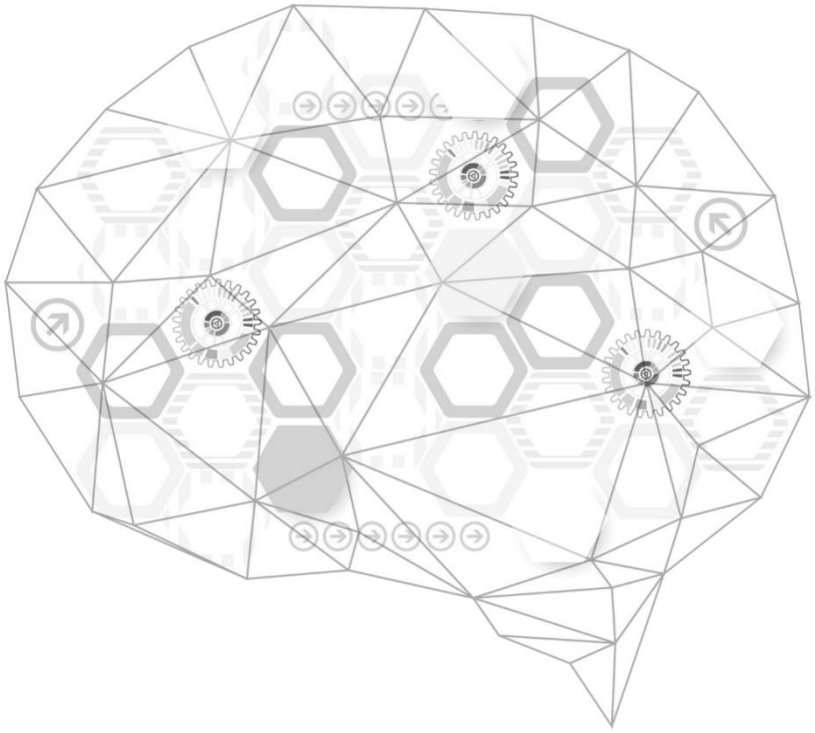
ACCOUNTANCY EUROPE.

INTERCONNECTED STANDARD SETTING FOR CORPORATE REPORTING

December 2019

COGITO.

Cogito: I think
Accountancy Europe's thought-leadership series



COGITO

This document is part of the *Cogito* series, a selection of thought-provoking publications by Accountancy Europe.

Cogito (i.e. I think) is set up to provide new ideas for the European accountancy profession. With this series, we aim to enhance innovation and our contribution to business and society.

This publication aims to stimulate debate; the views expressed thus do not reflect the official positions of Accountancy Europe or any of its 51 member bodies.

This paper is based on the work of an independent task force composed of: Andreas Barckow, Arjan Brouwer, Philippe Danjou, Paul Druckman, Jan-Menko Grummer, Chiara Mio, Veronica Poole (Chair), Matthias Schmidt, Mark Vaessen, and Mark Veser.

HIGHLIGHTS

Global risks and opportunities mean that financial information alone cannot give a full picture of a company's performance. Climate change, environmental degradation, social unrest and internally generated intangibles are addressed by non-financial information (NFI) reporting. However, the hundreds of NFI reporting initiatives available are leading to confusion and the potential for greenwashing. For an effective response to these global issues and stakeholder demands, NFI reporting needs to be harmonised and connected with financial reporting.

More than that !

In this paper, we introduce nine criteria and apply them to four approaches to interconnected standard setting for corporate reporting. We set out our vision and offer ideas on progress towards a global corporate reporting structure.

We are reaching a tipping point for system change, with stakeholders looking for reliable and consistent information. A global solution to interconnected standard setting can meet this need.

We also make a call for market action to drive to a global solution. To this end, we ask you to send your thoughts and opinions on how to achieve interconnected standard setting to jona@accountancyeurope.eu by 31 March 2020.

CONTENTS

Executive summary 2

Introduction 4

- Objective of the paper 4
- Accountants and interconnected standard setting 5

Why: Factors driving the need to act 6

What: A system change 9

How: Nine criteria to evaluate potential standard setting approaches 10

- Urgency 10
- Global or local solution 10
- Oversight 10
- Due process of standard setting 11
- Responding to stakeholder interests 11
- Framework and metrics 11
- Materiality lens 12
- Legal embedding 13
- Role of technology 13

Four approaches to interconnected standard setting for corporate reporting 14

- Approach 1: INSB within the IFRS structures 14
- Approach 2: Regional consolidation 16
- Approach 3: Separate governance structures for financial and NFI reporting 18
- Approach 4: Global corporate reporting structure 20

Conclusion: Where do we go from here? 22

Annex 1: Important NFI initiatives that influenced the approaches in this paper 24

EXECUTIVE SUMMARY

Non-financial information is more than that.
Strategy. Business model ("sector"). Governance. Risks and opportunities.
Strategy. Risk management. Technology. HR policies...

Climate change, environmental degradation, human rights, social concerns, and internally generated intangibles are of growing global concern to companies, investors, policymakers, regulators and civil society. Hundreds of non-financial information reporting frameworks and standards, as well as legislative regulations aim to address these issues. This proliferation of initiatives has overwhelmed stakeholders, and risks greenwashing the system.

There is a need for interconnected standard setting for corporate reporting to coordinate, rationalise and consolidate the many non-financial reporting initiatives that exist, and create a core set of global metrics. This should also make a connection to financial reporting.

This paper introduces nine criteria (see Text box 1) to evaluate potential approaches to interconnected standard setting for corporate reporting. The paper envisions a global solution that would:

- address urgent global issues and provide a core set of global metrics for non-financial information
- strengthen governance through an enhanced collaboration of the public and private sector for oversight and standard setting
- transform existing structures to accommodate additional players that would effectively address broader stakeholders' needs
- provide an effective connection between financial and non-financial reporting aiming to address the ability of companies to create long-term value
- incorporate technology from the start

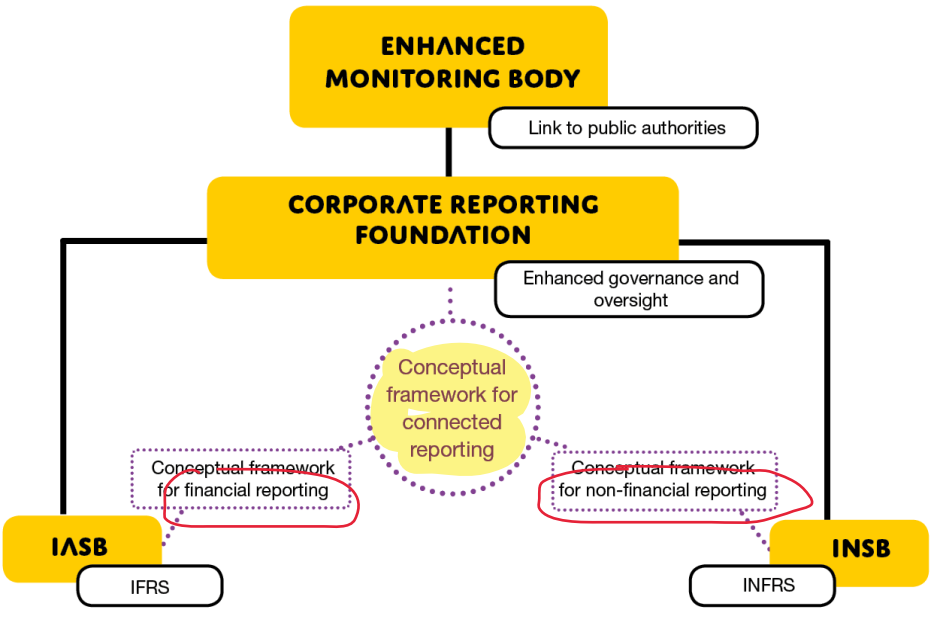
Text box 1: Criteria to evaluate the approaches

- urgency
- global or local solution
- oversight
- due process of standard setting
- responding to stakeholder interests
- framework and metrics
- materiality lens
- legal embedding
- role of technology

What is "creating long-term value"... Please define.

