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Submitted via e-mail

**Feedback to the European standard-setting proposals in the Outreach document published by the EFRAG Project Task Force on Non-financial reporting standards**

Dear Mr. de Cambourg, Mr. Gauzès, Ms. Slomp

Accountancy Europe appreciates the work of the European Financial Reporting Advisory Group (EFRAG) Project Task Force on Non-financial reporting standards (PTF NFRS). The PTF NFRS engaged in the very difficult but paramount task to provide technical advice to the European Commission (EC)<sup>1</sup> on the possible elaboration of European non-financial reporting standards, important to achieve the ambitions of the European Green Deal (Green Deal)<sup>2</sup>.

Some non-financial information (NFI) topics such as climate change<sup>3</sup> are urgent and need an urgent solution. This includes NFI reporting standards to enable consistent and comparable NFI reporting,

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<sup>1</sup> Executive Vice-President of the European Commission wrote a letter mandating EFRAG on preparatory work for the elaboration of EU non-financial reporting standards, see: <https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FsiteAssets%2Fletter%2520EVP%2520annexNFRD%2520%2520technical%2520mandate%25202020.pdf>

<sup>2</sup> European Commission (2019), *Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions: The European Green Deal*, see: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1588580774040&uri=CELEX:52019DC0640>

<sup>3</sup> Based on the United Nations Environmental Programme's Emissions Gap Report 2020, the world is heading for a temperature rise in excess of 3°C this century – far beyond the Paris Agreement goals of limiting global warming to well below 2°C and pursuing 1.5°C. See: <https://www.unenvironment.org/emissions-gap-report-2020>

which addresses the impacts of a company's operations to the environment and society, as well as its dependencies on these issues.

We suggest considering the developments in the NFI playing field since EFRAG received the mandate from the EC to do preparatory work in view of potential European NFI standards. For example, CDP, the Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) published a *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting*<sup>4</sup> noting their vision towards a comprehensive reporting system and how their standards could help achieve it. These organisations published a prototype climate-related financial disclosure standard<sup>5</sup>, built on their initiatives, to illustrate how to report on enterprise value creation, important for market transparency. In addition, the International Financial Reporting Standards (IFRS) Foundation issued a consultation paper<sup>6</sup>, seeking stakeholders' views on the role it could play in sustainability reporting.

Accountancy Europe fully supports this objective and is happy to help and collaborate with the PTF NFRS, EFRAG and the EC during this process. Europe has clearly been leading the sustainability agenda and we find the European Union's (EU) leadership is key to achieve global NFI reporting standards for market transparency and establishing EU NFI standards important to achieve the EU public policy objectives.

Hereinafter we include some comments to the European standard-setting (ESS) proposals as provided by the PTF NFRS in the Outreach document.

## GENERAL COMMENTS

### URGENCY

The PTF NFRS undertook an important task with a very ambitious deadline. Three processes were running in parallel:

- (1) the revision of the Non-financial Reporting Directive<sup>7</sup> (NFRD)
- (2) a consultation on the potential governance changes for EFRAG in view of NFI reporting standards activities
- (3) the PTF NFRS preparatory work in view of the elaboration of potential European NFI standards.

We appreciate that all these processes are linked and dependent on one another (e.g., the scope and location of disclosures are dependent on the outcome of NFRD revision) and that the PTF NFRS worked under many assumptions as a result. However, in a number of instances we found the proposals presented in the Outreach document ambiguous, unclear and difficult to understand.

We also think it may be time-consuming and challenging for the potential future standard setter to put them in practice, particularly if existing NFI initiatives are not sufficiently leveraged. This does not serve the urgent need to address many of these issues (e.g. climate change).

