

29 October 2020

**Mr. Jean-Paul GAUZÈS**  
**EFRAG Board President**  
Square de Meeûs, 35  
B-1000 - Brussels  
Belgium

Dear President Gauzès,

The Stakeholder Reporting Committee (SRC) is a committee of the European Accounting Association (EAA) whose mission is to actively participate in the debate about how organisations can and should inform the wide variety of stakeholders about the non-financial activities they perform and their impact on society in general. In addition, since non-financial information is increasingly attracting the interest of policy makers and standard setters, with this committee, the EAA aims to create awareness of the policy issues on these matters and collaborate with them so that the academic community can have an impact on new policies and standards (<http://www.eaa-online.org/r/SRC>).

Based on the above, we are pleased to respond to your *ad personam* mandate on NFR standard setting. Before commenting on your questions, we would like to point out that a 30-day period for responding to a consultation is short to get a complete picture of academic research on the standard-setting process. Therefore, our response is, at some extent, based on our individual expertise in the area. We are aware of the several initiatives to regulate the provision of NFR, some having a more international focus than others, and we think it is in the interest of entities and stakeholders to have a common set of rules. We also believe that the involvement of academic stakeholders in the process and consideration of published academic research are essential to ensure its legitimacy. That said, our response should not be understood as implicitly agreeing, or disagreeing, to the fundamental decision to establish a new European standard setter. Considering the relevant role of EFRAG in the European Union, the EAA SRC is very pleased to continue the dialogue with EFRAG on this important topic.

## Responses to the President Gauzès' Questionnaire

### *1. Governance – Structure and due process*

*1.1 Standards need to be developed in the public interest and no individual category of stakeholder may exercise undue influence: How can it be best ensured that standards are developed based on **an inclusive and transparent due process**? What should be the characteristics of such a due process?*

The EAA SRC believes that the due process for European non-financial reporting standards should be based on three fundamental principles – namely transparency, full and fair consultation with stakeholders, and accountability of the choices made. Inclusive due process requires efforts to encompass all stakeholders, considering the different interest groups and their geographic locations. The geographic diversity of stakeholders involved in the standard-setting process is an important indicator of legitimacy. Sutton's (1984) framework implies more participation from groups that are more heavily affected by the proposed standards and that are wealthier than others. Empirical work connects the relative over- or under-representation of geographic origins with differences in the economic development, cultural values, institutional and lingual characteristics of the constituents' countries of origin.<sup>1</sup> Information about the consultation should be widely spread to ensure that views from all across Europe and beyond are taken into consideration throughout the lifecycle of the standard-setting process. To make the due process transparent, all documents should be publicly available from the EU website. Comments should be taken into consideration based on the qualities of the responses, not on the importance or position of the stakeholder(s). Consultations should be accompanied by such activities as round tables, online webcasts or meetings. A post-implementation review (PIR) is also recommended as a component of the due process.

We also understand that setting up a fair and transparent European due process in this field requires attention to the findings of the academic research on a specific subject area in consideration. This attention can be fruitful when given both ex ante and ex post vis-à-vis the addressing of a particular topic by the new European standard setter.

Academic participation is a fundamental piece in standard setting processes. As pointed out by the academic side of FASB and IASB, the contribution that academics can provide to these organisations pertains to the dissimilar facets related to the nature and activities of this work: (1) thanks to their capacity to make research findings 'understandable',<sup>2</sup> hence reducing the 'communication gap';<sup>3</sup> (2) due to the independent nature of their role and their activities since "research [is] particularly unbiased, rigorously crafted, and grounded in economic theory, as is the conceptual framework";<sup>4</sup> and (3) by providing analytical contributions and empirical evidence concerning the implementation choice by companies.<sup>5</sup> There are two main ways in which academics can influence the accounting standard setting process: (1) through the impact of their research and (2) through their participation in the process by giving their opinion in comment letters, directly or by other means of communication.<sup>6</sup>

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<sup>1</sup> Dobler and Knospe, 2016; Jorissen, Lybaert, Orens, and Van der Tas, 2013; Larson and Herz, 2011, 2013.

<sup>2</sup> Schipper, 1994.

<sup>3</sup> Abela and Mora, 2012.

<sup>4</sup> Barth, 2007, p. 14.

<sup>5</sup> Giner, Hellman, Jorissen, Quagli and Taleb, 2016.

<sup>6</sup> Alvarez, Calvo and Mora, 2014.

Not only academics<sup>7</sup> but also standard-setters<sup>8</sup> argue that there should be a greater role for academic research in the standard setting process. In other words, an increase of academic participation in rulemaking processes can inhibit its (natural) tendency to assume a political connotation.<sup>9</sup> Academics present a more conceptually pure and unbiased lobbying position in standard-setting since the outcome does not affect them in the same way as other stakeholders.<sup>10</sup>

However, as pointed out by Beresford (1991), the role of the academic community, even when involved in the standard-setting process, is limited. Indeed, it ends at the formulation stage of the standard, whereas the maintenance of the standard-setting process is in the hands of “those interested in financial reporting”. In a more detailed way, Schipper (1994) identifies a specific stage in which academic research can contribute to standard-setting processes, that is the one in which concepts and “facts” encounter. In this respect, the role of academics refers to the “identification and description” of such links. Another stage in which academic research could play a relevant role is in the post implementation review.<sup>11</sup>

*1.2 Relevant European institutions and agencies shall be invited to be fully involved in the development of future standards, including the European Securities and Markets Authority (ESMA): How can these European Institutions and agencies be involved in the development of future standards and in the standard setter? Should there a particular role for ESMA?*

As per our response to the Consultation on the revision of the NFRD, we consider that the ESMA, EBA, EIOPA, EEA, the Platform on sustainable finance, as well as the environmental authorities and social justice institutions should be involved in the process of developing future non-financial reporting standards.