We set out an approach for a global corporate reporting structure (see Figure 1) as the ultimate vision for interconnected standard setting for corporate reporting. It can begin with a step by step process by leveraging the momentum created by a number of European initiatives as well as the existing financial reporting three-tier governance structures.

Figure 1: Global corporate reporting structure



Could make sense but has to remain manageable ... Run the risk to create another big organisation that is

The approach we set out:

- enhances the monitoring board to provide broader public oversight and link to public authorities
- builds on the current International Financial Reporting Standards Foundation Trustees to create a Corporate Reporting Foundation, which would be responsible for financial and non-financial reporting oversight
- includes the creation of an International Non-financial reporting Standards Board, which would set non-financial reporting standards

The financial and non-financial standard setters would share a conceptual framework for connected reporting, ensuring an interconnected standard setting approach that focuses on long-term value creation and stakeholder needs.

Not a bad idea to build on the way IFRS are managed. Because after all this has been a very great success so far.

INTRODUCTION

Indeed...

Global challenges, such as climate change, depletion of raw materials, biodiversity loss, access to resources, planetary limits, human rights and social concerns are increasingly core issues for companies. In addition, internally generated intangibles have become a major component of the market value of companies; these are often not captured by current accounting techniques. The nature of risks and the drivers of value for companies today mean that broader information about long-term strategy is essential for resilient businesses and sustainable investment decisions.

On one hand, companies depend on a range of resources to create value. On the other hand, stakeholders need more information to understand the broad impacts of business and to better assess company performance. Companies are responding to these needs by providing wider information in their disclosures, but these are often overwhelming, inconsistent and uncoordinated. There are today hundreds of initiatives, including: frameworks, standards, and company-specific management reporting techniques. They aim to address these global issues, providing separate principles, quality of information, and recommended disclosures.

Preparers of corporate reports (preparers) are therefore able to 'framework shop'. This can lead them to be selective and imbalanced in their disclosures, which can result in greenwashing. Users of corporate reports (users) are often faced with information overload; however, they also contribute to the confusion by requesting data based on various frameworks and standards. This lack of market transparency and comparability damages public trust in business. It further stands in the way of effective policymaking and regulation, which is essential to address the big challenges we face as a society.

NON-FINANCIAL INFORMATION

This paper refers to non-financial information (NFI), even though it lacks a widely accepted definition. For the purposes of this report, our definition of NFI includes information relating to environmental, social and governance (ESG) reporting, corporate social responsibility (CSR), internally generated intangibles (e.g. intellectual property, knowledge, relationships, team work, trust, branding, reputation, technology, etc.) and other value drivers that are not usually measured in monetary terms. Much of this information is qualitative or is measured by a variety of non-financial metrics and management accounting techniques (e.g. customer satisfaction, employee retention, quality standards, human value, societal value etc.).

OBJECTIVE OF THE PAPER

In our Cogito Paper *CORE & MORE: An opportunity for smarter corporate reporting*[1] we explored the CORE & MORE concept and highlighted that:

Workload !

- the CORE report would be an 'executive report' focusing on the most material and relevant information about the company. It should meet the needs of a stakeholder group wider than investors and provide a holistic picture of the reporting organisation
- the MORE reports would provide additional detailed information designed to meet the needs of specific stakeholders, for whom they were initially intended. Therefore, they may not be relevant for all stakeholders

Building on this, we need interconnected standard setting for corporate reporting[2] and to create a core set of global metrics both for the CORE report, and the MORE reports that feed into the CORE report.

Therefore, in this report, our objective is to assess different approaches to interconnected standard setting based on these criteria. In doing this, we consider how to:

[1] Accountancy Europe (2017), *CORE & MORE: An opportunity for smarter corporate reporting*, see: https://www.accountancyeurope.eu/publications/core-more-smarter-corporate-reporting/

[2] Interconnected standard setting for the purpose of this paper refers to connecting NFI initiatives to achieve a global framework and/or standard as well as connecting NFI to financial information.

- coordinate, rationalise and consolidate numerous frameworks and standards setters for NFI
- connect NFI reporting to financial reporting effectively

ACCOUNTANTS AND INTERCONNECTED STANDARD SETTING

Interconnected standard setting for corporate reporting is an essential development for the accounting profession. Promoting high-quality measurement and disclosure of NFI information is consistent with their core skills and reflects the position of the profession at the heart of the business.

Informing and protecting stakeholders, as well as fostering transparency are public interest imperatives where the profession plays a key role.

Lat hoog leggen in termen van "goverance" die geëist wordt.

Audit ?

WHY: FACTORS DRIVING THE NEED TO ACT

URGENT ISSUES AND RISKS AFFECTING BUSINESSES GLOBALLY

Companies need to address the risks we are facing[3] to ensure the resilience of their business models and global supply and value chains.

True...

The public expects companies to play a greater role in moving towards a sustainable and inclusive economy and to contribute to the achievement of the United Nations (UN) Sustainable Development Goals (SDGs)[4]. Companies increasingly recognise that their license to operate can no longer be taken for granted: it needs to be earned and maintained. This is essential to rebuild trust in business. Companies are therefore beginning to embrace a purpose that seeks to create positive impacts on society and the environment.

Further, the nature of business and its value drivers have changed dramatically over recent decades. Today over 80% of corporate value is represented by internally generated intangibles[5]. Megatrends such as globalisation and changes in technology are affecting every company.

Do not like the way this is approached ...

BROADER STAKEHOLDER FOCUS

The universal need to understand broader risks and value drivers of the company over the longer-term horizon begins to blur the traditional line between shareholder and stakeholder. Everyone is either a direct or indirect 'investor' through savings, pensions funds, employment, supply chain etc. and as a result has an interest in a long-term, inclusive model for capitalism that incorporates purpose and beneficial social and economic impacts. Therefore, companies are increasingly seeking to pursue a broader objective: to deliver sustainable long-term value.

True...

BEYOND CORPORATE REPORTING

The above challenges cannot be overcome by corporate reporting alone: legislative, regulatory and policy action is needed to achieve change. Many jurisdictions have introduced securities markets regulations, corporate governance codes and related reporting requirements on NFI matters (e.g. on greenhouse gas emissions, health and safety, human rights, modern slavery and diversity). However, better connected information about the financial and non-financial impacts of business can help make informed decisions. The European Commission (EC) has already begun taking regulatory steps. In June 2019, as part of its *Action Plan: Financing Sustainable Growth*[6] they issued non-binding *Guidelines on non-financial reporting: Supplement on reporting climate-related information* (NFI Guidelines)[7]. The NFI Guidelines integrate the Task Force on Climate-related Financial Disclosures (TCFD) recommendations into the EC's Directive 2014/95/EU, *Disclosure of non-financial and diversity information by certain large undertakings and groups* (NFI Directive)[8]. This action is notable because it indicates that the EC sees a need to standardise NFI disclosures.

[3] World Economic Forum (2019), *Global Risks Report 2019*, see: http://www3.weforum.org/docs/WEF_Global_Risks_Report_2019.pdf
[4] UN, *Sustainable Development Goals*, see: https://www.undp.org/content/undp/en/home/sustainable-development-goals.html
[5] Ocean Tomo (2019), *Intangible Asset Market Value Study*, see: https://www.oceantomo.com/intangible-asset-market-value-study/
[6] EC (2018), *Action Plan: Financing Sustainable Growth*, see: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0097&from=EN
[7] EC (2019), *Guidelines on non-financial reporting: Supplement on reporting climate-related information,* see: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019XC0620(01)&from=EN
[8] European Parliament and Council (2014), *Disclosure of non-financial and diversity information by certain large undertakings and groups*, see: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095&from=EN

More recently, the EC set up the International Platform on Sustainable Finance[9] with the goal of mobilising private capital towards sustainable investments. The EC also published the European Green Deal[10], and reinforced its commitment to tackling climate and environmental related challenges (see quote).

> *"To ensure appropriate management of environmental risks and mitigation opportunities, and reduce related transaction costs, the Commission will also support businesses and other stakeholders in developing standardised natural capital accounting practices within the EU and internationally."*
>
> *EC, The European Green Deal, 2019*

In our Cogito Paper *10 ideas to make corporate governance a driver for a sustainable economy*[11] we introduce 10 ideas on how boards (ideas 1-6), and policymakers and regulators (ideas 7-10) should adapt to help companies meet the changes required by the market (see Text box 2).