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<sup>4</sup> CDP, CDSB, GRI, IIRC and SASB, *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting*, see: <https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf>

<sup>5</sup> CDP-CDSB-GRI-IIRC-SASB (2020), *Reporting on enterprise value; Illustrated with a prototype climate-related financial disclosure standard*, see: [https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value\\_climate-prototype\\_Dec20.pdf](https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf)

<sup>6</sup> IFRS Foundation, *Consultation paper on sustainability reporting*, see: <https://www.ifrs.org/projects/work-plan/sustainability-reporting/comment-letters-projects/consultation-paper-and-comment-letters/>

<sup>7</sup> Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, see: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095>

Therefore, we suggest the PTF NFRS to provide clear, concise and straightforward proposals, prioritised based on their urgency, in order to simplify the tasks of any potential future EU standard setter. This is important to advance the EU towards achieving the ambitions of the Green Deal and the Sustainable Development Goals (SDGs).

A “building block” approach to NFI standard setting may deliver a timely fit-for-purpose solution. The foundational building block would be a set of globally accepted NFI standards, applicable to all companies, which will help improve market transparency. Considering the important developments of 2020, a global set of baseline sustainability metrics is a realistic prospect. Additional ‘blocks’ of EU NFI reporting standards important to meet EU public policy objectives could be added to that.

Under this approach, the ESS would engage in endorsing global NFI reporting standards in the EU and in developing the added “block” of EU NFI reporting standards, where necessary.

## **TERMINOLOGY**

We noted that the Outreach document uses new and different terminology compared to the widely used concepts in corporate reporting, NFI, sustainability or environmental, social and governance (ESG) terminology. This is confusing and unhelpful, especially as it is unclear whether this is intentional or not and in the former case, what the underlying intention is and why.

For example, it is our understanding that the Outreach document suggests a broader scope for the term ‘sustainability information’, similarly to that of the term ‘NFI’ (i.e. by incorporating internally generated intangibles). Even though NFI lacks a formal definition, it is deemed to incorporate ESG, value drivers that are not usually measured in monetary terms and particularly, internally generated intangibles (e.g., intellectual property, knowledge, relationships, teamwork, trust, branding, reputation, technology etc.). In order to avoid confusion, we suggest not changing the definition or composition of ‘sustainability’.

As another example we suggest clarifying “sustainability reporting” under the ESS reporting structure.

On the other hand, standard terms such as “conceptual framework” are not used, even though many of the elements in the Outreach document match with what is broadly understood under this term (see our comments under [ESS operational guidelines](#)).

In addition, we note that some well-used and understood terms and ideas are used and elaborated differently, such as double materiality (please refer to our comments under [ESS operational guidelines](#)), ESG (please refer to our comments under [ESS architecture](#)) or transformed, such as those of the Task Force on Climate-Related Financial Disclosures (TCFD)<sup>8</sup> (please refer to our comments under [ESS architecture](#)).

To conclude, the PTF NFRS should at a minimum either include a glossary of the terms used in its proposals to the EC, adopt internationally used terms and concept, or at least suggest that the standard-setter clearly defines the necessary terminology, with the least deviations from current understanding and practice, unless it is seen as necessary and then duly explained.

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<sup>8</sup> Task Force on Climate-Related Financial Disclosures (2017), *Final Report: Recommendations of the Task Force on Climate-Related Financial Disclosures*, see: <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf>

## STANDARD SETTING AND REPORTING STANDARDS

It is our understanding that the proposals of the PTF NFRS relate to both the standard-setting process and reporting standards' content. For example, we read the ESS foundations and the ESS operational guidelines as proposals on the standard-setting process and workflow, aiming to determine the role of the future European NFI standard-setter and the tools it can use to achieve its mission. On the other hand, we read the rest of the sections as suggestions on the potential content of the European NFI reporting standards.

We appreciate and welcome proposals on both items, however, we suggest making a clear split between NFI standard-setting and NFI reporting standards' content in the final document in order to simplify the tasks of the future European standard setter.

## ESS FOUNDATIONS

We appreciate the two overarching principles<sup>9</sup> and welcome the five building blocks<sup>10</sup> as proposals on standard setting.

We would like to provide some additional considerations on building block 2 on financial institutions, building block 3 on small and medium enterprises (SMEs) and building block 5 on intangibles.

