The Connectivity Conundrum: (How) Will Integrated Reporting Fulfil Its Promise?

By Alan Willis, FCPA, FCA

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The Promise

At an invited gathering of 200 or so people at St. James's Palace in London, December 2009, I was present for a bold announcement about a key step toward connecting financial and non-financial information in corporate reporting. In front of the Prince of Wales, hosting the event, and the assembled international summit of sustainability and financial reporting experts, Mervyn King, then chair of the Global Reporting Initiative (GRI), proclaimed how the Global Reporting Initiative (GRI) was going to collaborate with the Prince of Wales' Accounting for Sustainability project (A4S) in launching a new initiative to create what in 2010 became the International Integrated Reporting Council (IIRC). Warm applause! It seemed that at last there were serious prospects for helping companies to report on the connectivity between sustainability performance and financial results – how, sooner or later, the one affects the other and vice versa. A bridge was to be created between the silos of financial and sustainability reporting.[1]

At that time, the guidelines (now standards) developed by the GRI since 1997 – and already in widespread use around the world – aimed to help companies report to any interested party the impacts of their operations and outputs on the environment, economy and society. A4S had developed its Connected Reporting Framework in 2007 thanks to a call by the Prince to the accounting profession to create 21st century (not 19th century!) decision making and reporting systems – systems fit to respond to 21st century challenges and opportunities. The A4S Framework aimed to guide companies in connecting financial with non-financial information in order that they might:

- "Embed sustainability into decision-making, extending beyond an organization's boundaries to take into account suppliers, customers and other stakeholders
- Measure and link sustainability and financial performance
- Integrate sustainability into 'mainstream' reporting, both to management and external stakeholders."[2]

For some years, it had been widely apparent that financial statements alone no longer sufficed to present a complete and realistic view of a company's performance, either in terms of intangibles valued by capital markets or its use of (and impacts on) the environmental and social resources essential for its value creation process. As a corporate reporting model, financial statements were viewed by capital market users as useful but seriously inadequate –

not “fit for purpose.” Even when accompanied by a typical MD&A (or “Management Commentary,” as the IASB called its 2010 Practice Statement) to provide additional context – the story behind the numbers one might say – the reporting model based on backward-looking financial statements lacked meaningful information to explain how a company creates value, its relationships with the other resources and systems it relies on to do so and its future prospects.

Long-term investors, such as pension funds and other providers of financial capital, had for some time, become hungry for a broader range of disclosures to supplement what financial statements and typical annual reports communicated. There was serious talk and emerging research about how environmental and social factors might have significant implications for a company’s financial performance. Since around 2005, the acronym “ESG” had increasingly been used in the long-term investment community to denote the additional types of environmental, social and governance information they deemed material and, therefore, expected from companies as part of mainstream corporate reporting, not just as separate periodic sustainability reports for the benefit of stakeholders in general, which were often not available until long after financial reports were issued.

Earlier in 2009, meetings among key actors including A4S, the GRI and IFAC concluded that a new reporting model was called for to connect financial reporting with reporting on a company’s impacts on the planet, people and the economy. Future financial system stability and genuine progress towards global sustainable development necessitated, among other things, a more comprehensive spectrum of connected information for all stakeholders, but especially for providers of financial capital and wise decisions about capital allocation. Inspired by the concept that a company is not only a complex system in itself, but also functions within a network of natural and man-made systems, the term “integrated reporting” had been chosen to characterize what might be expected in the design of a new reporting model.

Following the December 2009 announcement, the IIRC rapidly brought together an unprecedented coalition of experts from accounting bodies (including IFAC), investment, pension, corporate, sustainability, NGO and standard-setting backgrounds. Long story short: in December 2013, the International Integrated Reporting (<IR>) Framework was released worldwide with appropriate fanfare, incorporating wide feedback from an April 2013 Consultation Draft.