GROWTH IN SUSTAINABLE INVESTMENT

There is growing momentum for the greening of the financial system. Additionally, there is political will to help steer the flow of capital towards sustainable investments – for example, in the European Union (EU)[12]. Sustainable investment is on the rise[13] as investors demand information that would enable them to direct capital to sustainable and green companies.

CALLS FOR HARMONISATION

The proliferation of frameworks and standards aiming to report NFI has overwhelmed and overloaded preparers and users. Much of this activity is not coordinated globally, which can lead to additional risks and costs as the International Federation of Accountants (IFAC) and the Organisation of Economic Cooperation and Development (OECD) suggest[14].

Text box 2: 10 ideas to make corporate governance a driver for a sustainable economy

Boards can:

1. recognise their public interest responsibility to make business sustainable
2. transform the business model
3. make board composition fit for (renewed) purpose
4. regularly (re)assess functioning and processes
5. think in an integrated way
6. transcend the business' boundaries

Policymakers can:

7. rethink the role of regulators
8. move from shareholder protection to stakeholder protection
9. create a European regulatory framework for corporate governance in the single market
10. ensure consistent and effective enforcement

IFAC further highlighted the cost and complexity of multiple and competing reporting workstreams, which do not serve the interests of capital markets, companies or stakeholders – or the wider public interest[15]. Preparers

[9] EC (2019), *International Platform on Sustainable Finance*, see: https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/191206-international-platform-sustainable-finance-factsheet_en.pdf

[10] EC (2019), *The European Green Deal*, see: https://eur-lex.europa.eu/resource.html?uri=cellar:b828d165-1c22-11ea-8c1f-01aa75ed71a1.0002.02/DOC_1&format=PDF

[11] Accountancy Europe (2019), *10 ideas to make corporate governance a driver for a sustainable economy, see:* https://www.accountancyeurope.eu/publications/10-ideas-to-make-corporate-governance-a-driver-of-a-sustainable-economy/

[12] EC (2018), *Financing a Sustainable European Economy*, see: https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf

[13] Global sustainable investing assets in 2018 were $30.7 trillion, a 34% increase over 2016. Sustainable investments as a proportion of total assets under management range from 18.3%, according to Global Sustainable Investment Alliance (2018), *2018 Global Sustainable Investment Review,* see: http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

[14] OECD/ IFAC (2018), *Regulatory Divergence: Costs, Risks Impacts*, see: https://www.ifac.org/system/files/publications/files/IFAC-OECD-Regulatory-Divergence.pdf

[15] IFAC (2019), *Point of View on Enhancing Corporate Reporting*, see: https://www.ifac.org/what-we-do/speak-out-global-voice/points-view/enhancing-corporate-reporting

and users support the coordination, rationalisation and consolidation of the disclosure requirements and recommendations (see quote).

> *"[A]lignment needs to occur before a fragmented or regional approach to reporting and regulation becomes ensconced as standard practice. Both companies and investors increasingly support […] a single set of high-quality standards should occur before regulatory intervention."*
>
> *IFAC, 2019*

The Corporate Reporting Dialogue's (CRD) Better Alignment Project year one report[16] explored how the frameworks and standards of its participants[17] are aligned and/or differ in terms of disclosure principles, recommended disclosures and illustrative example metrics of the TCFD, as well as compared to each other. At the roundtables that informed the CRD project, the stakeholders also commented on the limitations of a voluntary approach and called for a more comprehensive regulatory solution (see quote).

> *"[W]hat is really needed is one strong, internationally-recognised and used set of standards […]."*
>
> *Ian Mackintosh, Chair of the CRD, 2019*

[16] CRD (2019), *Driving Alignment in Climate-related Reporting, Year one of the Better Alignment Project* see: https://corporatereportingdialogue.com/wp-content/uploads/2019/09/CRD-Final-proof-of-BAP-Report-24Sep19.pdf

[17] The Participants of the *CRD Better Alignment Project* are: Carbon Disclosure Project (CDP), Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB).

Quid the role of investor relations?

Quid the role of "good communicators"?

WHAT: A SYSTEM CHANGE

Stakeholders need to understand both financial information and NFI together for a better insight into company performance, impacts and dependencies. The International Financial Reporting Standards (IFRS) have standardised the reporting of financial information nearly globally and within the EU, however NFI reporting does not have a similarly harmonised approach.

Even though financial information and NFI influence each other, they are currently unconnected, which makes transparency and understanding the overall picture of the company more difficult.

Due to the increasingly complex risks faced by companies, insights into their long-term outlook have become critical for directing investment to sustainable and long-term business models. Companies impact the wellbeing of people and the planet – both positively and negatively. Equally, companies depend on people and the planet. In the current economic model, short-term, financial goals are often prioritised at the expense of society and the environment.

Furthermore, the speed with which many impacts translate into dependencies for companies has increased, due to technological advances, or even the nature of some risks (e.g. climate change is both an impact and dependency for most companies).

Inclusion of a core set of global metrics for NFI in mainstream reports[18] and in a connected way with financial information would respond to stakeholders' concerns that these issues that are often material to business resilience are not reported with the same discipline and rigour as financial information. An approach to interconnected standard setting for corporate reporting is therefore needed that will standardise the qualitative characteristics of information and disclosure principles for mainstream reports, connecting NFI with financial reporting. Such an approach should also lead to high-quality information that can be used in other corporate reports intended for specific stakeholders.

This represents a system change. However, to move forward, coordinating, rationalising and consolidating NFI initiatives is likely to be an evolutionary process. As a first step, a core set of global metrics needs to be established to achieve a base level of transparency and comparability.

Progress can be achieved through leadership by Europe, together with like-minded jurisdictions. Developments such as the European Green Deal can increase momentum to achieve this goal within a relatively short timeframe, for example, to issue a global standard on climate-related disclosures. Once such an initial set of standards has been issued, more comprehensive NFI standards can then be developed from there.

[18] Mainstream reports for the purpose of this paper include financial statements together with explanatory notes, and other publicly available reports such as the management commentary.

HOW: NINE CRITERIA TO EVALUATE POTENTIAL STANDARD SETTING APPROACHES

This paper considers whether the objective might be achieved through:

- adapting an existing standard-setting structure, with enhancements and new approaches to achieve the wider scope of interconnected standard setting, or
- establishing an entirely new structure

For this purpose, we introduce nine criteria to evaluate the various approaches to interconnected corporate reporting standard setting (see Text box 3).

Text box 3: Criteria to evaluate the approaches

- urgency
- global or local solution
- oversight
- due process of standard setting
- responding to stakeholder interests
- framework and metrics
- materiality lens
- legal embedding
- role of technology

URGENCY

We are facing urgent global issues and need to consider how quickly different approaches can be implemented, along with the establishment of appropriate governance and structures. This includes considering how existing frameworks and standards can be leveraged. A further consideration is the timeframe for legal adoption at the regional or national level, and the implications of different approaches for the speed and nature of passage of standards into legislation and regulation.

Do not believe that we will be able to react fast :-(.

GLOBAL OR LOCAL SOLUTION

Global risks, including climate change, have no borders. Capital markets are global. Capital flows, supply chains and customer bases, enabled by technology, do not recognise borders. Business models are already adapting to address the global nature of risks and opportunities.

However, we accept that, when considering NFI, there are 'special interest' issues which reflect political priorities at a regional or national level (for example, on the environment, modern slavery, and diversity etc.). Therefore, a robust solution needs to accommodate the potential for supplementary local requirements.

Countries are at different levels of maturity in addressing these issues. The EU, and some EU Member States, have already articulated reporting requirements for NFI. The EU is also committed to supporting sustainable finance. Therefore, some think that a national/regional (or a nationally/regionally led) solution may be preferable especially if capable of being adopted globally over time.

However, because there are no formalised standard setters for NFI, we have a unique opportunity to develop a unified approach (contrasted with financial reporting, where IFRS is nearly universal but standards such the Generally Accepted Accounting Principles in the United States prevail as well).