On financial institutions, in addition to the considerations on access and the availability of data, we suggest the PTF NFRS to also emphasise the need for relevant and reliable data. In addition, we suggest considering the timing of reporting for this sector, as its NFI reporting is dependent on the NFI published by companies.

In terms of SMEs, we point out that collectively they form an important part of the economy without which the ambitions of the Green Deal cannot be achieved. We agree that SMEs should be considered on a proportionality basis and we support applying simplified NFI standards for SMEs. To this end, SMEs should be considered based on their risk profile and impact rather than size only<sup>11</sup>. We understand that NFI reporting for SMEs depends on how it is addressed under the revised NFRD. Nonetheless, we suggest providing a roadmap to moving from voluntary to mandated simplified NFI reporting standards for SMEs.

Related to intangibles, we agree that addressing some NFI topics (e.g. social license to operate) may help narrow the gap between market capitalisation and net assets' book value. However, financial reporting is also important in addressing this gap. The International Accounting Standards Board (IASB) is also aware of these shortcomings and the topic will also come up in their upcoming agenda consultation (e.g. at least in the feedback received). In addition, the project underway in EFRAG on better information on intangibles<sup>12</sup> will help shape this discussion. To our understanding, the financial activities of EFRAG will not change, therefore, we suggest the PTF NFRS to limit its scope on the NFI side on intangibles whilst coordinating with the work on the financial reporting side.

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<sup>9</sup> The two overarching principles proposed are: (1) a principles-based sustainability reporting system, and (2) an inclusive range of sustainability reporting stakeholders.

<sup>10</sup> The five building blocks proposed are: (1) supporting the EU sustainability reporting momentum. (2) addressing the specific challenges of financial institutions, (3) including SMEs in the EU sustainability reporting landscape in a proportionate manner, (4) fostering sector-specific sustainability reporting relevance, (5) acknowledging the importance of intangibles in sustainability reporting.

<sup>11</sup> Accountancy Europe (2020), *From risks to regulation: rethinking company categorisation*, see: <https://www.accountancyeurope.eu/publications/from-risks-to-regulation-rethinking-company-categorisation/>

<sup>12</sup> EFRAG, *EFRAG Research Project on Better Information on Intangibles*, see: <https://www.efrag.org/Activities/1809040410591417/EFRAG-research-project-on-better-information-on-intangibles#>

In addition, we suggest adding three further building blocks:

- (1) building on the work of current NFI initiatives
- (2) interconnectivity, and
- (3) digitalisation.

### **BUILDING ON THE WORK OF CURRENT NFI INITIATIVES**

Firstly, this building block would be in line with the mandate received by the EC, in which Executive Vice-President of the EC Valdis Dombrovskis noted “[...] *the European Lab [...] must analyse and build on existing reporting standards and frameworks to the greatest possible extent.*”.

Secondly, many market participants (including preparers) are already familiar with and report under international NFI initiatives such as those of CDP, CDSB, GRI, IIRC and SASB. Therefore, introducing a new initiative would result in further fragmentation.

Furthermore, building on the best NFI initiatives could support the European standard-setter in providing an adequate and timely solution.

Finally, this new building block may help make a distinction between NFI standards primarily aimed at supporting market transparency, and NFI standards primarily aimed at supporting EU public policy objectives. Such a distinction would help clarify the focus of the European standard setter (which could then be included in the ESS operational guidelines).

On the one hand, NFI standards for market transparency would meet the needs of investors and other market participants, and address sustainability topics that relate to enterprise value creation, important for the long-term viability of the company. These standards could build on existing NFI initiatives through cooperation and consolidation of existing NFI initiatives. Europe could engage actively with these initiatives and leverage its leadership during this process to ensure an output that fits both the European and global markets. Markets, companies, value chains, risks such as climate change, investors and capital flows are all global and need a global solution to corporate reporting in order to improve comparability and market transparency. The ESS role would be to endorse these standards for the EU, a process similar to that currently in place in EFRAG for the endorsement of IFRS standards.