Key Features of the <IR> Reporting Model

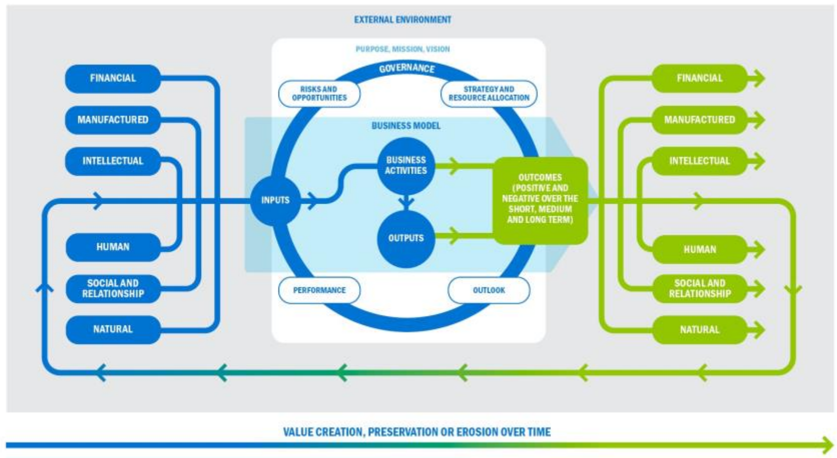
The <IR> Framework was designed to be much more than just a list of new disclosure requirements to incorporate more information into existing (already lengthy) corporate financial reporting. It represents a *fundamentally new reporting model*, based not only on communicating value realized from past financial transactions, but also how an enterprise creates (or erodes) value, deploying not only financial capital but also five other connected types of resource or capitals, all of which are essential and depended on to create value for the providers of financial capital.

An integrated report was to present concisely a holistic view of how organizational value creation is achieved by companies, calling for them to measure and report on their use of and impacts on the capitals – human, natural, manufactured or man-made, intellectual, social and relationships – as well as their stewardship of financial capital. In other words, integrated reporting provides a multi-dimensional and forward-looking view of how value has been and may in future be created for providers of financial capital. In addition, it calls for companies to describe their business model and strategy for value creation within the broader context of factors in the external environment within which they carry on business, including the risks and opportunities they face and how these are managed. Finally, an integrated report is expected to communicate key features of governing body oversight of management and performance.

The <IR> Framework recognizes that more detailed disclosures, such as financial statements and sustainability reports, will continue to be produced for the benefit of various stakeholders who seek greater detail than a concise integrated report alone can usefully include. Sustainability reports provide disclosures that are typically of interest to a wider range of stakeholders than investors, but also may contain important signals to investors about matters that may sooner or later have an impact on a company's business model, its longer-term ability to create value, and its relationships with key stakeholders. The reporting challenge is to enable investors to readily spot such signals and assess their likely impact on financial performance and future value creation.

In short, integrated reporting as set out in the <IR> Framework clearly represents a whole new mindset and reporting model – one that is based on the concept of value creation, as distinct from the existing, one-dimensional reporting model of financial statements accompanied by various other disclosures to comply with requirements added piecemeal over time (notes to financial statements, MD&A, regulatory governance and compensation disclosures, plus other typical annual report content about operations, trends, etc.). The famous (!) "Octopus Diagram" in the IIRC <IR> Framework graphically portrays the notion of a new reporting model based on the capitals, and underpins the recommended "Content Elements" in the <IR> Framework:

<IR> SIX CAPITALS



"International <IR> Framework," International Integrated Reporting Council (IIRC), January 2021.

New Reporting Model – New Mindset

As to the mindset necessary for integrated reporting, the Preface to the <IR> Framework emphasizes the importance of *Integrated Thinking* as a precursor to preparation of an integrated report. *Integrated Thinking* is defined in the Preface as "the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation, preservation or erosion of value over the short, medium and long term." The Preface goes on to state:

"Integrated thinking takes into account the connectivity and interdependencies between the range of factors that affect an organization's ability to create value over time, including:

- The capitals that the organization uses or affects, and the critical interdependencies, including trade-offs, between them
- The capacity of the organization to respond to key stakeholders' legitimate needs and interests
- How the organization tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces
- The organization's activities, performance (financial and other) and outcomes in terms of the capitals – past, present and future.

"The more that integrated thinking is embedded into an organization's activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision making. It also leads to better integration of the information systems that support internal and external reporting and communication, including preparation of the integrated report."

In other words, the integrated corporate reporting model set out in the 2013 IIRC's <IR> Framework (with minor revisions in January 2021) holds out the *promise* of enabling companies, specifically their CEOs, C-suites and boards of directors:

- First, to understand and think more holistically about how they create value and the risks to underlying resources, relationships and processes (insights which may enhance internal decision making).

