Purpose, Accountability and Value Creation: Paradigm Shifts in the Future of Corporate Reporting

By Alan Willis, FCPA, FCA

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"Following a period of huge innovation in sustainability reporting, it is now time to consolidate and rationalize these various standards…. they (companies) have to be mindful of how the requirements of social license may evolve." Mark Carney, Value(s), *2021*[1]

We are at an inflection point in corporate reporting. Three significant phenomena are occurring concurrently that are having unprecedented influence on the future of corporate reporting: convergence among proliferating standards and guidelines for meeting user information needs in the ESG/sustainability reporting space; shifts in long-accepted doctrines about corporate purpose and accountability; and conceptualizing anew, i.e., re-thinking, the fundamental nature of value and value creation – all in a time of urgency for achieving the UN Sustainable Development Goals (SDGs)[2] and, driven by climate change, the transition to low-carbon economies and renewable energy.

In the next year or two, we can expect more notable developments in the global reporting landscape flowing from those announced in 2020 and 2021, but will they represent genuine, ground-breaking progress in fulfilling stakeholder needs for decision-useful information about corporate performance and impacts?

Will they embody fresh insights about the path to a sustainable future, or simply perpetuate out-dated mindsets about corporate purpose and accountability? Will there be wider uptake of the holistic concept that enterprise value creation depends over time on interactions with connected, interdependent systems of natural, social, human and man-made resources, or will we continue to think of it just in terms of value for shareholders resulting from the last period's operations and commercial transactions?

Sudden Signs of Convergence in Standards for ESG/Sustainability Reporting
As to the direction of reporting, since 1997 we have seen how the regularly updated and expanded sustainability reporting guidelines developed and promulgated by the Global Reporting Initiative (GRI)[3] (and converted by them in 2016 into the format of standards) became the *de facto* global standard for sustainability reporting. These have been widely adopted by most of the world's largest companies (and many other organizations) for reporting – voluntarily in most jurisdictions – to all of an organization's stakeholders on its sustainability performance and management, namely its environmental, social and economic impacts, including its performance relative to the UN Sustainable Development Goals (SDGs).

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Then, since early in this century, we have seen increasing demands by mainstream investors and other financial market actors for decision-useful information outside financial reporting about environmental, social and governance (ESG) issues they consider material to their decisions. This information is not clearly identified as such in typical lengthy corporate sustainability reports, even those prepared according to the GRI sustainability reporting standards. Such sustainability reporting aims to present information of concern to a wide range of stakeholders, whose concepts of what is relevant and material to them often vary considerably.

The acronym "ESG" was coined in investor circles around 2005 for information they consider material about the impacts of environmental and social issues on a company's financial performance and prospects and about corporate governance regarding such issues.[4] Recently, this investor-led demand for decision-useful ESG information (i.e., embodying reliability, comparability, consistency, etc.) has become so strong that it can no longer be ignored by capital market regulators, as we see in Europe and now even in the US.

And, during the last decade, we have seen the emergence of other well-intentioned frameworks and standards for reporting outside the scope of financial statements, such as, to name a few, those of the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC), the Climate Disclosure Standards Board (CDSB) and the Task Force on Climate-Related Financial Disclosures (TCFD), not to mention the CDP disclosures about GHG emissions etc., requested annually since 2004. The confusion to report preparers and users arising from this proliferation of frameworks and standards has resulted in an urgent and widely expressed need for their convergence and consolidation, ideally within a rational framework that would integrate financial information with the other information – especially ESG-related – that is essential for a comprehensive understanding of corporate performance, value creation and impacts on stakeholder interests.

As described further below (**2020: A Year of Unexpected Progress towards Convergence),**

starting in 2020, there have suddenly emerged a number of initiatives announced by leading bodies in the reporting standards and guidelines space.[5]

These have the promise of resulting before long in two broad, connected streams for corporate reporting, each guided by appropriate globally accepted and enforceable standards and guidelines. One stream focuses broadly on the information needs of all stakeholders (e.g., customers, suppliers, employees, communities and the general public) who are concerned about a company's impacts on the planet and society (sustainable development) and achievement of the UN SDGs. The second stream focuses primarily on meeting the needs of investors and other financial market participants for decision-useful information they need to assess a company's performance and prospects in generating cash flows and creating enterprise value, and the principal factors and risks that sooner or later may affect such prospects.

Realistic evaluation of the merits of these two approaches and their implementation needs to take into account the unprecedented fundamental shifts we are now seeing in the context for doing business in the 21st century. Developing and applying reporting standards with a "business as usual" 20th century mindset will not promote and support progress toward sustainable development or enlightened corporate, investor and other stakeholder decision making in times of transformational change.

Early in 2019 in a lecture to masters' students in a Toronto university class on Financial Accountability, I said: "Business and companies are in a period of fundamental transformation in the global, societal context for doing business and creating value for stakeholders, while respecting the needs of future generations. This has significant implications for business purpose, corporate accountability and transparency – what to report, to whom and how."

So, what are these transformational changes to be mindful of? In addition to the imperatives of transition to net-zero, low carbon economies and meeting the UN SDGs by 2030, business enterprises in general and companies in particular are beginning to recognize and respond to fundamentally new thinking about corporate purpose, accountability and the nature of value and value creation.

Paradigm Shifts in Corporate Purpose and Accountability

Until very recently, dialogue about, and proposals for, future directions in corporate reporting occurred in the context of long-held beliefs and mindsets about corporate purpose and accountability, which in turn are foundational underpinnings of corporate reporting. In just the past few years, we have been seeing the erosion of concepts and, indeed, mindsets that have shaped business and investor thinking for more than 150 years.

Imagine for a moment the time back in the 19th century when legislators were drafting laws and charters for limited liability companies – unquestionably an innovative vehicle for harnessing private wealth to produce goods and services that satisfy societal needs and wishes at a scale unattainable by individuals. I first wrote about this in December 2019.[6]

A company was to be a legal person with indefinite life. Should it encounter financial failure, the stock holders who invested in it were to be liable for its debts only to the extent of what they had invested.