On the other hand, NFI standards for EU public policy objectives would address specific requests arising from different legislative acts. In developing these standards, the ESS could either build on existing NFI initiatives, or provide for new metrics and disclosure requirements.

### **INTERCONNECTIVITY**

We appreciate the considerations of the PTF NFRS under section ESS reporting structure. However, suggest including interconnectivity as a building block as it would also help operationalise the double materiality (or dynamic materiality) concept and accelerate the development of NFI standards.

In addition to the considerations on interconnectivity under the ESS reporting structure, we suggest the PTF NFRS to include the need for an interconnected conceptual framework (e.g. as part of the ESS operational guidelines) to link the conceptual framework for financial reporting and the NFI conceptual framework. To this end, it is important to clarify the audience of NFI reporting.

## DIGITALISATION

We agree that an NFI taxonomy is important to improve comparability, availability and access in the digitalisation area. Tagging information would make reporting more easily accessible to users of electronic reports.

However, we suggest the PTF NFRS to address digitalisation in a broader perspective than just the taxonomy. For example, Cogito Paper 2017 *Core & More: An opportunity for smarter corporate reporting*<sup>13</sup> explored the idea of a ‘dashboard’ of information, whereas users may customise reports and extract information from a broader ‘data warehouse’.

## ESS OPERATIONAL GUIDELINES

In our understanding, the proposals of the PTF NFRS in this section aim to provide the tools for the ESS to operate with.

We suggest including a conceptual framework, as it is key to an NFI principles-based reporting system. It could build on the well-known concepts of the IFRS Conceptual Frameworks for Connected Reporting<sup>14</sup> and the concepts of the existing NFI frameworks and standards (e.g. CDSB, IIRC, SASB, GRI, etc.). The PTF NFRS may make regional adaptations important for EU NFI reporting standards to some items in these frameworks.

## QUALITY OF INFORMATION/STANDARDS

We appreciate the consideration on the qualitative characteristics of NFI, and particularly the focus on criteria that could facilitate auditability. In line with our comments above, we suggest using the same terminology used in the IFRS conceptual framework and existing NFI initiatives.

In addition, we suggest including ‘balance of information’ as a qualitative characteristic as it allows the company to tell its full story, including both positive and negative impacts and dependencies to value creation, society and the environment.

## DOUBLE MATERIALITY

In our opinion, the PTF NFRS tries to re-explain the well-accepted concept of double materiality. For example, this explanation does not address “impacts and dependencies” as per the NFRD Guidelines 2019<sup>15</sup>. In addition, in operationalising double materiality, the PTF NFRS refers to a “sum of both” rather than an “overlap” dimension. Nonetheless, neither of these are further elaborated in the Outreach document.

We find all the above unclear and unnecessary, as the double materiality concept is well recognised and has been used in different and important initiatives, including Cogito Paper 2019 *Interconnected standard setting for corporate reporting*<sup>16</sup> (Cogito Paper 2019), and the CDP-CDSB-GRI-IIRC-SASB Statement of Intent to Work Together Towards Comprehensive Corporate Reporting.

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<sup>13</sup> Accountancy Europe (2017), *Core & More: An opportunity for smarter corporate reporting*, see: <https://www.accountancyeurope.eu/publications/core-more-smarter-corporate-reporting/>

<sup>14</sup> IFRS, *Conceptual Framework for Connected Reporting*, see: <https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/>

<sup>15</sup> European Commission (2019), *Communication from the Commission – Guidelines on non-financial reporting: Supplement on reporting climate-related information*, see: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52019XC0620%2801%29>

<sup>16</sup> Accountancy Europe (2019), *Interconnected standard setting for corporate reporting*, see: <https://www.accountancyeurope.eu/publications/interconnected-standard-setting-for-corporate-reporting/>

Therefore, we suggest the PTF NFRS to build on the well-known concept and consider the above ideas in operationalising double materiality.