OVERSIGHT

Public oversight and accountability of standard setting by an independent body provides legitimacy for that body and the standard-setting process. Whilst there is no fixed approach to achieving legitimacy, if we reflect on, and learn from the adoption of the IFRS, a starting point could be for a body to be given a remit to develop NFI standards. NFI matters are of significant public policy interest, and therefore public oversight may be broadened beyond capital markets regulators.

TCFD is a good example of how the private sector and public considerations can be aligned and work towards achieving a common objective with a sense of urgency. It was convened by the Financial Stability Board (FSB) as a market-led initiative at about the same time as the Paris Agreement[19] was signed. The FSB undoubtedly

[19] UN (2015), *Paris Agreement*, see: https://unfccc.int/sites/default/files/english_paris_agreement.pdf

influenced the speed with which existing standard setters moved to align their approaches and metrics to TCFD, recognising climate change as a threat to financial stability, and therefore a core business issue.

Considering the above, both public and private players should be considered in the composition of the oversight body of the interconnected standard setting solution in order to facilitate legitimacy.

DUE PROCESS OF STANDARD SETTING

Due process is essential to achieving credibility and buy-in from stakeholders and ensuring the quality of the standards. Corporate reporting should aim to drive the shift in behaviour, while legislative solutions can lead to a box-ticking compliance and mentality. The six principles as provided in our previous Cogito Paper 2017 *Standard Setting in the 21st century*[20] continue to be relevant (see Text box 4).

In particular, independence of the standard setter allows for high-quality technical analysis to be undertaken without undue vested interest. This provides a starting point for stakeholder consultation and debate. Balanced membership is necessary to ensure appropriate decision-making to reflect the overall objectives of the standard-setter.

Text box 4: Six principles of standard setting

- legitimacy
- independence
- transparency
- public accountability
- due process
- balanced membership

Secure funding is also essential to achieve independence, and to achieve an inclusive, accountable process. Several funding sources could be leveraged, including: forms of market levies and other public funding, or existing bodies' sources of funding. A more diverse funding base could be considered, as NFI standards have broader applicability, through serving a wider public interest beyond the efficiency of capital markets.

International Investor Relations organisations?

RESPONDING TO STAKEHOLDER INTERESTS

Addressing the global issues at hand will require the involvement of a broad range of stakeholders in order to achieve system change. These could include:

- Companies, which need clear guidance to achieve an effective, balanced and high-quality reporting
- Investors, who need consistent, high-quality and comparable information to help direct capital flows to more sustainable investments
- Policymakers and regulators, who are interested to see a process for global standard-setting which responds to the public interest nature of NFI factors
- Civil society, which is interested in long-term business prosperity that creates value for all in a responsible way

Therefore, the interconnected standard setter should incorporate the needs of these stakeholders and engage with them, for instance via consultations and outreach, in order to ensure their contribution in achieving the change needed.

FRAMEWORK AND METRICS

The interconnected standard setter should achieve two outcomes:

1. a conceptual framework, and
2. consistent metrics

[20] Accountancy Europe (2017), *Standard Setting in the 21st century*, see: https://www.accountancyeurope.eu/publications/standard-setting-21st-century/

CONCEPTUAL FRAMEWORK

Conceptual frameworks typically underpin the development of standards. The *Conceptual Framework for Financial Reporting*[21] achieves this for financial reporting. The NFI standard setter is likely also to require a conceptual framework that may either derive from the coordination of current NFI frameworks and standards or be entirely new.

The principles of connectivity between the *Conceptual Framework for Financial Reporting* and the NFI framework should further be addressed by an interconnected conceptual framework. This would address the long-term value creation process pursued by the company. The framework should capture the following concepts: materiality, connectivity, multi-capital approach, integrated thinking and authenticity, impacts, dependencies and their circularity, etc. The *International Integrated Reporting Framework* (<IR> Framework)[22] includes many of these concepts and would provide a useful starting point.

CONSISTENT METRICS

A core set of global metrics would achieve comparable, transparent and auditable information that meets public policy and market objectives. Advancing in this direction would require the rigorous alignment and standardisation of a set of metrics. This could build on the best practices and metrics already used by visionary companies and/or provided in different NFI frameworks and standards.

Quantitative ?

Sectors?

The core set of global metrics would additionally cover relevant topics by industry sectors. Companies, policymakers and regulators may choose to supplement these metrics to achieve further specific objectives.

The scope of such metrics should be carefully considered and be generally accepted. They could be developed following a phased approach starting with the most pressing issues such as carbon emissions, utilisation of key natural resources, social impacts, etc. These metrics should include science-based assessments and targets, and regarding product impacts, they should adopt a life-cycle assessment (LCA)[23] approach.

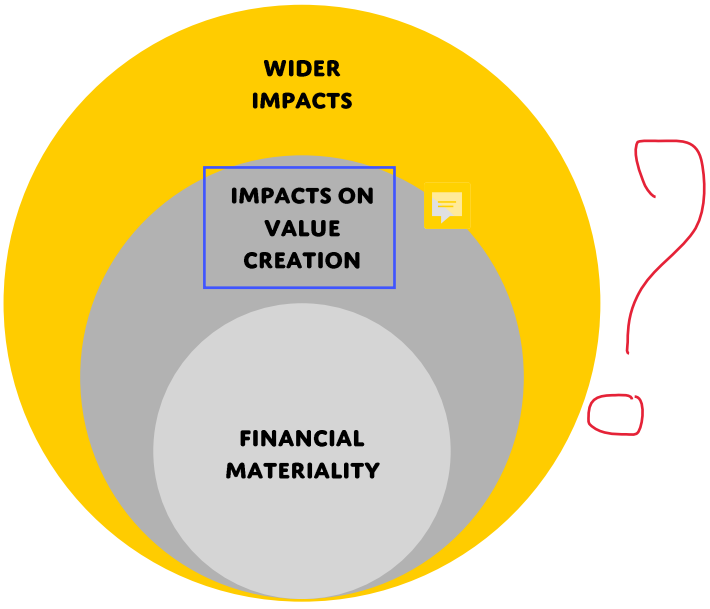
MATERIALITY LENS

In NFI reporting, different frameworks and standards address different scopes and stakeholders, and there is no generally agreed upon definition of materiality.

In the past, companies have separated financial and performance reporting to investors from sustainability or impact reporting to stakeholders. But the impacts that the company has on society and the environment can also affect its ability to create long-term value.

Investors vs. stakeholders is passé

Figure 2: Materiality lens



[21] IASB, *Conceptual Framework for Financial Reporting*, see: https://www.ifrs.org/projects/2018/conceptual-framework/
[22] International Integrated Reporting Council (2013), *The International Integrated Reporting Framework*, see: https://integratedreporting.org/wp-content/uploads/2015/03/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf
[23] ISO 14040:2006 provides that *LCA addresses the environmental aspects and potential environmental impacts 2) […] throughout a product's life cycle from raw material acquisition through production, use, end-of-life treatment, recycling and final disposal (i.e. cradle-to-grave).*

Therefore, the same issues increasingly become dependencies[24]. This is consistent with the approach taken within the NFI Directive.

The materiality lens should be expanded to include the issues that affect long-term value creation. As indicated above, this would involve extending time horizons and an understanding of the financial implications of wider factors (see Figure 2).

We have not attempted to provide a formal definition of materiality. However, extending the definition as currently used in financial reporting to include: *"impacts that can become material dependencies in the short or long term, quantitatively or qualitatively"* would help achieve this objective.

LEGAL EMBEDDING

The mechanism for the adoption of standards within jurisdictions (such as EU legislation and/or local law) will vary according to market circumstances and desired approaches. For example, it can be put into primary legislation directly, or it can come via a regulation (with further endorsement mechanisms) in order to translate standards into legislation).

ROLE OF TECHNOLOGY

The capabilities and capacity of technology and the availability of data continue to increase, driving the expectations of users and preparers, increasing the demands of governments, and facilitating the fourth industrial revolution into the digital economy.

Technology provides new ways for users to obtain decision-useful data and analyse it in innovative ways. One example is taxonomies, such as eXtensible Business Reporting Language (XBRL) and Inline XBRL (iXBRL). In addition, recently the EU reached a political agreement on an EU taxonomy to encourage private investment in sustainable growth and contribute to a climate neutral economy[25].