- Second, to communicate a high-level (concise) picture of value creation, especially to providers of financial capital who seek more than just financial statements to understand and assess future prospects for value creation.

For many, if not most, boards of directors, CEOs and C-suites, adopting an integrated thinking mindset and grasping the key concepts of the new reporting model is a fundamental shift away from everything they have learned and practiced hitherto – certainly a challenge for many, but not insurmountable.

This challenge is all the greater so long as the existing corporate reporting model, related regulatory disclosure requirements, business schools and accounting education continue to reinforce the traditional narrow, uni-dimensional concept of financial performance and accountability to shareholders.

Fulfilment of the promise of integrated reporting depends very much on boards and executives as well as accountants and business advisors and, eventually, standards setters and regulators, overcoming the challenge of adopting an integrated thinking mindset and embracing the intuitively common-sense features of the integrated reporting model.

Prospects for Progress in Fulfilling the Promise – What's Going On?

Slow Uptake

So, how widely have corporations and capital markets adopted an integrated reporting model and, to a greater or lesser degree, the <IR> Framework? How many securities regulators, stock exchanges and corporate governance authorities or legislators have called for integrated reporting to be adopted as the primary or core reporting model, accompanied and supplemented by other disclosures, such as financial statements or sustainability reports?

Fact-based, up-to-date information about the extent of diffusion and uptake of integrated reporting and use of the <IR> Framework is hard to find, but a study commissioned in 2019 provided some useful but not very encouraging details.[3] Clearly the extent to which companies are providing integrated reports in some form or another, by some name or another, in accordance with the <IR> Framework or otherwise, is slow and limited to date, especially in

Canada and the US. Evidence of continuing upward momentum since 2019 is equally hard to find.

By contrast, provision of stand-alone (voluntary) sustainability reports and use of the GRI Standards for doing so is widespread globally and continuing to grow, especially among major public companies in many capital market jurisdictions, including Fortune 500 companies.[4] Uptake and use of the much more recent SASB Standards until 2021 had been steadily growing within the US and many other jurisdictions worldwide,[5] but may be on pause until the new ISSB standards are finalized and adopted and the future of the SEC's proposed rule on climate related disclosures is known.

To date, only one country in the world, South Africa, has enshrined integrated reporting in its official code for corporate governance, where, by adoption as a listing requirement on its stock exchange, integrated reporting has become mandatory. South Africa and the Johannesburg Stock Exchange are the pioneers and global leaders in this regard. Integrated reporting has been required for over a decade, with the full support of its accounting profession and South Africa's Institute of Corporate Directors in developing implementation guidance. One should note in passing that Professor Mervyn King was not only the architect of successive editions of South Africa's code of corporate governance, aptly named after him as the King Code (e.g., "King IV" for the latest), but was also chair of the GRI's Board in 2009 and the inaugural chair of the International Integrated Reporting Council, whose formation he had announced at St. James's Palace in December 2009.

Slow uptake of the <IR> Framework and integrated reporting may be partly attributable to difficulties in overcoming the challenge of mindset shift highlighted earlier. Hesitation and reluctance on the part of boards and executives, as well as accountants, business advisors and, eventually, standards setters and regulators to adopt an integrated thinking mindset and new reporting model are likely to be impediments to the uptake of integrated reporting.

Overshadowed by Priority Focus on Investor Information Needs?

From 2020 to date, we have witnessed a flurry of announcements about convergence and collaboration in the field of reporting frameworks, standards and initiatives. These included the "Group of Five"[6] collaboration announcement in September 2020, followed in November 2020 by the announcement that SASB and the IIRC planned to merge, creating a new organization called the Value Reporting Foundation (VRF). Earlier, in July 2020, the SASB and the GRI had announced their intention to collaborate "in promoting clarity and comparability in the sustainability reporting landscape." To top all these was the Consultation Paper dramatically issued by the International Financial Reporting Standards (IFRS) Foundation at the end of September 2020. The consultation paper aimed to "assess the demand for global sustainability standards and what role the IFRS Foundation might play in their development." In particular, the IFRS Foundation proposed that it might establish a new Sustainability Standards Board (SSB) alongside the International Accounting Standards Board (IASB).

Sustainability Standards? "Inside Out" and "Outside In"!