In addition, we suggest the PTF NFRS to consider operationalising double materiality by distinguishing between the two lenses: material for value creation and material to the environment and society.

To this end, the PTF NFRS may consider Cogito Paper 2019 which builds on the double materiality concept as per the NFRD Guidelines 2019 and provides a link between the impacts a company has and its ability to create value in the long-term. CDP-CDSB-GRI-IIRC-SASB further elaborated this idea in their “dynamic materiality”.

## ESS ARCHITECTURE

### REPORTING AREAS

We support the idea of the PTF NFRS to align the reporting areas<sup>17</sup> with the business decision-making flow. This would ensure that NFI reporting reflects the business reality and it could also help improve integrated thinking and governance within the entity.

Even though we appreciate the three steps proposed for the business decision-making process<sup>18</sup>, we suggest the EFRAG PTF NFRS to reconsider and to adopt instead the four pillars of TCFD:

- (1) governance
- (2) strategy
- (3) risk management
- (4) metrics & targets.

We base our suggestion on the following two arguments:

Firstly, the NFRD Guidelines 2019 already acknowledge TCFD and integrate the pillars with the existing five reporting areas of the NFRD. Therefore, the European corporate reporting community (including preparers and users) is used to these concepts and may have already incorporated them in their corporate reporting processes. Changing would therefore be time-consuming and costly.

Secondly, the principles of the TCFD have achieved a good market acceptance, in Europe and globally. For example, TCFD has already been endorsed and is expected to become mandatory soon in New Zealand<sup>19</sup>, the United Kingdom<sup>20</sup>, Hong Kong<sup>21</sup> and Switzerland<sup>22</sup>. In addition, important investors such

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<sup>17</sup> Under the current NFRD, the 5 reporting areas are: (1) business model, (2) policies, including due diligence processes, (3) the outcome of these policies, (4) principal risks of the entity and (5) the KPIs relevant to the particular business.

<sup>18</sup> The EFRAG PTF NFRS suggest these 3 reporting areas: strategy, implementation, performance measurement.

<sup>19</sup> News, *New Zealand first in the world to require climate risk reporting*, see: <https://www.beehive.govt.nz/release/new-zealand-first-world-require-climate-risk-reporting>

<sup>20</sup> News, *UK joint regulator and government TCFD Taskforce: Interim Report and Roadmap*, see: <https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcf-taskforce-interim-report-and-roadmap>

<sup>21</sup> Securities and Futures Commission (2020), *Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers*, see: <https://apps.sfc.hk/edistributionWeb/api/consultation/openFile?lang=EN&refNo=20CP5>

<sup>22</sup> News, *Federal Council fleshes out proposals for sustainable Swiss financial centre*, see: <https://www.admin.ch/gov/en/start/documentation/media-releases/media-releases-federal-council.msg-id-81571.html>

as BlackRock<sup>23</sup>, State Street Global Investors<sup>24</sup> and Norges Bank Investment Management<sup>25</sup> have advised companies to provide climate-related disclosures in compliance with the TCFD.

As a result, proposing the four pillars of TCFD would result in a minimum (or none at all) disruption in corporate reporting practices, which would enhance comparability and would ultimately improve market transparency.

## ESG

In the options for topics and subtopics, the PTF NFRS suggests “general” as the acronym for the “G” in ESG, replacing “governance”. We suggest not changing the broadly recognised term “ESG” (including its composition) to avoid further confusion, unnecessary costs and complexities.

As a result, the proposals also address governance as part of other elements (e.g. a part of “strategy” in the reporting areas, and a part of the “G-general” in topics and subtopics). We emphasise that governance is key to sustainability, therefore, we suggest giving it the prominence it deserves.

## ESS REPORTING STRUCTURE

We appreciate the considerations under the ESS reporting structure and agree that NFI reporting should be part of the management report. However, we think that separate ‘sustainability statements’ in the management report could result in disconnected reporting.