In return for these privileges, the company's directors, appointed by the shareholders, were to be held accountable, but only to the shareholders, for stewardship of the funds invested.

For this purpose, there already existed the well-established practice of drawing up balance sheets and profit and loss accounts according to the principles and practices laid down by a Venetian monk (viz. Fra Pacioli[7]) a few centuries earlier.

It simply did not occur to those mid 19th. century legislators that company directors should be held accountable to anyone other than shareholders, for anything else besides stewardship of invested capital.

Nor did they foresee either the size and global reach of future corporate enterprises or the devastating scale and extent of impacts on the planet and society that companies would be causing a 100 or more years later, affecting the interests and wellbeing of not just local communities but as far afield as all stakeholders worldwide.

The 19th century social contract between companies and society unwittingly paved the way for the era of shareholder primacy and the famous (or infamous) Friedman doctrine that the social responsibility of business is to increase its profits for the benefit of shareholders.

Thankfully, that is now under serious challenge. Consider what Britain's Professor Charles Handy wrote for a 2002 article in the Harvard Business Review,[8] in which he stated: "The purpose of business is not to make a profit. It is to make a profit so that business can do something more or better."

This narrative has even progressed in the US, as we saw in the notable statement by corporate CEOs in the US Business Roundtable in mid-2019, about the purpose of a corporation and its accountability to stakeholders:[9] Larry Fink's 2019 letter to CEOs about "Profit and Purpose" eloquently reasoned the case for accountability to all of a company's stakeholders, not just its shareholders,[10] and highlighted the concerns of the new generation and workforce (future leaders!) about company purpose.

In other words, we are now in a time when the very purpose of a corporation is under reconsideration, along with emergence of the concept of accountability to all stakeholders, present and future, beyond just shareholders, for more than simply returns on financial investment.

This leads to my working definition of accountability, namely that it is "the obligation to accept responsibility for and report on one's actions." Under a broader view of accountability, the question therefore arises "to whom should a corporation report and for what?"

We should recall in passing that the GRI, back in 1997, was founded on a belief, grounded in the Brundtland definition of sustainable development, that companies (and organizations of all types) should be accountable to society in general for their positive and negative impacts on the environment, society (including employees) and the economy. Therefore, they reasoned, there was a need for global guidance on how organizations should be transparent to all stakeholders about their environmental, social and economic performance and impacts.[11]

Re-thinking the Concept of Value and Value Creation

To answer the "accountability to whom, for what" question, it is helpful to reconsider the terms "value" and "value creation" in the context of what a company aims to do through its purpose, business model and execution of strategy. As noted above, starting in Victorian times, the social contract between companies and society legitimized a focus on creating financial value and returns for the benefit of shareholders through effective stewardship of invested capital. For too long, this been the prevalent mindset of business executives and boards of directors, investors, lawyers, regulators, academics and, yes, professional accountants about the purpose of a company. It's what we all learned in business and professional education.

But relatively recently it has dawned on thought leaders in business, academia and civil society first that creation of financial value by any enterprise, corporate or otherwise, depends on the availability and use of other forms of capital besides financial – such as human, natural, social, manufactured/man-made and intellectual capital – and second that, as a result of a company's value creation processes and activities, those same capitals are affected in various ways (positively or negatively), sooner or later. It follows that the interests of stakeholders in those capitals are, in turn, inevitably affected. Further, it is not in the long-term best interests of a business or company to act in ways detrimental to the capitals on which it depends.

Value, like beauty, needs to be considered through the eye of the beholder. Value created for shareholders may not be seen as value by other stakeholders if it is created at the expense of, say, employee health and welfare, the natural environment's finite resources or community security and well-being. Value and values are multi-nuanced words whose implications are now challenging business, investors and accountants to consider in conversations about value creation, stakeholders and accountability. Contemporary concepts of value and value creation were thoughtfully explored and discussed in a 2012 background paper to the IIRC Integrated Reporting Framework[12] and more recently by Mark Carney in his 2021 book, *Value(s)*.[13]

Creation of financial value by any enterprise depends on the availability and use of other forms of capital besides financial – such as human, natural, social, manufactured/man-made and intellectual capital.

It is, therefore, important to view enterprise value creation through a multi-capital, multi-stakeholder lens, recognizing and understanding the process holistically, not just uni-dimensionally. It is a process calling for complex interactions between the several affected capitals. It also affects the present and future interests of societal stakeholders in those capitals, not just shareholders or other providers of financial capital (such as lenders and creditors).

Moreover, "non-financial" stakeholders may, in turn, be able and choose to influence a company's access to one or more of the non-financial capitals on which its value creation depends. There is, therefore, a reasonable business case for companies to engage and communicate effectively (openly, reliably, regularly, etc.) with all key stakeholders, as well as with providers of financial capital. Trust building with them is increasingly seen as a valuable, resilience-building process that can enhance access to capitals, customer relations and talent attraction.

Thus, a new paradigm of multi-stakeholder accountability and transparency is emerging, along with broader concepts of corporate purpose and value creation, replacing the former mindset focused solely on stewardship of financial capital and returns to shareholders. Indeed, in some jurisdictions, we are already seeing the appearance of new forms of social contract and corporate charter, such as the Benefit Corporation.[14]

Implications for Future Corporate Reporting

Accordingly, if we re-imagined, in a 21st century context, the social contract and accountability of an enterprise enjoying the privilege of limited liability for its shareholders, the obligation of a corporation to report on its actions might now be viewed in the two broad streams mentioned above, but under the broad umbrella or keystone of a new public accountability statement on enterprise value creation to all stakeholders. This would provide an overarching context for understanding how an enterprise creates value, with concise disclosures about purpose, business model, key risks, highlights of use of and impacts on (changes to) resources (capitals), corporate structure and governance and external operating conditions. This core public accountability report would be similar to, and built on, the IIRC's International Integrated Reporting Framework,[15] but focused on the interests of all stakeholders, not just "providers of financial capital." It is similar in concept to what I envisaged in the 2007 Corporation 20/20 paper *Transforming Corporate Reporting*.[16] Carney writes: "As corporate and investor understanding of the connectivity between value and values evolves, integrated reporting

provides a framework for companies to highlight and communicate their purpose and what they view as the drivers of value creation."[17]

A new paradigm of corporate purpose - - dependent on multiple capitals, will require "inside out" sustainability reporting to all stakeholders.