A word or two about terminology are called for here. What the IFRS Foundation proposed was not in fact standards for assessing enterprise sustainability or contributions to global sustainability in the Brundtland sense of sustainable development that respects today the needs of future generations, nor of measuring enterprise contributions to the UN Sustainable Development Goals (SDGs), nor measuring and reporting on a company's social and environmental performance and associated external impacts relative to accepted planetary or societal limits and thresholds.

The IFRS proposal was to develop a single global baseline of standards for disclosures to accompany financial statements to inform investors' assessments of environmental, social and governance factors that now or in future will (or may) have significant impacts on financial performance and enterprise financial value creation. This is increasingly being referred to as an "outside in" perspective, in contrast to the "inside out" perspective of sustainability reporting over the last few decades – which focuses on a company's impacts on the planet, society and the economy.

Over time, it is possible, if not likely, that enterprise "inside out" impacts on the planet or society (and the capitals/resources on which it depends for business value creation) that are not currently deemed material in investors' eyes may eventually constitute significant "outside in" risks, threats or impacts on an enterprise's ability to create value and, thus, become considered material in the eyes of investors (as well as other stakeholders).

For example, enterprise GHG emissions ("inside out") are (in most parts of the world!) recognized as contributing to climate change and associated phenomena, a crisis-level threat not just to humanity but, in the longer term, to business itself ("outside in"). Indeed, to the extent that jurisdictional carbon taxes, emissions trading schemes and offset rules place a price on "carbon," GHG emissions are no longer unpriced externalities but take on bottom line consequences. Likewise, other externalities, such as sulphur dioxide or other air pollution by a company, or unacceptable waste disposal practices, may be merely "inside out" environmental and social performance phenomena disclosed in sustainability reports until government regulations, community pressures or international conventions cause companies to spend money on their reduction or elimination. At that point, they are accounted for in financial statements and, if material, become "outside in" concerns to investors.

Materiality to investors is thus a dynamic, not static, concept!

The term "Sustainability Standards," as used by the IFRS Foundation in proposing an (international) Sustainability Standards Board, must therefore be understood in light of the above clarification of terminology. Not even the esteemed IFRS Foundation would be so bold as to take on the task of developing genuine science-based global "sustainability" standards.

The IFRS Foundation proposal saw the new ISSB as building on the recommendations of existing investor-focused bodies such as SASB and TCFD rather than starting from scratch. It saw as a priority the development of a global standard for climate related disclosures, building on the TCFD recommendations.

Feedback on the IFRS Foundation's proposal (and on a later 2021 proposal about associated IFRS Foundation constitutional matters) was overwhelmingly supportive. It paved the way for the IFRS Foundation's November 2021 announcement at COP26 that, in 2022, it would establish an International Sustainability Standards Board.[7] At the same time, the IFRS Foundation published prototypes for two future ISSB standards, one for climate-related disclosures and one about general requirements for disclosure of sustainability-related financial information. The prototypes led to the release of formal exposure drafts in March 2022, comments on which were due by end of July. Further, it was announced that the Value Reporting Foundation (SASB plus IIRC) was to be consolidated within the IFRS Foundation by mid-2022, along with the CDSB.

Meanwhile, in the US, the SEC had released for comment, in March 2022, a long-anticipated proposal for a new rule to enhance climate-related disclosures, the future of which is presently uncertain.

So, by May 2022, with so much attention being paid to the urgent matter of developing investor-focused global standards for climate-related disclosures and establishing the new ISSB, and so much attention being paid to SASB standards and the TCFD recommendations, it was not unreasonable to ask oneself about the future of integrated reporting and the <IR> Framework. Had the <IR> fallen by the wayside? Had it been overshadowed and lost in the flurry of other convergence developments? While clearly the SASB component of the VRF's intellectual capital would be valuable input to the work of the new ISSB, what would happen to the IIRC and <IR> components of the VRF?

As if anticipating such questions, the IFRS Foundation announced, in May 2022, its intentions for the future path of Integrated Reporting.[8] In essence, upon consolidation of the VRF within the IFRS Foundation (finalized on August 1, 2022), the <IR> Framework became the intellectual property ("material") of the IFRS Foundation, regarding which the chairs of IASB and ISSB are, we were told in May, to encourage continued adoption of the Framework. In particular, the chairs of IASB and ISSB are to undertake to work together on building the <IR> Framework into their respective boards' standard-setting projects so as to enhance the Framework and related materials. The IFRS Foundation's August 1 press release about VRF consolidation re-affirmed that "the ISSB and IASB actively encourage continued adoption of the <IR> framework to drive high quality corporate reporting."