In addition, we point out that integrated reporting is key to corporate reporting. In 2017, we explored the integrated reporting concept and proposed a CORE & MORE model where:

- the CORE report would be an ‘executive report’ focusing on the most material and relevant information about the company. It should meet the needs of the broader stakeholders and provide a holistic picture of the company.
- the MORE reports would provide additional detailed information designed to meet the needs of specific stakeholders, for whom they were initially intended. Therefore, they may not be relevant for all stakeholders.

The PTF NFRS may consider this concept in determining what NFI reporting goes where, and as a result determine the type of standards needed.

## ESS PRIORITIES

We suggest that the ESS should include a clear roadmap specifying priorities, the timeline and the deliverables. This is important considering the urgency of many risks.

In addition, considering that climate change is the most pressing issue, we suggest to first work on a climate related disclosures standard. The EU may build on the climate-related financial disclosure standard published by CDP-CDSB-GRI-IIRC-SASB and address the impact and dependencies, as well as the inside-out and outside-in aspects of this topic.

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<sup>23</sup> Blackrock, *Larry Fink Letter to CEOs*, see: <https://www.blackrock.com/us/individual/larry-fink-ceo-letter>

<sup>24</sup> State Street Global Advisors, *CEO's Letter on our 2021 Proxy Voting Agenda*, see: <https://www.ssga.com/us/en/institutional/ic/insights/ceo-letter-2021-proxy-voting-agenda>

<sup>25</sup> Norges Bank Investment Management (2020), *Consultation on the FCA's Proposals to Enhance Climate-related Disclosures*, see: <https://www.nbim.no/en/publications/consultations/2020/consultation-on-the-fcas-proposals-to-enhance-climate-related-disclosures/>



In parallel to working on the first climate standard, the standard-setter should work towards an NFI conceptual framework, necessary to underpin standard-setting.

**DUE PROCESS**

We welcome the outreach events to discuss the ideas in the Outreach document. However, we would appreciate if the PTF NFRS clarified the due process and the next steps for this project. We suggest adopting an inclusive process, which allows all relevant stakeholder to express their views on the proposals.

It is common practice within EFRAG to open a consultation period on its preliminary proposals, receive stakeholders’ feedback and ultimately provide its final advice to the EC.

This was the case during the ad-personam consultation, where a similarly transparent due process was followed. Accountancy Europe provided preliminary comments<sup>26</sup> and a consultation response in this project<sup>27</sup>, where among others, we emphasise the need for a robust yet timely due process.

We acknowledge the contradictory pressure on the EC who are expected to deliver a robust and workable solution as soon as possible while rooting it in a broad stakeholders’ consultation. However, we believe it would help having a clearer indication of intentions and next steps, in particular to enable stakeholders to get ready to provide further input as needed.

Accountancy Europe is fully committed to supporting the work of the PTF NFRS, of EFRAG and of the EU institutions and would hope that its further input would help.

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Please do not hesitate to contact Hilde Blomme ([hilde@accountancyeurope.eu](mailto:hilde@accountancyeurope.eu)) in case of any question or remarks. We would also be happy to organise a virtual meeting to discuss in more detail, if needed.

Sincerely,



Myles Thompson  
President



Olivier Boutellis-Taft  
Chief Executive

**ABOUT ACCOUNTANCY EUROPE**

Accountancy Europe unites 50 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond. Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

<sup>26</sup> Accountancy Europe (2020), *EFRAG’s consultation on the ad personam mandate on non-financial reporting standard setting*, see: <https://www.accountancyeurope.eu/consultation-response/response-to-ad-personam-mandate-on-non-financial-reporting-standard-setting/>

<sup>27</sup> Accountancy Europe (2021), *EFRAG’s consultation document on the ad personam mandate on potential need for changes to the governance and funding*, see: <https://www.accountancyeurope.eu/consultation-response/efrags-consultation-document-on-the-ad-personam-mandate-on-potential-need-for-changes-to-the-governance-and-funding/>