LOOKING FORWARD

Technology has arguably not driven the changes in corporate reporting that might be expected. The adaptability of the .pdf file has served a current need. However, technology is now leading to a rethink in how to communicate information in mainstream reports. This may include the potential to permit users to make connections between key financial and non-financial data points, or to drill down behind the numbers reported in financial statements.

Therefore, the role of technology, including building on existing taxonomies, should be considered in the process of interconnected standard setting.

Akkoord.

[24] NFI Guideline: *The reference to the company's "development, performance [and] position" indicates financial materiality, in the broad sense of affecting the value of the company. […] This perspective is typically of most interest to investors. The reference to "impact of [the company's] activities" indicates environmental and social materiality. […] This perspective is typically of most interest to citizens, consumers, employees, business partners, communities and civil society organisations. However, an increasing number of investors also need to know about the climate impacts of investee companies in order to better understand and measure the climate impacts of their investment portfolios.*

[25] See: https://www.consilium.europa.eu/en/press/press-releases/2019/12/18/sustainable-finance-eu-reaches-political-agreement-on-a-unified-eu-classification-system/#

FOUR APPROACHES TO INTERCONNECTED STANDARD SETTING FOR CORPORATE REPORTING

In assembling the following approaches, we considered developments that are making significant advances in addressing NFI reporting. These include: the TCFD; the CRD Better Alignment Project; the <IR> Framework; the Sustainability Accounting Standards Board (SASB); the Global Reporting Initiative (GRI); the Climate Disclosure Standards Board (CDSB); the paper *Should FASB and IASB be responsible for setting standards for nonfinancial information?* by Professor Richard Barker and Professor Robert G. Eccles (Barker and Eccles paper)[26]; the World Benchmarking Alliance (WBA); the Impact Management Project; and the Value Balancing Alliance. Further information on these initiatives can be found in Annex 1 of this paper.

In the light of these initiatives, we present four possible approaches to interconnected standard setting:

- Approach 1: INSB within the IFRS structures
- Approach 2: Regional consolidation
- Approach 3: Separate governance structure for financial and NFI reporting
- Approach 4: Global corporate reporting structure

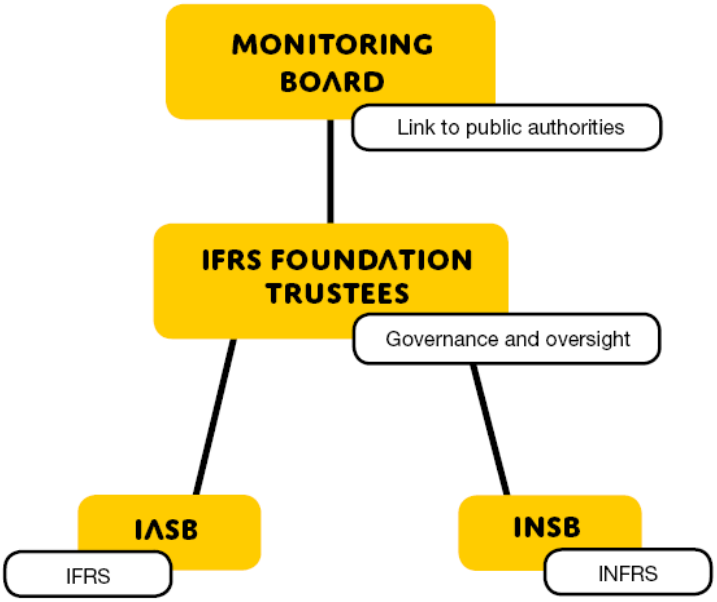
APPROACH 1: INSB WITHIN THE IFRS STRUCTURES

This approach is based on the Eumedion green paper *Towards a global standard setter for non-financial reporting*[27] (Eumedion paper) and explores the possibility of the creation of an International Non-financial reporting Standards Board (INSB) to set International Non-financial Reporting Standards (INFRS), fostering transparency, consistency, comparability and reliability.

Existing NFI players could contribute their expertise and experience to support the establishment of an INSB. This would facilitate the global adoption of the INFRS and the development of high-quality standards.

INSB would be established within the current IFRS structures. It would be overseen by the IFRS Foundation Trustees, which in turn would be linked to the public authorities via the Monitoring Board, both as currently constituted (see Figure 3).

Figure 3: INSB within the IFRS structures



[26] Richard Barker and Professor Robert G. Eccles (October 2018), *Should FASB and IASB be responsible for setting standards for nonfinancial information?*, see: https://www.sbs.ox.ac.uk/sites/default/files/2018-10/Green%20Paper_0.pdf
[27] Eumedion (2019), *Towards a global standard setter for non-financial reporting*, see: https://en.eumedion.nl/clientdata/217/media/clientimages/2019-10-green-paper-international-non-financial-information-standard-setter3.pdf?v=191202165242

PRINCIPAL BENEFITS AND CHALLENGES

Criteria	Benefits	Challenges
Urgency	This may be a quick route as it establishes INSB within existing IFRS structures.	Getting current NFI players on board may need time.
		Jurisdictional buy-in may be time consuming.
Global or local solution	This approach offers a global solution for NFI standard setting and could leverage current structures to achieve local adoption.	
Oversight	The IFRS structures have achieved legitimacy.	Important players in the NFI arena are not included in the current IFRS structures. Legitimacy may be difficult as the current IFRS structures do not include the skills or necessary mechanisms to correctly address and accommodate broader public policy priorities.
		Public sector involvement is not strong enough in the current IFRS structures.
Due process of standard setting	There is a well-established and independent due process.	The IFRS Foundation Trustees do not have the necessary expertise or funding to address NFI issues.
		The current due process may not respond to wider public policy interests.
Responding to stakeholder interests	Capital markets participants are already well represented in the IFRS governance structures.	The current IFRS structures may not readily accommodate a broader constituency to meet all stakeholder expectations.
Framework and metrics	The creation of standardised metrics for NFI at a global level can be achieved.	If the current NFI players do not engage in the creation of INSB, INFRS may be considered as another standard setter, alongside the others already available in the market, which will continue to consume scarce resources.
		There is no provision in the current structure for a connected conceptual framework.
Materiality lens		The materiality lens may be limited to financial materiality and may therefore not incorporate value creation or a longer time horizon.
Legal embedding	Replicating and leveraging the approaches adapted by IFRS could facilitate legal embedding of the new NFI standards.	Legal embedding of the new standards may be challenging as broader policymakers, regulators or NFI players are not included in the current IFRS structures.
Role of technology	This approach could facilitate the development of taxonomies and support greater consistency for data and index providers.	There is a need to create an NFI taxonomy, which may remain unconnected to the IFRS taxonomy.
	The new NFI taxonomy could be connected to the already available IFRS taxonomy.	

APPROACH 2: REGIONAL CONSOLIDATION

This approach is based on the paper *Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe* (May 2019)[28] by Patrick de Cambourg, President of the Autorité des Normes Comptables (de Cambourg paper), and follows the 20 proposals structured around:

- an objective (proposal 1)[29]
- a methodology (proposal 2 to proposal 6)[30]
- the system to set NFI reporting articulated in 4 pillars (proposal 7 to proposal 16)[31]
- a European standard setter (proposal 17)[32]
- international cooperation (proposal 18 and proposal 19)[33] and
- a timeline (proposal 20)[34]

No independancy !

Under this approach, the EC would propose the establishment of an EU NFI standard setter to the European Parliament and Council. The EU NFI standard setter would then be responsible for creating NFI standards, which could consider the 4 pillars presented in the *de Cambourg paper*. The EC would then adopt the NFI standards via delegated acts[35] (see Figure 4).