Stream A: Reporting to all Stakeholders on Sustainability
First, to recognize accountability to society and multiple stakeholders whose present and future interests are affected, all publicly listed and large privately owned limited liability companies would be required to report regularly on their environmental, social and economic performance, impacts and risks that stakeholders deem material to their interests: in other words, on how well a company is fulfilling its social license to operate.

This could be seen as consistent with reporting to stakeholders in the non-financial capitals on which enterprise value creation depends. No planet, no people, no profit! It remains to be seen whether a single multi-stakeholder accountability report would suffice, or multiple capitals-focused reports to their respective stakeholders within an integrative framework would be preferable. In either case, linkages with financial value creation would need to be apparent for a holistic appreciation of enterprise value creation within the context of the capitals on which that depends.

Stream B: Reporting to Providers of Financial Capital
Second, within the prevailing and probably continuing socio-economic context of capitalism and capital markets, providers of financial capital are a particular category of stakeholder who are understandably concerned with assessing future prospects for financial value creation, cash flows, debt repayment, returns on capital, etc. They are interested in information, beyond that provided through traditional financial reporting, such as about business models and processes for value creation, including use of, and risks to, non-financial capitals on which these depend – information deemed material to assessment of future prospects for financial value creation.

Further, the emergence of public policy concern about the role of capital and financial markets in aligning with the achievement of the UN SDGs and of actions that promote sustainable finance (capital flows and market practices that promote financial stability, sustainable development and transition to low-carbon economies) underscores the need for information about corporate environmental, social and economic performance and risks, notably climate change-related disclosures. Legislation, regulation and stock exchange requirements are increasingly addressing how capital markets and business practice can support and reward – not impede or punish – global progress toward achievement of the SDGs.

It is clearly foreseeable that corporations will be required before long to report to providers of financial capital information that communicates a holistic view of enterprise value creation across the financial and other affected capitals, including the present and likely future impacts

of environmental and social issues on value creation. They will probably also have to report on ways in which they affect society and the environment, which could, over time, become prejudicial to the capitals on which enterprise value creation depends – arguably a matter of corporate self-interest as well as common sense and social responsibility.

Flashback

Two years ago, in the summer of 2019, I proposed that future corporate reporting needed to be shaped in two "bundles" to address, on the one hand, the information needs of investors and providers of financial capital and, on the other hand, the information needs of other stakeholders.

For the former I proposed the development of a "Value Creation Report" for companies to prepare and issue in accordance with a set of reporting standards or guidelines based on a consolidation of existing frameworks and standards (e.g., those of the IIRC, SASB, TCFD, IASB Practice Statement on Management Commentary), to be accompanied by financial statements prepared in accordance with IFRS (or, in the US, FASB standards). The importance of IOSCO support for this Value Creation Report was highlighted but I confess to expressing doubts as to whether the requisite level of cooperation and collaboration among existing standards setters to develop the Value Creation Report would be forthcoming. In my mind's eye, I characterized the Value Creation Report as an MD&A on steroids!

As to who would develop the standards for the Value Creation Report, the boldest I dared to be at that time was to say: "Design and development of the Value Creation Report would be undertaken by a credible consortium similar to the IIRC's Corporate Reporting Dialogue, convened by organizations accustomed to due process in setting corporate reporting standards. This work would not necessarily call for establishment of a new global organization if an existing one, such as the IIRC, were widely seen as capable of undertaking it, subject to showing it had or could acquire suitable leadership, governance and resources."

For the latter (other stakeholders' needs), I proposed the development of an "Accountability and Sustainability Report," based on the GRI Sustainability Reporting Standards, augmented or refined by sources such as, among others, the UN SDGs, the UN Global Compact Principles and the Future Fit Business Benchmark.

As to who would develop the standards for the Accountability and Sustainability Report, I ventured to suggest: "To accomplish this work, the GRI could convene an appropriate new multi-stakeholder collaborative task force to design and develop the new Accountability and Sustainability Report, building on the GRI's original mission and its current reporting standards."

Above all, I argued: "What we don't need now is even more piecemeal reporting frameworks for this and that – we need integration and consolidation of what's already out there, through a meaningful, trusted contemporary process and a lens that all stakeholders, including investors and companies, can align with: long-term value creation, the importance of ESG factors and wide acceptance of the new concepts of corporate purpose and accountabilities…"

See https://thinktwenty20.com/docs/Enhancing_Relevance_IFAC.pdf.

2020: A Year of Unexpected Progress toward Convergence

I proposed my two-part approach, summarized in the box above, in mid-2019. Fast forward to now. During 2020, we suddenly witnessed a steady stream of significant new reporting initiatives, proposals and commitments, some from wholly unexpected sources. Together, they augur well for collaboration in global convergence of standards for sustainability and ESG reporting. The most noteworthy of these are summarized below.

First out of the gate, in January 2020, the World Economic Forum's International Business Council published a consultation white paper developed with the Big Four accounting firms, *Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*. This was updated and reissued by the WEF in September later that year as a report, *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*.[18] These proposed metrics were developed from existing reporting frameworks and standards such as those of the GRI, organized around a four-pillar framework. It also introduced an interesting concept that it termed "dynamic materiality," to reflect the likelihood that disclosures not deemed material to investors today might become so over time in light of new insights about the impact of ESG factors on enterprise value creation.

Next, in July 2020, the GRI and SASB announced that they were going to collaborate in promoting clarity and comparability in the sustainability reporting landscape.[19] This was followed in September by the joint publication by CDP, CDSB, GRI, IIRC and SASB (hereafter referred to as "The Five") of their "Statement of Intent to Work Together Towards Comprehensive Corporate Reporting," proclaiming a shared vision for what is needed for progress towards comprehensive corporate reporting and their intention of working together to achieve it.[20]

Their proposed approach recognized the differing information needs and materiality concepts of "providers of financial capital" (e.g., investors) as distinct from those of other, broader categories of stakeholders. The former are seen as primarily concerned with decision-useful information for the assessment of performance and prospects concerning enterprise value creation and future cash flows; the latter mainly concern themselves with a wider range of

sustainability topics and related disclosures about enterprise impacts on the economy, environment and people, and contributions to the UN SDGs.