IASB's Practice Statement on Management Commentary

The May 2022 IFRS Foundation announcement about the future for integrated reporting recognized that there are similarities and differences between the IIRC's <IR> Framework and the IASB's Management Commentary, for which the IASB currently has a revision project to update its 2010 Practice Statement. The IASB issued an Exposure Draft of a revised

Management Commentary Practice Statement in May 2021, with comments due by November 2021.

This is a topic I raised in my July 2021 blog for *ThinkTWENTY20*:

> "Now we come to two questions about this seemingly unstoppable march to global sustainability standards. The first question, a surprise in fact, is why in May the IASB issued for public comment (by November 2021) an Exposure Draft of its proposed new Practice Statement on Management Commentary (PSMC). MD&A is the North American equivalent of Management Commentary, intended to accompany and supplement financial statements in providing a more fulsome picture of a company's business – the story behind the financial statements, one might say. The unexpected feature is that, unlike the original Practice Statement issued by IASB in 2010, the Exposure Draft for the new version includes extensive recommendations for ESG disclosures to be included in various parts of a Management Commentary. The IASB does not consider MC as part of IFRS, so asserting compliance with IFRS does not require financial statements to be accompanied by MC.
>
> What is not clear is how the new MC would fit into the emerging standards landscape, in which it is expected that the new ISSB, under the umbrella of the IFRS Foundation (like the IASB), will issue investor-focused sustainability reporting standards, with a view to their IOSCO-supported adoption in worldwide jurisdictions. IOSCO never recommended the PSMC for adoption anywhere. Would future MC ESG disclosure recommendations align with ISSB sustainability standards or SASB standards? Would the Value Reporting Foundation recommendations for integrated reporting align with other elements of the new MC? It simply strikes one as strange that the IFRS Foundation, through the IASB, would issue this MC exposure draft at a time when momentum is building for ESG and sustainability disclosure standards to be set by the future ISSB. Perhaps this unexpected development will be clarified in due course."

Is it reasonable to believe, therefore, based on what the May and August 2022 IFRS Foundation announcements say about the future of integrated reporting, that the IASB and ISSB will collaborate to develop a new reporting standard for what might be a hybrid of Management Commentary and <IR> Framework, providing a connective reporting context for IASB IFRS-based financial statements and disclosures made under the future ISSB sustainability disclosure standards? Commenting on feedback on the 2021 PSMC Exposure Draft, an Agenda paper[9] for IASB's July 2022 meeting noted that:

> "Some respondents stated there is a need for an overarching framework for what was commonly described as 'connected reporting.' Some respondents advocated a greater alignment between the requirements and guidance being developed in the Management Commentary project and the Framework."

The MC revision project seems to have been wisely placed in abeyance for the time being, while the IASB and ISSB and their staff assess the *status quo* and propose a new path forward.
A future IFRS Foundation-sponsored Management Commentary developed jointly by IASB and ISSB, inspired and informed by the <IR> Framework, could be the answer to the connectivity conundrum, and ensure that the promise of Integrated Reporting, at least to providers of financial capital, is eventually fulfilled through adoption, with IOSCO support, in worldwide reporting jurisdictions.

One important practical consideration would be the location or placement of an MC/MD&A that includes ISSB-compliant disclosures within a company's mainstream ("general purpose financial") reporting package, alongside the IFRS financial statements. Options for this are suggested in paragraphs 72 et seq of the IFRS Foundation's March 2022 Exposure Draft "IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information":

> "73. Sustainability-related financial disclosures could be included in an entity's management commentary when management commentary forms part of an entity's general purpose financial reporting. Management commentary complements an entity's financial statements. It provides insights into the factors that have affected the entity's financial performance and financial position and the factors that could affect the entity's ability to create value and generate cash flows. Management commentary can be known by or incorporated in reports with various names, including management's discussion and analysis, operating and financial review, integrated report and strategic report."[10]

At present, however, the IASB Practice Statement on MC is not part of International Financial Reporting Standards, so it might need to be elevated to the status of a standard in order for an MC that contains ISSB-based disclosures to be a required report alongside financial statements.

