

Momentum Building Toward Comprehensive Corporate Reporting



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My July 2020 blog spotted on the radar some fresh signs of hope for collaboration and convergence to reduce confusion and enhance relevance in corporate reporting – convergence among reporting frameworks, convergence of financial and sustainability reporting and collaboration by the requisite organizations to achieve such outcomes forthwith.

I did not, indeed dared not, expect the amazing news on Friday September 11, 2020 that “Five global organizations, whose frameworks, standards and platforms guide the majority of sustainability and integrated reporting, today announce a shared vision of what is needed for progress towards comprehensive corporate reporting – and the intent to work together to achieve it.”

Five leading organizations – CDP, CDSB, GRI, IIRC and SASB¹ (hereafter referred to as the “Five”) – published their “Statement of Intent to Work Together Towards Comprehensive Corporate Reporting,” summarizing their discussions and proposals for alignment of their existing frameworks and standards to complement those of financial reporting standards setters.

The approach they propose toward creating a comprehensive reporting system recognizes the differing information needs and materiality concepts of “providers of financial capital” (e.g., investors) and other, broader categories of stakeholders. The former are primarily concerned with decision-useful information relevant to enterprise value creation (both within and outside the financial statements), while the latter focus their attention on multiple objectives and related types of information about significant enterprise impacts on the economy, environment and people.

¹ CDP (formerly Carbon Disclosure Project), Climate Disclosure Standards Board, Global Reporting Initiative, International Integrated Reporting Council, Sustainability Accounting Standards Board

The “Five” envisage a stepping stone approach to harmonization, with two main building-blocks. The first building block would aim to enable disclosures relevant to enterprise value creation, deploying information from the existing frameworks and standards of both financial standards setters (IASB and FASB) and those of the five proponent organizations. This building block would produce the information communicated to investors and financial market regulators through a core annual integrated report (in a digitally accessible format).

The second building block would draw upon the same existing frameworks and standards but would go beyond the first building block, recognizing the information needed by a broader range of users and their objectives to enable “sustainability” reporting about impacts on the economy, environment and people, through various communication channels.

Further, the “Five’s” proposal envisages ongoing collaboration between the two building blocks to ensure that they draw upon a common set of requisite frameworks and standards, that there is consensus about sustainability reporting topics, and that companies need to collect information only once for whatever type of reporting is in question, be that for sustainability reporting or reporting on enterprise value creation.

The end result of all this collaborative effort is to create jointly a vision of how the five proponents’ frameworks and standards can be used in a complementary and additive way with those of financial standards setters to meet users’ respective information needs, and to provide guidance to the market on how these frameworks and standards can be applied to achieve this vision.

The “Five” argue, pointing to evidence, that we have reached a pivotal moment to initiate this collaboration and build on numerous recent signs of the growing appetite – indeed demand - among key actors for progress in this space. Consider, for example, demand for reporting on contributions to the UN Sustainable Development Goals, investor community demand for harmonization of ESG disclosures, demands for companies to serve the needs of stakeholders beyond just shareholders, the July 2020 announcement by GRI and SASB (reported in my previous blog) to collaborate “in promoting clarity and comparability in the sustainability reporting landscape” and, very significantly, the recognition by IOSCO earlier this year that financial market regulators have an important role to play in ensuring that investors have the information they need about company performance.

As if all the above were not exciting and promising enough, on the very same day, September 11, 2020, IFAC (the International Federation of Accountants) issued a release calling for “creation of an International Sustainability Standards Board alongside the International Accounting Standards Board.” This was accompanied by a schematic depiction, “The Way Forward,” of the objectives, structure and building blocks of the proposed new board. This

release and the “Way Forward” do not explicitly refer to the “Five’s” Statement of Intent highlighted above, but the “Way Forward” diagram does include a structural element saying that the new sustainability standards board “should adopt a ‘building blocks’ approach, working with and leveraging the expertise and disclosure requirements of leading initiatives, including CDP, CDSB, GRI, IIRC, and SASB.” Hardly a coincidence! After all, as the voice of the global accounting profession, IFAC has a key role to play in collaborative efforts and successful progress towards comprehensive corporate reporting.

Momentum is building! Future blogs will monitor and comment on these promising new declarations and proposals.