The Five envisaged a stepping stone approach to harmonization, with two main building blocks. The first building block, based on what has come to be termed "outside-in materiality," would address disclosures about how ESG issues affect enterprise value creation. This approach would deploy information from the existing frameworks and standards of both financial standards setters (IASB and FASB) and those of the Five proponent organizations, plus maybe others such as the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The second building block would draw on the same existing frameworks and standards but, under an "inside-out" concept of materiality, would go beyond the first building block, recognizing the wider range of information needed by a broader range of users who seek to understand an enterprise's impacts on the economy, environment and people, not just the value it creates for shareholders.

On the very same day in September 2020 as the Five's announcement, the International Federation of Accountants (IFAC) issued a release[21] calling for the "creation of an International Sustainability Standards Board alongside the International Accounting Standards Board." This was accompanied by "The Way Forward," a schematic depiction of the objectives and structure of the proposed new board. "The Way Forward" included a structural element advocating that this 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.

The real game-changer occurred on September 30, when the Trustees of the International Financial Reporting Standards Foundation (under which the IASB develops and issues IFRS) published a consultation paper to assess the demand for global sustainability standards and what role the IFRS Foundation might play in their development.[22] In short, the IFRS Foundation proposed that it establish a new Sustainability Standards Board (SSB) alongside the International Accounting Standards Board (IASB), echoing what IFAC had proposed earlier that same month. On the same day, September 30, IFAC issued a release applauding the IFRS Foundation's new initiative!

The IFRS Foundation paper recognized the widespread and urgent demand for consistency and comparability in sustainability reporting – a demand shared among investors, preparers, central banks, regulators, public policy makers, auditing firms and other service providers – and noted the multiplicity of sustainability reporting frameworks, standards and metrics. Indeed, earlier in 2020, at a conference in Toronto on sustainable finance and investment, a leading figure in the sustainable investment research world had publicly called for "IFRS for ESG"!

The paper further pointed out that any contribution by the IFRS Foundation would build on its track record of expertise, credibility and due process in standard setting (i.e., for the work of the IASB in developing IFRS used by public companies in nearly all jurisdictions and capital

markets around the world), plus, through IOSCO, its worldwide supportive relationships with securities regulators and governments.

After consideration of strategic options to (a) do nothing or (b) try to facilitate harmonization among existing initiatives, the IFRS Foundation paper concluded that (c) its best response to the demand for consistency and comparability in sustainability reporting to serve investors and other primary users of financial statements would be to create a Sustainability Standards Board (SSB) alongside the IASB.

The IFRS Foundation paper clearly recognized the importance to a new SSB of not only developing and acquiring its own expertise in setting standards for sustainability reporting, but also collaborating with and building on the established work of the existing leading organizations in this space, such as the Five plus the TCFD.

Strangely, the IFRS Foundation consultation paper was notably silent as to the role of the IASB's Practice Statement on Management Commentary (equivalent to the MD&A in North America) in the future corporate reporting system, a statement which was already (and still is) under revision, and about which more is commented below.

The IFRS Foundation's paper proposed that, in the interests of making early progress, the sustainability reporting standards established by the SSB should initially focus on the information needs of investors and other financial capital market participants, based on what is presently considered material to their decision making. The paper recognized, however, that, over time, information about an entity's impacts on sustainability, i.e., on the environment, economies and society, might in fact become material in the eyes of investors, not just, as today, in the eyes of broader categories of stakeholders. Therefore, in due course, the SSB would need to consider whether it should broaden the scope of its standards to align with, for example, the very widely recognized and used sustainability reporting standards that the GRI has developed over the last 20 years. Over 500 comments on the IFRS Foundation's Consultation Paper were received by year's end, a very robust and mostly encouraging response.

Meanwhile, in November 2020, came an unexpected announcement by the IIRC and SASB that, in 2021, they were going to merge into a new unified organization, to be called the Value Reporting Foundation (VRF).[23] The aim of this, they stated, would be to provide investors and companies with a comprehensive framework for reporting on the full range of information that is relevant and material to understanding and assessing enterprise value creation.

The announcement emphasized that the IIRC <IR> Framework and the SASB Standards are complementary, that the new Value Reporting Foundation would work to integrate other existing frameworks and standards as appropriate into the new corporate reporting system, and engage with the IFRS Foundation, IOSCO, et al, in "working towards global alignment on a corporate reporting system" in which "integrated reporting and sustainability disclosure have the same level of rigour as financial accounting and disclosure." The merger officially took place in June 2021.

It was clear from the comments received on the IFRS Foundation's Consultation Paper, including the Five, as well as from IOSCO and IFAC, the Big Four accounting firms and a wide range of interested parties from business, investment, NGO, civil society, academia and accounting profession circles, that broad worldwide support exists for the IFRS Foundation to establish a new International Sustainability Standards Board (ISSB) alongside the IASB.[24]

A further encouraging sign was the December publication by "The Five" of a prototype for a climate-related financial disclosure standard as an illustration of what reporting on enterprise value might look like under a comprehensive corporate reporting system in which the ISSB would be a key component. This aligns with what is seen as the first priority for the ISSB's work, namely a standard for climate-related disclosures.