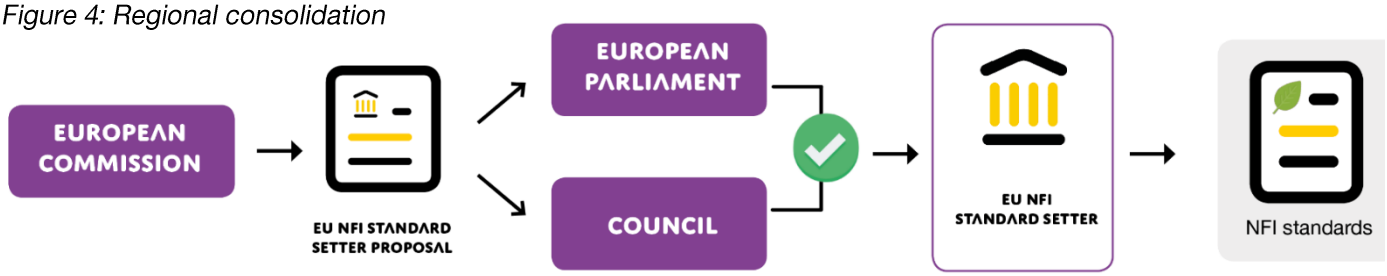
No independency...

However, the *de Cambourg paper* notes that a global solution would better address the important and pressing challenges at hand - primarily climate change.

> *"An overall worldwide initiative would be warranted ideally, in light of the important challenges at hand and the pressing nature of many of them, primarily climate change. The task force thinks that the stage is not set for a comprehensive initiative at this stage, although it is vital to continue working towards this goal"*
>
> *Patrick de Cambourg, 2019*

Sectors ?

Figure 4: Regional consolidation



[28] Patrick de Cambourg (2019), *Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe,* see: http://www.anc.gouv.fr/files/live/sites/anc/files/contributed/ANC/4.%20Qui%20sommes-nous/Communique_de_presse/Report-de-Cambourg_extra-financial-informations_May2019_EN.pdf

[29] *Proposal 1*: provide high quality NFI to all corporate stakeholders.

[30] *Proposal 2*: act at all relevant levels (global, EU, national). *Proposal 3*: integrate achievements and add value. *Proposal 4*: introduce digitalisation from the start. *Proposal 5*: achieve public legitimacy. *Proposal 6*: combine proportionality, voluntary action and exemplarity.

[31] The proposals in each of the four pillars are:
(1) general framework (*Pillar 7*: quality principles for NFI. *Pillar 8*: general classification scheme for NFI.)
(2) sustainability standards (*Pillar 9*: define a general framework. *Pillar 10*: define supplementary sector-specific frameworks.)
(3) Sustainability reporting standards (*Pillar 11:* define an NFI standard structure. *Pillar 12:* define a taxonomy for NFI. *Pillar 13*: establish a minimum level of requirements.)
(4) accountability principles (*Pillar 14*: define rules and codes of governance. *Pillar 15*: mainstream external controls. *Pillar 16*: bring supervisory mechanisms online).

[32] *Proposal 17*: an EU standard setter to draft the content and reporting standards.

[33] *Proposal 18*: foster cooperation between public authorities. *Proposal 19*: foster cooperation between private bodies.

[34] *Proposal 20*: 3 phase paths of 2019-2022, 2022-2025, 2025-2029.

[35] Delegated acts are legally binding acts that enable the EC to supplement or amend non-essential parts of EU legislative acts, for example, in order to define detailed measures. For further details, see: https://ec.europa.eu/info/law/law-making-process/types-eu-law_en

PRINCIPAL BENEFITS AND CHALLENGES

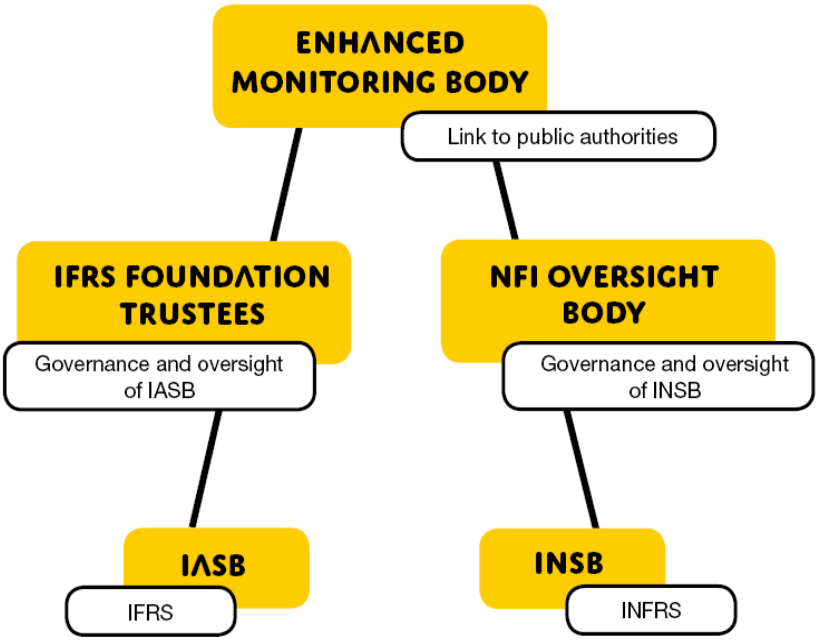
Criteria	Benefits	Challenges
Urgency	This approach may leverage the momentum in EU.	Buy-in by Member States is needed to create the EU NFI standard setter, which may cause delays.
		In addition to potential delays in the legislative process for creating the EU NFI standard setter, there is a further timing consideration in relation to issuing NFI standards.
Global or local solution	This approach could be tailored to meet EU priorities and policy objectives.	A regional solution may not appropriately address the global issues or reflect global flows of capital.
Oversight	Public oversight could be achieved on EU level.	A European solution may not be scalable outside the region.
		It is not clear if/how the private sector involvement is considered.
Due process of standard setting	Funding may be more secure if it comes from the EU budget.	It is not clear how governance, oversight and due process are addressed.
		As the approach will require the involvement of institutions, funding may be delayed.
Responding to stakeholder interests		A regional solution may not include adequate broader stakeholder engagement.
		If the NFI standards are imposed on stakeholders, they may consider it as a box-ticking exercise, which would not contribute to driving the changes needed.
Framework and metrics	Metrics may be agreed more easily at EU level, as embedded in the NFI Directive.	Globally, it may be perceived as another standard setter, alongside the others already available in the market, which will continue to consume scarce resources.
		It is not clear how interconnected standard setting is achieved. While NFI standards will be regional, IFRS is global and subject to endorsement within the EU.
Materiality lens	This approach may build on the double materiality of the NFI Directive.	As the solution does not consider a connection with financial reporting, it is unclear how the value creation goal is achieved.
		The double materiality of the NFI Directive may not be adapted globally.
Legal embedding	If the solution achieves EU Member State buy-in, embedding in local legislation would be easy.	The solution does not consider legal embedding outside the EU.
Role of technology	A European taxonomy is designed to be introduced in the beginning of the process.	It is not clear how the regional taxonomy could connect to IFRS or other taxonomies.

APPROACH 3: SEPARATE GOVERNANCE STRUCTURES FOR FINANCIAL AND NFI REPORTING

This approach builds on the concept of the three-tier structure for financial reporting but establishes a stronger approach to public oversight. The *enhanced monitoring body* would also be responsible for the connectivity of financial reporting and NFI reporting based on overarching principles to be developed.

This also offers an approach that can leverage the work and expertise of existing bodies in NFI standards and frameworks (see Figure 5).

Figure 5: Separate governance structures for financial and NFI reporting



ENHANCED MONITORING BODY

An *enhanced monitoring body* would provide broader public oversight and link to public authorities.

Given the connection of reporting to financial stability and sustainable development under this model, it should include a broader representation of public authorities, multilateral agencies, policy representation and other international bodies. This will ensure appropriate oversight over NFI topics and provide the connection between financial and non-financial reporting. Candidates for the *enhanced monitoring body* might include the FSB, the relevant UN agencies in relation to the SDGs and the Paris Agreement, the World Bank, the International Monetary Fund (IMF), the OECD, regional development banks and other relevant multilateral organisations.

OVERSIGHT BODIES

Under this approach, two oversight bodies would be created:

- the *IFRS Foundation Trustees* would continue as currently constituted to act as the oversight body for the IASB.
- a new *NFI oversight body* to oversee standard-setting for NFI would be established. The expertise represented by the members of this body would include experience in addressing policy and public interest issues across areas of value creation. This would include representation from business, capital markets, investors and public institutions.

