed by the EFRAG Non-Financial Reporting Board?

How can the interconnectivity between the Financial Reporting TEG and the Non-Financial Reporting TEG be ensured?

We take the view that the size of the Non-Financial Reporting TEG should be similar to the current size of the Financial Reporting TEG, but it may need to be slightly larger to accommodate the additional experts.

In terms of membership, we support having stakeholder representation similar to the one we currently have for Financial Reporting TEG but extended to some civil society stakeholders. We believe that representation of preparers and users of reporting should be significantly reinforced. It is paramount that members be selected for their expertise and knowledge of Non-Financial reporting matters.

Members of the Non-Financial Reporting TEG should be appointed by the future EFRAG Board and recommended by the Non-Financial Board.

The coordination process mentioned in answer to Question 8 could ensure that the interconnectivity is managed.

QUESTION 10 - ACTIVITIES OF THE EUROPEAN LAB

Do you agree that there is a need for a European Lab activity in the revised EFRAG governance structure?

Do you agree that the European Lab could address both non-financial reporting and financial reporting activities? Do you have other comments or suggestions regarding the activities of the European Lab?

The EFRAG Lab's mission and purpose should be reviewed in light of the proposed new structure of EFRAG

Given the need to focus efforts and resources on the core financial and non-financial work, it should be clear that the European Lab should only do work that is of real value and so could also remain dormant until such work is identified.

QUESTION 11 - FUNDING

Considering the proposed governance structure in this consultation document:

Should the majority of the funding, or even all the funding, be provided by the European Commission and the Member States?

Is it important that the private sector contributes to the funding and why? Should the public-private sector partnership model also be reflected in the funding?

Would a levy at national or European level be feasible?

What alternative financing mechanism would you suggest being considered?

We support the public-private partnership, which has worked well for the financial reporting pillar, however our view is that the non-financial reporting pillar should be financed by a separate dedicated budget from the Commission.

National standard setters contribute a significant amount financing for the Financial reporting pillar, but it is not clear if they are, or will be, involved in non-financial reporting at a national level and so their involvement in financing the non-financial reporting pillar is less evident.

We also believe that that with the finalisation of the IFRS 17 and with no major new IFRS standard to be endorsed in the near future, it may be possible that some of the EFRAG resources currently allocated to the financial reporting pillar could be reallocated to non-financial reporting without compromising EFRAG's ability to carry out their mandate in financial reporting. This could liberate some of the current private sector funding and allow the private sector to support a portion of the non-financial activities.

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