During 2021, IFAC and IOSCO have published various statements about their support for the IFRS Foundation to establish an International Sustainability Standards Board.[25] Indeed, IFAC has called on national public accounting bodies worldwide to promote in their respective jurisdictions the establishment of the ISSB in progressing the sustainability agenda.[26] A

summary of CPA Canada's steps in this regard may be found on CPA Canada's website.[27] In April 2021, the IFRS Foundation published the conclusions it had reached from its analysis of the comments on its consultation paper,[28] and issued a further consultation paper about considerations regarding the suitability of its present governance structure and processes to accommodate the new ISSB.[29]

Further, the IFRS Foundation has called for nominations for the chair and vice-chair of the ISSB, established various working groups to explore aspects of the path forward and has clearly stated its aim to announce the establishment of the ISSB by the time of the November 2021 COP26 meeting in Glasgow.[30]

The Path Ahead to Global Standards for Sustainability Reporting[31]

The building blocks approach proposed for a future comprehensive corporate reporting landscape[32] envisages two broad connected components, at least for the foreseeable future. Block 1 is to be Investor Focused (referred to above as *Stream B: Reporting to Providers of Financial Capital),* and Block 2 (referred to above as *Stream A: Reporting to all Stakeholders)* is to be multi-stakeholder focused.

In the earlier part of this paper, I positioned Stream A before Stream B, because, conceptually, it seemed important from a sustainability perspective to consider first how business and companies have an impact on the planet and society and, accordingly, to address the information needs of various societal stakeholders of today and tomorrow who depend upon finite planetary systems, thriving communities and inclusive economies that support business enterprise. Sustainability reporting as conceived by the GRI and promoted in its standards aims to guide accountability reporting to all stakeholders about an organization's contributions to and impacts on sustainable development.

I positioned Stream B to follow Stream A, because investors and other providers of financial capital are a vital category of stakeholders and a key element of the financial markets to which enterprises turn for the financial capital on which they depend for value creation and for access to other forms of capital they need. Under a multi-capital, multi-stakeholder concept of value creation within today's global economies and financial markets, it is essential that investors and other actors in capital markets can readily access decision-useful information specific to their decision-making needs, available from both financial statements and other types of subject-matter disclosures, such as management commentary and sustainability reporting.

What does the path ahead look like?

Building Block 1: Investor Focused

It is presently undetermined exactly what the ISSB will look like in terms of its membership and leadership, but clearly there will be appropriate inclusion of members with ESG/sustainability knowledge. In terms of constitutional arrangements and due process, it is likely to mirror the IASB.

Its first priority, focused on "enterprise value creation," is expected to be a standard for climate-related financial disclosures, built on the TCFD recommendations as well as VRF input (likely derived largely from SASB standards), with mid-2022 as the target date for release of an exposure draft. Following this, the ISSB would turn its attention to other, broader, aspects of sustainability reporting through a priority-setting process that is yet to be revealed. There is no doubt that the ISSB will devise processes for building on existing frameworks, standards and guidelines, for which close collaboration with the VRF (SASB and IIRC), TCFD and other organizations will be critical. But the extent and manner of ISSB collaboration with, and input from, the GRI seems less certain, based on IFRS Foundation progress statements released to date.

Meanwhile, it is also unclear how ISSB standards would interface or align with the IASB's future Practice Statement on Management Commentary, the May 2021 exposure draft for which includes extensive detailed recommendations for environmental and social disclosures.[33] At present, the IASB Practice Statement on Management Commentary does not require presentation of Management Commentary along with IFRS-based financial statements in order for a company to assert compliance with IFRS. It is hoped, however, that, with IOSCO support, ISSB standards will be made mandatory for corporate reporting in worldwide securities regulatory jurisdictions.

A key issue will be the definition of materiality used in developing ISSB standards, not only for climate-related financial disclosures but, in due course, for disclosures about the broader range of environmental, social and governance issues that providers of financial capital are concerned with. There's no question that it will be essential to embody "outside-in" focused materiality about E&S impacts on companies ISSB standards. "Inside-out" disclosures about a company's impacts on the environment and society may, however, be more difficult to agree on, especially if, under the "dynamic materiality" concept, E&S issues that today are not considered to have a

material impact on enterprise value creation could in future become issues of significant (material) interest to investors. Governance-related disclosures might be regarded as material regardless of how E&S issues are viewed, as is currently the case with the TCFD recommendations on climate-related financial disclosures.

Three more questions arise about the emerging global landscape of investor-focused reporting.

Role of Management Commentary/MD&A and IIRC Integrated Reporting Framework. First, comprehensive reporting about enterprise value creation entails more than providing just financial, environmental and social information. Investors also need information about matters such as business model, strategy and risks, intangibles such as intellectual capital, external conditions in the business environment, and corporate governance. Management commentary or MD&A reports are well-known possible places for such disclosures, but typically fail in doing so in a decision-useful way. The IIRC Integrated Reporting Framework[34] offers the most promising way of providing such information in a connected format, along with disclosures about entity impacts on natural, social, human, man-made and intellectual, as well as financial, capital. But, under the ISSB and the IIRC components of the Value Reporting Foundation's intellectual capital, will integrated reporting eventually fulfil the promise of a single overarching accountability statement to providers of financial capital (and indeed to all stakeholders) about enterprise value creation? Indeed, this possibility somewhat reflects the IIRC's vision for integrated reporting.[35]

Proposals for New SEC (USA) 10K Disclosure Requirements. Second, the IASB's global standards for financial statements are IFRS, which have become mandatory in most jurisdictions around the world. A glaring exception is in the US, where the SEC-mandated FASB issues its own version of general-purpose accounting standards required to be used by corporations registered with the SEC, i.e., public companies in the world's largest capital market. Until very recently, the SEC 10K filings were not required to provide specific disclosures about ESG matters or even climate change related performance and risks (subject to complying with the 2010 interpretive release about disclosures of climate related issues that meet the SEC rules about material risks and uncertainties).

Since November 2020, however, under new leadership, the SEC has indicated very clearly that it will introduce a new rule about climate-related disclosures before the end of 2021[36] and, further, will be considering new rules for broader ESG-related disclosures demanded by

investors.[37] The question arises as to whether the SEC will act entirely independently in these respects, or will it in some way attempt to harmonize its future climate and ESG disclosure rules with ISSB standards? The influence of IOSCO and the G20 finance ministers may have some bearing on the extent to which we end up with a single set of global sustainability reporting standards or one set for the US and another for the rest of the world.