INTERNATIONAL NON-FINANCIAL REPORTING STANDARDS BOARD

A new organisation for INSB would be established, achieved by alignment, consolidation or incorporation of existing bodies, responsible for INFRS. INSB would formalise NFI reporting standards, including the development of a core set of global metrics and related disclosures across a range of core topics as discussed above.

Given that climate change is an urgent issue affecting business at all levels, this approach would allow the new standard setting organisations to crystallise the TCFD recommendations in INFRS as their first and most urgent priority. This could encourage global acceptance of INFRS at an early stage.

PRINCIPAL BENEFITS AND CHALLENGES

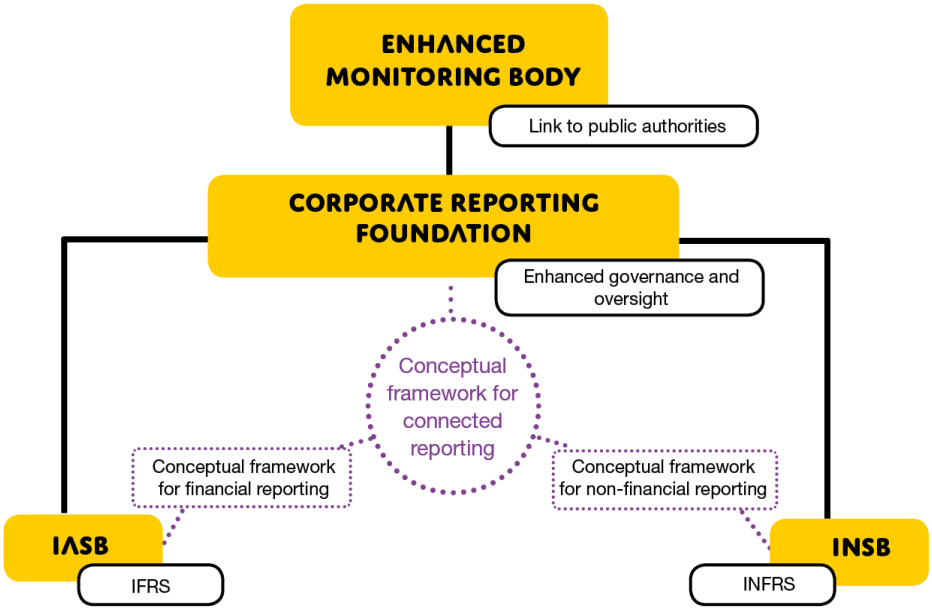
Criteria	Benefits	Challenges
Urgency	This may be a quick route as it only requires achieving coordination at an enhanced monitoring body level; it leaves the financial reporting standard-setting process intact and builds on existing expertise.	Jurisdictional buy-in may be time consuming.
Global or local solution	This approach offers a global solution for NFI standard setting and could leverage current structures to achieve local adoption.	
Oversight		There may be overlaps and gaps between IFRS and INFRS as connectivity is achieved only at the enhanced monitoring body level.
		Developing overarching principles at the enhanced monitoring body level may be challenging and not effective enough – therefore fully interconnected standard setting may be difficult to achieve.
Due process of standard setting	The oversight body can give full attention to NFI and the urgent issues.	It would be necessary to define the composition, attributes and funding of the oversight body, as well as the related experience of its members.
Responding to stakeholder interests	An enhanced monitoring body and NFI oversight body could bring in the interests of a wider range of stakeholders.	Even though stakeholders are brought into the standard setting process, their needs may not be appropriately addressed due to the disconnect between financial and NFI reporting.
Framework and metrics	The creation of standardised metrics for NFI at a global level can be achieved.	This approach would not achieve a connected framework as connectivity is achieved only at the level of the enhanced monitoring body.
		There would be potential for duplication and fragmentation between IFRS and INFRS.
Materiality lens		IFRS and INFRS materiality lenses may not be aligned towards the goal of value creation undermining the objective of an interconnected approach.
Legal embedding	Replicating and leveraging the structures adopted by IFRS could facilitate legal embedding of the new standards.	If the proposed model does not sufficiently meet policy or regulatory expectations on legitimacy or a sufficient public/private collaboration, new standards may face challenges for legal embedding.
Role of technology	This approach could facilitate the development of taxonomies and support greater consistency for data and index providers.	There is a need to create an NFI taxonomy, which may remain unconnected to the IFRS taxonomy.

APPROACH 4: GLOBAL CORPORATE REPORTING STRUCTURE

This model shares the same overall features as in Approach 3, but differs in three key respects (see Figure 6):

- enhanced oversight body: a new Corporate Reporting Foundation would be established, to govern and oversee global corporate reporting standard setting
- enhanced governance process: the *enhanced monitoring body* and the Corporate Reporting Foundation should provide active executive oversight
- connectivity through the conceptual framework for connected reporting. The *enhanced monitoring body* under this approach would not be responsible for overarching principles as it was under Approach 3.

Figure 6: Global corporate reporting structure



ENHANCED MONITORING BODY

Under this approach, the monitoring body is reconstituted in the same manner as previously described in Approach 3.

CORPORATE REPORTING FOUNDATION

In order to address financial and NFI reporting globally, the IFRS Foundation would be restructured to become an enhanced body with a broader corporate reporting mandate as well as a broader responsibility. The expertise represented by the members of this new body would be wider than the current IFRS Foundation Trustees and include experience in addressing policy and public interest issues across the areas of value creation. This recognises that NFI matters are of a legitimate wider public policy interest.

In view of the growing importance of corporate reporting and of NFI issues, governance and oversight would need to be strengthened (i.e., the German two-tier board structure provides a useful model).

CONCEPTUAL FRAMEWORK FOR CONNECTED REPORTING

The Corporate Reporting Foundation would take responsibility for developing and maintaining a conceptual framework for connected reporting, ensuring an interconnected standard setting approach for both financial and non-financial reporting.

INTERNATIONAL NON-FINANCIAL REPORTING STANDARDS BOARD

The INSB under this approach shares the same considerations as previously provided in Approach 3.

PRINCIPAL BENEFITS AND CHALLENGES

Criteria	Benefits	Challenges
Urgency	The approach builds on the existing accepted governance and oversight approaches, systems and procedures of the IFRS structures that could be adapted reasonably quickly to reflect a broader remit.	Changing the IFRS structures would require consensus among the current IFRS Monitoring Board members as well as the IFRS Foundation Trustees, which may be time consuming.
	Buy-in by the relevant organisations, especially multilateral bodies, could lead to quick action.	Jurisdictional buy-in may be time consuming.
Global or local solution	This global solution could provide a good connection between IFRS and INFRS.	
	The approach can be scaled up to include other systemically important standard setting bodies. The model would allow for flexibility in addressing additional country/regional specific issues.	
Oversight	The enhanced composition and strengthened oversight through the collaboration and incorporation of the public sector and private bodies would allow for a greater responsiveness to public policy in NFI and related areas.	It would be necessary to determine a mechanism for agreeing the composition and terms of reference of the enhanced monitoring body and the Corporate Reporting Foundation.
Due process of standard setting	The enhanced oversight body can assess the implications and impacts across financial and NFI reporting and vice versa and coordinate as a result.	There is a need to define the composition, and attributes of the enhanced oversight body, especially the experience of its members to reflect its wider responsibilities.
	Effective resource allocation can be made according to the needs and priorities and achieve appropriate balance across financial and NFI reporting.	Funding should be fair and balanced across different areas of standard setting.
Responding to stakeholder interests	An enhanced monitoring body and Corporate Reporting Foundation could address the interests of a wider range of stakeholders.	
Framework and metrics	A strong interconnection between IFRS and INFRS can be achieved by means of the conceptual framework for connected reporting.	
Materiality lens	A connected materiality lens through a conceptual framework for connected reporting would be achieved.	
Legal embedding	Replicating and leveraging the IFRS structures could facilitate legal embedding of the new standards.	If the proposed model does not sufficiently meet policy or regulatory expectations on legitimacy or a sufficient public-private collaboration, new standards may face challenges in legal embedding.
Role of technology	Global consistency could facilitate the development of taxonomies, which could also support greater consistency for data and index providers.	
	The new NFI taxonomy could be connected to the already available IFRS taxonomy.	

