

The submission below is in response to the public consultation on the document titled '**Consultation Document on the Ad Personam Mandate on Potential Need for Changes to the Governance and Funding of EFRAG**' November 2020.

Submission By:

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I have provided below my responses to parts of each question that I felt I could contribute my view on.

#### 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?*

It is not clear from the steps of the due process as to which stakeholders are to be consulted '*to define non-financial standard-setting priorities and develop project work plan*'. In my view non-financial reporting (NFR) should primarily be aimed at non-shareholder group of stakeholders with the guiding objective of informing these stakeholders as to how the business has endeavoured to mitigate the negative environmental externalities and reduce distributional conflicts with these stakeholders (see Heal, 2005). Hence representatives of stakeholders like employees, suppliers, and civic society should be included in the consultation from the outset i.e. in agenda setting process (point1 of this question).

#### 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?*

In my view the structure and processes should mirror those of the Financial Reporting Pillar.

#### 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?*

In my view, as different European institutions and agencies have different functions, knowledge, and expertise, they can contribute at different levels. The choice for inclusion in the governance structure should be based on the particular role expected and expertise of that agency.

#### 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?*

Prominent members of the civil society e.g. heads of NGOs working in the area of environment and, social development as representatives of the society, in my view, should be included in the EFRAG board.

Academics with relevant sustainability expertise should also be included in EFRAG board as well as be fruitfully involved in TEG for non-financial reporting (NFR). Of course, working groups should involve representatives of companies both large and small having record of best practices in NFR.

#### QUESTION 5 – SMEs

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

While SMEs may individually have a small impact on environmental (E) and social (S) justice issues, collectively their impact is substantial. SMEs in my view should be therefore be represented at all levels in the governance structure if we are to get their representation (voice) and ‘buy-in’ into NFR standards. Non-financial reporting in my view is essentially public-interest reporting, not directed merely or even primarily to capital providers. It can be seen as a ‘public good’ (Qiu, Shaukat and Tharyan, 2016). To promote responsible E and S practices on the part of SMEs, they need to be asked to do some E and S reporting and engage with their stakeholders. Hence their representation in some form should be at all levels in my view including TEG and a SME focussed working group.

N.B. I am at the moment co-editing a special issue of the Journal *Business Strategy and Environment* on environmental reporting and performance in SMEs. This research can feed into the standard setting process at a later stage.

#### 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?*

To the extent that EU would like to seek alignment/harmonization with global NFR standards, GRI representative could be involved as advisors at the top level, in EFRAG board or its advisory committee.

#### 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?*

Board governance research has shown that board size is negatively linked to firm performance (e.g. Shaukat and Trojanowski, 2018). In UK corporate boards have shrunk over the years – hence the EFRAG board should be as small as possible. It should include representatives of key stakeholders including members from big businesses having best BFR practices across Europe, SMEs with such practices, civil society representatives (e.g. prominent environmental and social activist groups, NGOs), and representatives of the allied professions like accountancy bodies. The Board should also include representatives of both Financial and Non-Financial Reporting Boards. It should have both executive and non-executive directors.

Depending on the mandate of the Board, it should be divided into relevant sub-committees for e.g. environmental reporting committee, with one director nominated as the head of each committee.

*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)?*

In the interest of decentralization of power and decision making, members of both TEGs and the European Lab, should be appointed by their respective Boards (Non-Financial Reporting Board and the Financial Reporting Board).

#### 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?*

The NFR Board should be of adequate size to include key stakeholders including preparers of NFR like members of accounting profession, as well as users of NFR e.g. civil society members.

*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)?*

In the interest of voice and representation, Non-Financial Reporting Board members should be appointed by the EFRAG General Assembly on recommendation of the EFRAG Board.

#### QUESTION 9 - TEG FOR NON-FINANCIAL REPORTING

*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?*

I believe that in the interest of decentralization of power and responsibility, the EFRAG TEG members are appointed by the EFRAG Non-Financial Reporting Board.

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

The Board should again be of sufficient size to allow it to work smoothly while including experts from all areas relevant to NFR. Probably between 10-15 members.

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

Interconnectivity between the Financial Reporting TEG and the Non-Financial Reporting TEG could be ensured by having a one designated member of each Board sitting on the other and some members of the respective TEGS.

#### 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?*

I 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?*

I also agree that the European Lab could address both non-financial reporting and financial reporting activities?

#### QUESTION 11 – FUNDING

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

Yes I believe that to ensure independence and to avoid conflict of interest, majority funding should be public.

*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?*

Private sector funding is desirable for increasing private sector stake, but public funding should form bulk of funding. In my view, non-financial reporting irrespective of ownership structure of the business, i.e. private or public, is public interest reporting. It should apply to most businesses irrespective of size or ownership structure or whether it is private or publicly listed entity.

References:

Heal, G. M. (2005). Corporate social responsibility: an economic and financial framework. *Geneva Papers*, Vol. 30, No. 3, pp. 387-409.

Shaukat, A. and Trojanowski, G. (2018) 'Board governance and corporate performance', *Journal of Business Finance and Accounting (JBFA, CABS3\*)*, Vol. 45, No. 1-2, pp. 184-208. DOI: 10.1111/jbfa.12271.

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