In jurisdictions like Canada, where the MD&A is already a regulatory disclosure requirement, it might even be possible to replace the existing CSA MD&A disclosure requirements in NI 51-102 with the new IFRS Management Commentary standard. And Canada's new Sustainability Standards Board would presumably play a useful role in shaping both the ISSB/IASB collaborative work and, with IOSCO support, influencing Canadian securities regulators to adopt the new international MC/<IR> standard. As to the future adoption by the SEC of such a standard to connect financial and sustainability reporting within an integrated reporting mindset – maybe not very soon!

Stepping Stones for Connectivity: One Step Further to Achieve the Full Promise of <IR>?
Consider the following:

> "The Integrated Report provides an integrated, system, perspective of the organization and it is from this perspective that additional details can be sought, such as financial and sustainability information according to, for example, the IASB and ISSB". *Mervyn King*

> "The International Integrated Reporting Framework provides the strategic context and framework for global efforts to develop standards and ensures alignment between internal thinking and external reporting." *A. Johnson, President, IFAC*

These are excerpts from a short paper entitled "Stepping Stones for Connectivity in Financial and Non-Financial Corporate Reporting," by Mervyn King, published by IFAC in July 2022 and from the proceedings of the 7th. Colloquium of the Good Governance Academy on which Professor King based his paper. Together, these sources discuss from various speakers' perspectives many of the convergence issues and initiatives I have touched on above regarding the future role and path for Integrated Reporting and the ISSB. Indeed, in many places, this material amplifies and reinforces points I have raised earlier. I cannot recommend too highly that readers of my short commentary take a few extra minutes to read the IFAC "Stepping Stones paper,"[11] and the nine short papers in the Colloquium proceedings.[12]

As noted earlier, there now seem to be promising signals from the IFRS Foundation that it expects the IASB and IISB to cooperate in applying integrated reporting and the <IR> Framework to connect IFRS-based financial statements with sustainability disclosures material to investors as called for by IISB standards, perhaps in conjunction with revisions to the Management Commentary Practice Statement. After all, the <IR> Framework explicitly states that providers of financial capital are envisaged as the intended primary users of integrated reporting according to the Framework.

In hindsight, I question the need for this focus on the needs of providers of financial capital (investors and lenders in particular). Perhaps integrated reporting should be of equal importance and usefulness to all stakeholders who seek a holistic understanding of how an enterprise creates value and the associated impacts of the company, its products and services on the enabling natural, human and other capitals.

In my March 2022 blog for *ThinkTWENTY20*, I asked "will the ISSB provide global standards for sustainability reporting to all stakeholders about an organization's impacts on the environment, society and economies, or its contributions to the UN SDGs?" My answer was "Doubtful." However, among the Colloquium proceedings quoted above there is a clear statement by the CEO of the GRI, Eelco van der Enden:

> "The system is not that difficult from a conceptual standard-setting perspective. It is not an alphabet soup. The answer is simple, the ISSB standards provide an 'outside-in' perspective (reporting on the environmental and social impacts on the company) and the GRI standards provide an 'inside-out' perspective (reporting on the impact of the company on society and the environment). These are two sides of the same coin and together provide the intended holistic view." *E. van der Enden, CEO, GRI*

So, a possible future, broader and higher level role for Integrated Reporting based on the <IR> Framework – one step further! – would be for it to serve as the overarching contextual connectivity link or nexus between, on the one hand, "inside out" sustainability reporting to all stakeholders based on GRI-developed standards about a company's impacts on the environment, society and economy and, on the other hand, the two-part enhanced reporting package for investors, comprising the IFRS financial statements (and notes thereto) accompanied by a modified Management Commentary incorporating ESG disclosures called for by ISSB standards.

The latter would be "outside in" perspective standards, and possibly include some more detailed aspects of the overarching Integrated Report deemed important to investors, such as those concerning governance, external conditions, business model and the capitals. If, as is possible, the ISSB standards are modelled on the TCFD architecture (pillars) of governance, risk, strategy and metrics and targets, it will be important to ensure alignment and avoid repetition between what is disclosed in the overarching Integrated Report and what may be disclosed in the Management Commentary by the incorporation of ISSB standards. Elements of the existing Management Commentary Practice Statement that are addressed in the overarching Integrated Report would be omitted from the modified future Management Commentary. The devil will be in the details!