*1.3 To permit relevant national public authorities to provide input about whether any future standards are responsive to the public interest, how can these authorities be included in the governance of the non-financial reporting pillar? Which authorities would be the most relevant and how should they be involved?*

In general, the EAA SRC believes that involving the national accounting standard-setters would be convenient, but having only financial accounting experts sit in these new national non-financial standard setting bodies should be avoided in order to preserve the clarity of the respective functions, and assure the presence of the needed expertise to sit on the new European standard setter body. That said, we consider that some experts in the field of financial reporting would be necessary to ensure “connectivity” between the two fields.

*1.4 Should private sector and civil society representatives be involved in the standard setting work? If so, what would be suitable options for doing so in a balanced way? Which stakeholders should be involved? Should the standard setting pillar be a public-private partnership like in the financial reporting pillar?*

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<sup>7</sup> Abela and Mora, 2012; Barth, 2006; Ewert and Wagenhofer 2012; Giner, et al., 2016; Gordon and Street, 2013; Schipper, 1994, 2010; Trombetta, Wagenhofer and Wysocki, 2012.

<sup>8</sup> Beresford, 1994; Beresford and Johnson, 1995; Leisering and Johnson, 1994.

<sup>9</sup> Wyatt, 1990; 1991.

<sup>10</sup> Barth, 2008; Ewert and Wagenhofer, 2012; Fülbier; Hitz and Sellhorn 2009.

<sup>11</sup> Ewert and Wagenhofer, 2012.

The EAA SRC supports the view that both private sector and civil society should be involved in the standard setting work. For example, academics and NGOs with a clear and recognised expertise on non-financial reporting topics, including intangibles, could usefully take part in the new European standard setting body.

In general, the new standard setting initiative has to be conceived – in the EAA SRC’s opinion – as a public-private partnership, where the private sector is directly involved in the standard setting work, under the premise that those making the standards are independent, whilst the public entities have a fundamental role of direction providers and oversight.

*1.5 If there were to be SME standards derived from the future EU non-financial reporting standards, how should the SME angle be addressed in the governance and in the standard setting process?*

As SMEs represent the backbone of many economies in the EU, the EAA SRC strongly believes that a special Committee on SMEs, including relevant institutions such as EFSA and representatives of SMEs that are advanced in their non-financial reporting practices, should be set up within EFRAG and be in clear contact with the new standard setter.

*1.6 Which **governance structure** would you foresee for the EFRAG EU non-financial reporting standard setting pillar? How would this fit in the overall EFRAG governance structure? What relation would there be with the financial reporting pillar, if any?*

The EAA SRC believes that there should be a close connection between financial reporting and non-financial reporting standards, as well as the relevant-standard setters.

## **2. Governance – Cooperation with standard setters and other initiatives**

*2.1 Any future possible EU non-financial reporting standards must be built on **existing reporting standards and frameworks** to the greatest possible extent:*

*How can the relevant existing standard-setting organisations be closely associated in future standardisation work? How would you see cooperation and involvement?*

N/A

*More broadly, how should cooperation with existing public and/or private initiatives producing international standards and framework be established, to ensure that any future non-financial reporting standards applying in the EU build to the greatest extent possible on existing standards and frameworks?*

It is advisable that a large Consultative Forum be created, with regular working sessions and auditions.

*How can the EU non-financial reporting standard setting have a global impact?*

As indicated in our introductory remarks, the EAA SRC believes it is in the interest of entities and stakeholders to have a common set of rules for NFR. In the event that an EU standard setter is

established, it would be necessary to find the mechanism to align it with the equivalent international structures. What must be avoided is to have standards that are not compatible with existing ones since it would increase complexity and impair global harmonisation.

If an EU standard setter for non-financial reporting is created, the EAA SRC feels that it can have a global impact essentially by showing leadership.

Another impactful element would derive from the capacity of differentiation of the European initiative. For example, it can encompass also SMEs and unlisted companies and show strong links with national and international initiatives operating in the area of non-financial reporting inside and outside the EU, such as the UN SDGs. The above-mentioned Consultative Forum could be the place where to develop these links.

## *2.2 How to establish an appropriate **coordination between the financial and non-financial reporting** so as to ensure that financial and non-financial reporting provide an integrated view of the performance, position, development and impacts of reporting companies?*

Consideration of the NFRD double materiality concept and how that is operationalised in financial and non-financial reporting will be important in establishing this co-ordination. Further research into how this concept will impact both financial reporting and non-financial reporting will be required. We suggest that a possible way to establish an appropriate coordination between the financial and non-financial reporting within the new EFRAG could be to take into account the role of intangibles,<sup>12</sup> and specifically unaccounted intangibles.<sup>13</sup> Another clear subject area for coordination is the reporting of non-financial risks and their potential financial impact (e.g., impairment test). We find it useful to consider the building block approach suggested by the “Statement of intent to work together towards comprehensive corporate reporting” released in September 2020 by five global organisations —CDP, CDSB, GRI, IIRC and SASB.

## **3. Possible changes to finance of EFRAG**

### *3.1 What ideas do you have for financing of the non-financial reporting pillar? Should the financing reflect the public-private partnership?*

N/A

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<sup>12</sup> Demers et al., 2020; Lev, 2001.

<sup>13</sup> Zambon et al., 2020.

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