Indeed, it remains to be seen how successful IOSCO will be in persuading its member countries to adopt and mandate ISSB sustainability reporting standards alongside IASB accounting standards in their respective jurisdictions[38] For example, the terms of reference of an independent committee established in May 2021 to review standard setting in Canada call for the committee to review and make recommendations about "the potential creation of a Canadian Sustainability Standards Board to mirror the proposed establishment of the ISSB by the IFRS (sic) Trustees."[39]

European Union Proposals for Corporate Sustainability Reporting Directive: Third, in April 2021 the European Union introduced proposals for a new, updated version of its Non-Financial Reporting Directive (NFRD), called the Corporate Sustainability Reporting Directive (CSRD).[40] The CSRD would apply to many more companies than the NFRD, both listed and unlisted. The new sustainability reporting standards for the CSRD are to be based on the "double materiality" concept, meaning that companies will have to report on how sustainability issues affect their business and on how they affect people and the environment. The new EU sustainability reporting standards are to be developed by the European Financial Reporting Advisory Group (EFRAG), a private association of appropriate reporting bodies and individuals, whose constitution is to be strengthened to ensure due process as a standards-setting body serving the public interest. The EU has indicated its intention that the new CSRD reporting standards will be aligned with the standards issued by the forthcoming ISSB and build on the work of the TCFD on climate-related disclosures.

Further, in July 2021, the GRI entered into an agreement for cooperation with EFRAG in developing the new CSRD reporting standards.[41] In the announcement, John Berrigan, Director General for Financial Stability, Financial Services and Capital Markets Union, European Commission, stated: "European sustainability reporting standards should build on and contribute to the progress of existing standards and frameworks that are widely used by companies. I welcome this Statement of Cooperation between EFRAG and GRI as an important step towards promoting convergence between European and global sustainability reporting standards."

To which Patrick de Cambourg, Chair of the EFRAG Project Task Force, added that: "In the spirit of the co-construction and convergence we promote, we want to benefit from long-standing precursors and avoid reinventing the wheel while contributing at the same time to further substantial progress globally."

This is a complicated process. As Eric Hespenheide, GRI's Chair commented: "We firmly believe that requirements that position sustainability reporting on an equal footing with financial

disclosure – as set out in the EU proposals – will ensure transparency for all stakeholders on the impacts of companies while acting as an enabler for responsible business conduct and societal dialogue on pivotal issues. This agreement is the first step towards establishing a long-term strategic collaboration on the co-construction of standards which meet the requirements of the CSRD to become legally binding in the EU but also can be incorporated in the voluntary global standards from GRI."

Questions remain, therefore, as to how truly global reporting standards will evolve in a scenario where there might be ISSB standards, European standards and American SEC standards.

Building Block 2: Multi-stakeholder Focused

For more than 20 years, the GRI has been the source and custodian of the world's continuously evolving and widely used *de facto* standard for reporting to stakeholders of all types on an organization's sustainability performance and impacts. Sector-specific versions of the standards are periodically issued.

Recognition of the stature of the GRI and its standards is clearly reflected in the encouraging announcement above about cooperation between the GRI and EFRAG for developing the EU's CSRD reporting standards.

But the degree of future liaison and collaboration established between the GRI, with its primarily "inside-out" looking standards, and the task forces and working groups set up by the

IFRS foundation to design and establish the future ISSB and develop its "outside-in" looking sustainability reporting standards is less clear. In theory (or the dictate of common sense), satisfaction of the needs of financial markets for standards that promote decision-useful, investor-focused information about enterprise value creation should proceed in alignment with satisfaction of the needs of broader stakeholders in society, including government and regulatory agencies, for reliable information about enterprise impacts on the environment, economies and people, and toward achievement of the UN SDGs. The E&S issues addressed in ISSB standards would ideally correspond with those addressed in the GRI standards.

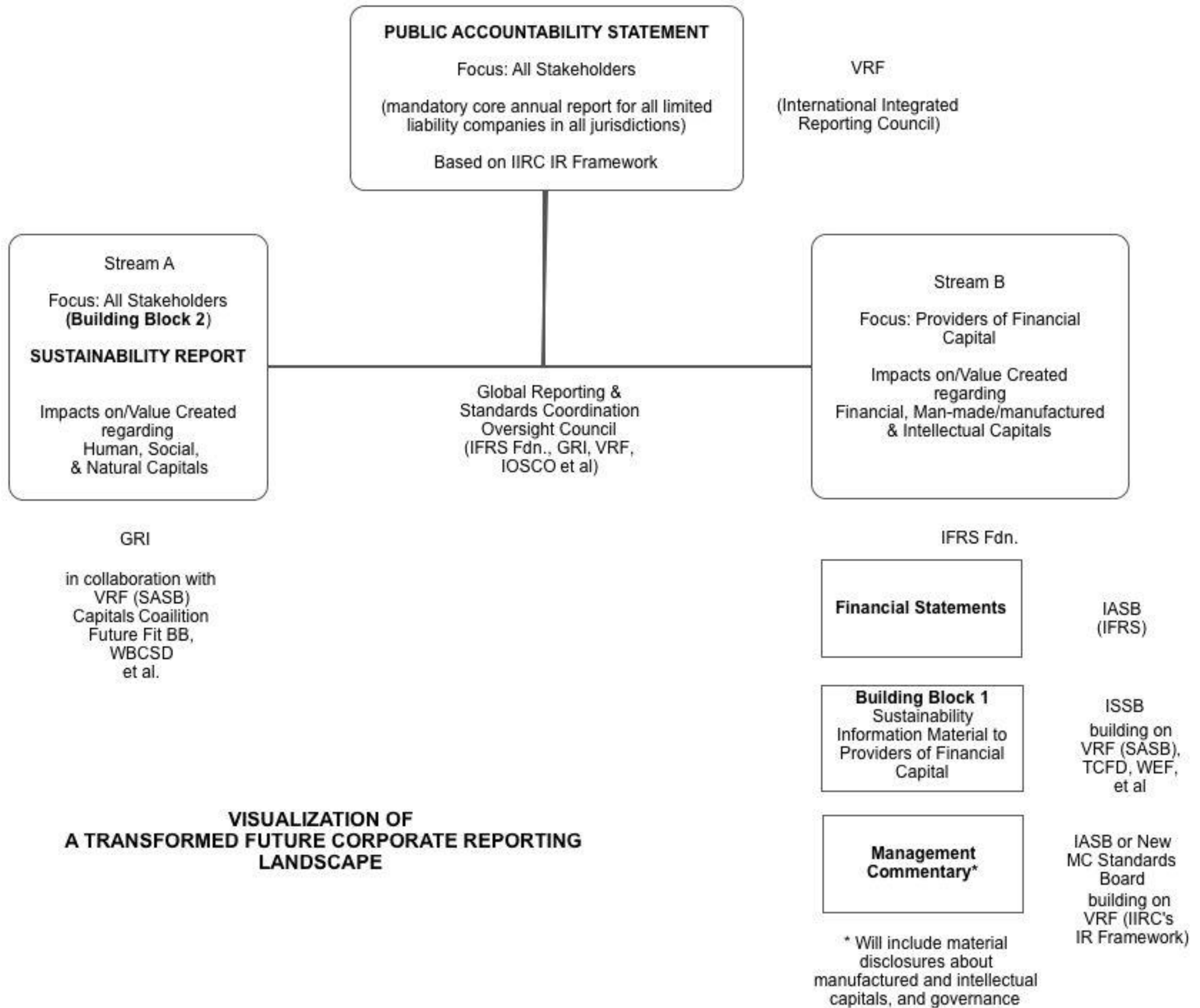
Under a new paradigm of corporate purpose with multi-stakeholder accountability for enterprise value creation dependent on multiple capitals, "inside out" sustainability reporting to all stakeholders, in accordance with the global GRI standards, needs to become mandatory, alongside the "outside-in" reporting in accordance with the ISSB standards – standards that are expected to become mandatory and of comparable standing to IASB's IFRS accounting standards. Whether, when and how this scenario could come to pass is presently unclear, although the Sustainable Stock Exchanges initiative[42] or G20 actions[43] and other global pressures to advance achievement of the UN SDGs might be keys to achieving global uptake of what at present is voluntary sustainable reporting in most jurisdictions.