In such a scenario, the overarching Integrated Report based on the IIRC <IR> Framework would be designed to benefit all types of stakeholders, not just investors, with concise, high-level disclosure of matters that provide context useful both to users of sustainability reporting and users of the investor reporting package.

In addition to the May and August IFRS Foundation announcements noted earlier, there are other encouraging signs that the necessary discussions about the future role of <IR> and Management Commentary will occur before too long within the context of consensus as to a workable architecture for the future reporting landscape.

In my March 2022 blog, I wrote that I was pleased that, in January 2022, the GRI had reaffirmed its commitment to a two-pillar reporting landscape for financial and core sustainability reporting. "Pillar 1 – addressing financial considerations through a strengthened financial report which includes sustainability disclosures in the context of enterprise value" (the focus of the ISSB), and "Pillar 2 – concentrating on sustainability reporting focusing on all external impacts a company is having on society and the environment" (the focus of the GRI), which thereby shows its contributions (positive or negative) to sustainable development, the UN SDGs and the possibility for future generations to thrive on a livable planet."[13]

It was even more encouraging to read, in March 2022, that the GRI and IFRS Foundation had just announced their agreement to cooperate in their standard-setting activities and work programs, and take part in each other's consultative bodies.[14] Clear, strong signals from the respective leaders on signing the MoU augured well for the future:

> "At COP26 we heard strong support for consolidation in the sustainability reporting landscape. The work of the ISSB and its global baseline concept will help deliver this objective for the capital markets, whilst this agreement with GRI will help ensure capital

market standards are developed in a way that minimises reporting burden for those companies also using GRI Standards." *Erkki Liikanen, Chair of the IFRS Foundation Trustees*

"The MoU between GRI and the IFRS Foundation is a strong signal to capital markets and society that a comprehensive reporting system, which combines financial and impact materiality for sustainability reporting, is possible on a global scale. Aligning GRI's established and widely adopted standards for sustainability impacts with the investor-focused standards being developed by the ISSB will benefit both companies and investors, as well as a wide range of stakeholders around the world." *Eelco van der Enden, CEO of GRI*

IFAC, too, has envisaged a two-part "Building Block" approach for the future reporting landscape that aligns closely with what this blog says about how the landscape needs to evolve.[15]

Indeed, I have suggester scenarios such as a "two bundle reporting package" (for sustainability report users and for investors, respectively)[16] and an "overarching integrated report" in earlier *ThinkTWENTY2*0 blogs.

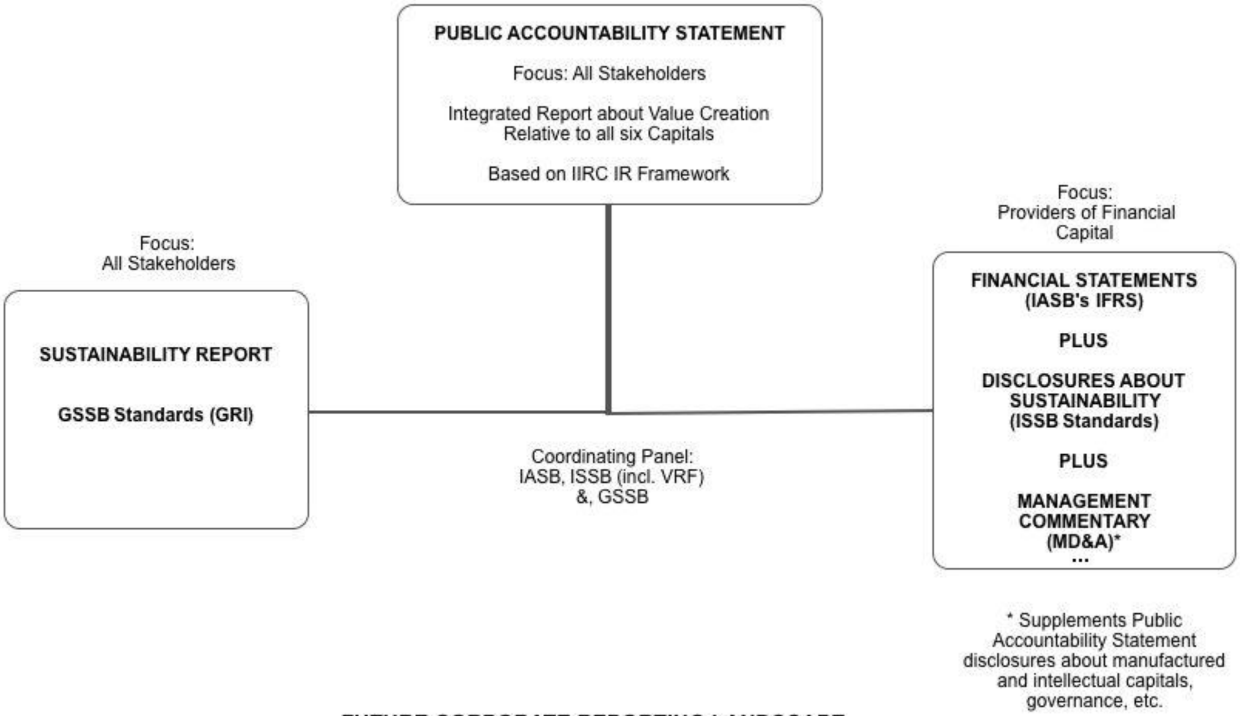
In May, 2022, I proposed an overarching "Public Accountability Statement" as the "connecting cornerstone for the two broad reporting streams and building blocks to address, respectively, the needs of all stakeholders and of providers of financial capital (investors).[17]