If, however, the emerging paradigm shift about corporate purpose and accountability were to result in re-writing of corporate governance laws and revision of corporate charters appropriate for the 21st, not 19th, century, or if Benefit Corporations were to become the norm, not the exception, to corporate chartering, then mandatory "inside-out" corporate sustainability reporting would likely become mandatory, accompanied of course by IFRS-based financial statements and a more "integrated reporting" form of Management Commentary or MD&A.

For the next while, it will be important to pay close attention to the stature, recognition and expectations accorded to the GRI standards and corporate sustainability reporting as envisaged under Building Block 2, and their positioning within the IFRS Foundation, EU and SEC views of the reporting landscape.

A Transformed Future Corporate Reporting Landscape

Based on what we now see emerging as a new paradigm for corporate purpose, accountability and multi-capital concepts for value creation, reflected in a re-imagined social contract and charter for corporate enterprises, and considering my proposal for a new mandatory overarching Public Accountability Statement (see **Implications for Future Corporate Reporting** on page 6 above), it is possible to envisage a new corporate reporting landscape. The diagram below offers a visualization of what this might look like.



It is anchored at the top by the Public Accountability Statement as the connecting cornerstone for the two broad streams and building blocks. This Statement would be based very much on the IIRC Integrated Reporting Framework, but focused 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: one that focuses on the information needs of providers of financial capital, the other on the sustainability-related information needs of all stakeholders, especially where those interests are rooted in human, social and natural capital.

I do hope that we may be able to look to the recently formed Value Reporting Foundation (with its integrated reporting expertise) as the source for reporting standards for the new Public Accountability Statement, to be mandatory by law or regulation in all jurisdictions where limited liability companies are chartered.

Global reporting standards for Stream B/Building Block 1 for providers of financial capital would be the remit of the IFRS Foundation, under its IASB and ISSB, subject to deciding how to position the Management Commentary Practice Statement. This might possibly be upgraded to a reporting standard status under the auspices of a new third board alongside the IASB and ISSB, but without unduly replicating disclosure requirements already embedded in the Public Accountability Statement.

Global reporting standards for Stream A/Building Block 2 for multi-stakeholder focused reporting on sustainability would be primarily the remit of the GRI but in collaboration with not only the Value Reporting Foundation (with its SASB expertise) but also with others, for example the Capitals Coalition[44] for measurement and reporting on natural, social and human capitals, the Future Fit Business Benchmark,[45] and the UNDP and WBCSD[46] for reporting according to the UN SDGs. In some jurisdictions, under the new Public Accountability Statement regime, sustainability reporting would also be made mandatory, at least for public companies and large private ones where the new Public Accountability Statement alone cannot provide the depth of information called for about impacts on capitals.

Action in the Public Interest – A Fundamental Shift

If this article had been written only five years ago, it might have mentioned the IIRC-initiated Corporate Reporting Dialogue to promote convergence among reporting standards and frameworks with their conflicting concepts of materiality. It might also have discussed the possibilities of global progress towards the IIRC's vision of integrated reporting.

It almost certainly would *not* have viewed developments in sustainability reporting through the lens of fundamental re-thinking about the purpose of a corporation and its accountability to stakeholders, nor the lens of broader systems-based thinking about the nature of enterprise value creation and its dependencies on capitals whose well-being are central to the interests of present and future generations.

The future usefulness of corporate reporting beyond financial statements and the development of comprehensive, fit-for-purpose reporting standards beyond IFRS call for standard setters, legislators and regulators to recognize the paradigm shifts described in this article – shifts that forward-looking business enterprises, CEOs and investors are already recognizing and, indeed, supporting.

Finally, IFAC is to be commended for exhorting the accounting profession worldwide, and its constituent national bodies, to inform themselves about, actively engage in and support the initiatives we now see for urgent convergence in global reporting standards related to climate-related and other sustainability issues – pressing calls for action in the public interest.