"This …. would focus on the interests of all stakeholders, not just providers of financial capital. It would provide high-level common context for both of the streams and building blocks…. based largely on the International Integrated Reporting Framework, which is overseen by the Value Reporting Foundation, now a component of the ISSB. It would be mandatory by law or regulation in all jurisdictions where limited liability companies are chartered."

In conclusion, I added that words by Mervyn King need to be repeated:

"The IR framework has been tested over the last 10 years and its efficacy and resilience as an overarching framework connecting the financial and the non-financial has been proven."[18]

I portrayed my proposal in the following diagram (created before the idea of placing ISSB disclosures within Management Commentary had occurred to me as a serious possibility):



FUTURE CORPORATE REPORTING LANDSCAPE

A Final Word (or Two)

In January 2022, I wrote that "I believe it is critically important that the proponents for, and participants in, the work of both these pillars (building blocks) understand and respect the vital need for both types of reporting and collaborate, whenever the need arises, to promote sustainable business hand-in-hand with sustainable finance."[19]

And, for any of the challenges and possibilities flagged in this blog to be meaningfully considered and explored, never mind realized, it will be essential that all members and staff of both the IASB and the ISSB first receive a solid orientation about integrated thinking, integrated reporting, the <IR> Framework and basic systems-thinking principles, as well as a refresher in sustainability (sustainable development) concepts, realities and terminology (as distinct from confusing "outside in" ESG noise).

Thanks to convergence and collaborations unimaginable a few years ago, we, and in particular the IFRS Foundation, the GRI, the investor community, the accounting profession, business enterprises and regulators, are now embarking on a project that should fundamentally change corporate reporting as it has been known for decades, if not eons.

Fulfilment of the <IR> promise, i.e., continuing refinement and implementation of a new corporate reporting model, can certainly occur, but it will demand fresh mindsets, creativity, multi-stakeholder engagement, multiple perspectives and much unprecedented collaboration to solve the connectivity conundrum. We owe it to future generations to get on with it – fast!

End Notes

[1] Disclosures: I attended the London meeting as official representative of the Canadian Institute of Chartered Accountants, and became a member of the IIRC Working Group convened in 2010. Earlier, I had served on the founding Steering Committee of the GRI from 1997 to 2002.
[2] From description of the Routledge 2010 book *Accounting for Sustainability – Practical Insights*.
[3] https://www.integratedreporting.org/news/evidence-that-the-momentum-phase-is-taking-off/ and https://www.iasplus.com/en/news/2019/08/integrated-reporting-study.
[4] https://home.kpmg/ca/en/home/insights/2020/12/the-time-has-come.html.
[5] https://www.sasb.org/about/global-use/#company-use.
[6] CDP (formerly Carbon Disclosure Project), Climate Disclosure Standards Board, Global Reporting Initiative, International Integrated Reporting Council, Sustainability Accounting Standards Board.
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