Such actions will require mid-career professional accountants to educate themselves about issues, trends and developments such as those described in this article and, above all, will call for a fundamental redesign of pre-qualification curricula and competency maps for future professional accountants.

It may then become more reasonable to claim that accountants will save the world![47]

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[1] https://www.penguinrandomhouse.ca/books/669023/values-by-mark-carney/9780771051555, pp. 434-435.
[2] https://www.undp.org/sustainable-development-goals.
[3] https://www.globalreporting.org/about-gri/mission-history/.
[4] https://www.forbes.com/sites/betsyatkins/2020/06/08/demystifying-esgits-history--current-status/?sh=48f8acc02cdd.
[5] Principal initiatives in 2020 are summarized at https://thinktwenty20.com/index.php/561-%20the-pace-quickens-the-plot-thickens-unexpected-progress-toward.
[6] https://greattransition.org/gti-forum/csr-willis.
[7] Pacioli dramatically affected the practice of accounting by describing the double-entry accounting method used in parts of Italy. This revolutionized how businesses oversaw their operations, enabling improved efficiency and profitability. The *Summa*'s section on accounting was used internationally as an accounting textbook up to the mid-16th century. The essentials of double-entry accounting have for the most part, remained unchanged for mpre than 500 years. "Accounting practitioners in public accounting, industry, and not-for-profit organizations, as well as investors, lending institutions, business firms, and all other users for financial information, are indebted to Luca Pacioli for his monumental role in the development of accounting." Wikipedia.
[8] https://hbr.org/2002/12/whats-a-business-for.
[9] https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans.
[10] https://www.blackrock.com/americas-offshore/en/2019-larry-fink-ceo-lette.r
[11] https://www.globalreporting.org/about-gri/mission-history/.
[12] https://integratedreporting.org/wp-content/uploads/2013/08/Background-Paper-Value-Creation.pdf.
[13] https://www.penguinrandomhouse.ca/books/669023/values-by-mark-carney/9780771051555
[14] https://benefitcorp.net/what-is-a-benefit-corporation
[15] https://integratedreporting.org/wp-content/uploads/2021/01/InternationalIntegratedReportingFramework.pdf.
[16] https://www.corporation2020.org/pdfs/SummitPaperSeries.pdf - see Willis, item 8 (page 77).
[17] https://www.penguinrandomhouse.ca/books/669023/values-by-mark-carney/9780771051555, see page 442
[18] https://www.weforum.org/reports/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation.
[19] https://www.sasb.org/blog/gri-and-sasb-announce-collaboration-sustainability-reporting/.
[20] https://www.sasb.org/blog/progress-towards-a-comprehensive-corporate-reporting-system/.
[21] ifac.org/news-events/2020-09/ifac-calls-creation-international-sustainability-standards-board-alongside-international-accounting.
[22] https://www.ifrs.org/projects/work-plan/sustainability-reporting/consultation-paper-and-comment-letters/.
[23] https://www.sasb.org/wp-content/uploads/2020/11/IIRC-SASB-Press-Release-Web-Final.pdf.
[24] https://www.ifrs.org/projects/work-plan/sustainability-reporting/consultation-paper-and-comment-letters/#view-the-comment-letters.
[25] See for example https://www.ifac.org/news-events/2021-06/ifac-supports-iosco-s-vision-global-baseline-investor-focused-sustainability-standards and https://www.iosco.org/news/pdf/IOSCONEWS594.pdf.
[26] https://www.linkedin.com/pulse/corporate-sustainability-reporting-look-ahead-kevin-dancey/.
[27] https://www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/sustainability-environmental-and-social-reporting/publications/sustainability-reporting-updates.
[28] https://www.ifrs.org/content/dam/ifrs/project/sustainability-reporting/sustainability-consultation-paper-feedback-statement.pdf.
[29] https://www.ifrs.org/content/dam/ifrs/project/sustainability-reporting/ed-2021-5-proposed-constitution-amendments-to-accommodate-sustainability-board.pdf.
[30] https://www.ifrs.org/projects/work-plan/sustainability-reporting/#project-news.
[31] https://www.ifrs.org/news-and-events/news/2021/06/is-there-a-path-to-global-sustainability-standards/.
[32] https://www.ifac.org/news-events/2021-05/ifac-encourages-building-blocks-approach-reporting-sustainability-related-information, followed by https://www.ifac.org/knowledge-gateway/contributing-global-economy/publications/how-global-standards-become-local.

[33] See https://www.ifrs.org/projects/work-plan/management-commentary/.
[34] https://integratedreporting.org/wp-content/uploads/2021/01/InternationalIntegratedReportingFramework.pdf.
[35] Ibid. page 2 "It is anticipated that, over time, integrated reporting will become the corporate reporting norm".
[36] https://www.sec.gov/news/speech/gensler-pri-2021-07-28 and https://www.sec.gov/news/speech/lee-playing-long-game-110520.
[37] See for example https://www.sec.gov/news/speech/lee-climate-esg-board-of-directors and https://www.sec.gov/sec-response-climate-and-esg-risks-and-opportunities.
[38] https://www.iosco.org/news/pdf/IOSCONEWS608.pdf.
[39] https://www.newswire.ca/news-releases/accounting-and-auditing-standards-oversight-councils-initiate-review-of-standard-setting-in-canada-801793361.html.
[40] https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en.
[41] https://globalreporting.org/about-gri/news-center/gri-welcomes-role-as-co-constructor-of-new-eu-sustainability-reporting-standards/.
[42] See for example https://sseinitiative.org/publication/action-plan-to-make-markets-climate-resilient-how-stock-exchanges-can-integrate-the-tcfd-recommendations/.
[43] See https://www.ifrs.org/news-and-events/news/2021/07/ifrs-foundation-response-to-g20-finance-ministers-communique/ (G20 bulletin focused on climate related disclosures).
[44] https://capitalscoalition.org/.
[45] https://futurefitbusiness.org/.
[46] https://www.wbcsd.org/Programs/Redefining-Value.
[47] https://hbr.org/2013/03/accountants-will-save-the-worl.