CONCLUSION: WHERE DO WE GO FROM HERE?

Having considered the options, Approach 4: Global corporate reporting structure should be seen as a vision for an outcome that can best address the urgent issues we are facing as well as respond to the call for system change. As an enhanced global interconnected standard setting structure that would build on the three-tier approach adopted for financial reporting, IASB and INSB would share a conceptual framework for connected reporting and sit under the Corporate Reporting Foundation, and an *enhanced monitoring body*.

GLOBAL ISSUES - GLOBAL SOLUTION

A global interconnected solution is essential for many reasons:

- *climate change* needs a global response, with consistent, high-quality, comparable information available at all levels in all markets in order to drive capital to sustainable companies
- companies have *international supply chains and client bases* and are therefore increasingly concerned to manage their dependencies and impacts throughout their entire value chain
- through digital platforms and services, companies have customers around the world. Consumers increasingly expect companies to deliver to the same high-quality standards, irrespective of borders. All parts of the value chain benefit directly from global consistency and comparability of information
- *capital flows, whether in public or private markets, are global*. Standards need to support a level playing field, to encourage investment in long-term, sustainable business models. This will be especially important in managing the transition to low-carbon economies, by enabling globally comparable information
- globally consistent standards help preparers to manage the *cost and complexity of reporting*
- *moving from a patchwork of regulation* would improve competitiveness, the free flow of capitals and comparability of information, similarly to the improvement of the situation of financial reporting with the introduction of IFRS

A VISION FOR INTERCONNECTED STANDARD SETTING FOR CORPORATE REPORTING

This approach sets a vision for interconnected standard setting for corporate reporting which would provide:

- a consistent, core set of global metrics for non-financial reporting within mainstream corporate reporting
- connectivity between the financial and NFI standard-setting bodies, through the Corporate Reporting Foundation
- a global solution, with strengthened oversight over standard setting through enhanced public/private collaboration to allow for greater responsiveness to public policy developments in NFI areas.

A VISION THAT MAY BE ACHIEVED IN STAGES

We acknowledge that this vision may be the longer-term goal and can be achieved in stages. For example, a starting point could be for 'like-minded parties' to develop a solution with a vision of INFRS. This would allow wider endorsement from countries and multilateral organisations to grow over time beyond a leading, visionary initial group. Another stepping stone may be the transformation of the current composition of the IFRS structures to appropriately incorporate INFRS within an INSB and enhanced oversight and monitoring body.

STRONGER COLLABORATION

Because of the importance of corporate reporting and NFI matters, we recommend broadening and diversifying the public representation on the *enhanced monitoring body* to include participants beyond capital markets and financial stability public authorities. The collaboration between the public and private sector in standard setting will help address issues that are highly relevant to policy and investment at local, regional and global level.

ALLIANCE OF LIKE-MINDED PARTIES FOR A SYSTEM CHANGE

Regulators, companies, investors, customers and relevant NGOs are increasingly calling for an interconnected global approach to develop high-quality, consistent and comparable standards for NFI. We have, arguably, reached a tipping point, where there is the consensus necessary to move from innovative and successful market-led solutions towards global regulation of standard setting for NFI that could lead to long-term, resilient business models, as well as help investors direct capital to sustainable companies.

Climate change is an urgent issue affecting companies at all levels. Alongside the development of a global solution, considering its wide acceptance, the TCFD recommendations may be elevated as a standard because:

- the TCFD recommendations' process included strong market input (companies, investors and other stakeholders)
- global frameworks and standards have already made some progress towards alignment around climate change
- TCFD recommendations are already referenced by many regulators and governments.

A decisive move now by the International Organization of Securities Commissions (IOSCO), the EC and bodies such as the FSB, UN, World Bank could quickly establish a new mandate.

The EU can act as the catalyst towards a global solution leading an alliance with other countries ready to move towards consistent standards in this space. This could build from the International Platform on Sustainable Finance initiative, which is open to public authorities willing to promote international cooperation in the area of environmentally sustainable finance.

DATA, TECHNOLOGY AND AGGREGATORS

Taxonomies and other aggregation tools drive consistency and quality in information provided to the market (including data and index providers). The work of the WBA and other initiatives can help to develop more consistency – for example, through benchmarks based on common methodologies.

We also recognise that the development of a consistent set of global INFRS can provide greater consistency in this space too, given that data providers draw public information from mainstream company reports and other sources.

CHANGE STARTS TODAY

In closing, we turn to you. We have put forward our ideas and invite your critical feedback on what more could be done. We would welcome further calls from leading companies and investors for the solutions set out in this paper, to provide additional market pull and help to accelerate solutions that can achieve the objective we set out for connected standard-setting. What will *you* do to contribute to the system change? Please send your thoughts and opinions to jona@accountacyeurope.eu by 31 March 2020.

ANNEX 1: IMPORTANT NFI INITIATIVES THAT INFLUENCED THE APPROACHES IN THIS PAPER

- The *TCFD recommendations* (2017), have generally been welcomed by many jurisdictions, and referenced by the EC in its NFI Guidelines. See: https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf.
- *The CRD: Better Alignment Project* aims to align the frameworks and standards of its participants, and phase 1 considered climate and TCFD. See: https://corporatereportingdialogue.com/wp-content/uploads/2019/09/CRD-Final-proof-of-BAP-Report-24Sep19.pdf
- *The <IR> Framework* as issued by the International Integrated Reporting Council focuses on the ability of the organisation to create value over time, and how its concepts are being adopted through corporate governance codes and other market mechanisms. See: https://integratedreporting.org/wp-content/uploads/2015/03/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf
- *SASB* has developed a set of industry standards on sustainability topics and provided metrics by industry for inclusion in mainstream reporting and filings. See: https://www.sasb.org/standards-overview/download-current-standards/
- *GRI* has developed universal standards as well as topic specific standards (environmental, economic and social) in order to address companies' wider impacts. See: https://www.globalreporting.org/standards
- *CDSB* has developed a framework for climate-related principles and disclosures in mainstream reports, aiming to help investors assess how climate affects the company. See: https://www.cdsb.net/what-we-do/reporting-frameworks
- A paper by Barker and Eccles, called for FASB and IASB to be responsible for developing standards for NFI. See: https://www.sbs.ox.ac.uk/sites/default/files/2018-10/Green%20Paper_0.pdf
- *WBA* has identified seven system transformations (social, food and agriculture, decarbonisation and energy, circular, digital, urban and financial) that would incentivise and accelerate companies' efforts towards achieving the SDGs. See: https://www.worldbenchmarkingalliance.org/benchmarks/
- IFAC's *Point of View on Enhancing Corporate Reporting* called for a system change and convergence towards relevant, reliable, and comparable narrative information and metrics. See: https://www.ifac.org/what-we-do/speak-out-global-voice/points-view/enhancing-corporate-reporting
- A *Discussion paper By Global Investor Organisations On Corporate ESG Reporting* (October 2018) by Principles of Responsible Investment (PRI), International Corporate Governance Network (ICGN) and other investor bodies aimed to provide a more unified view of investor perspectives on corporate ESG reporting. The paper concludes that it is beneficial for investors for companies 'to disclose standardised ESG information at a basic level to complement more customised ESG reporting'. See: https://www.unpri.org/download?ac=6181
- *The Impact Management Project* aims to build a global consensus on how to measure, compare and report ESG risks and positive impacts. See: https://impactmanagementproject.com/
- *The Value Balancing Alliance* aims to create a standardised model for measuring and disclosing the environmental, human, social and financial value companies provide to society. See: https://www.value-balancing.com/
- The paper *Financing our Future, Update: Actions to scale up and accelerate the pace of change towards a more sustainable financial system* (December 2019), by Accounting for Sustainability sets out actions to deliver a global sustainable financial system. See: https://www.accountingforsustainability.org/content/dam/a4s/corporate/home/KnowledgeHub/Guide-pdf/Financing%20our%20Future%20update%202019.pdf.downloadasset.pdf

Avenue d'Auderghem 22-28, 1040 Brussels

+32(0)2 893 33 60

www.accountancyeurope.eu

@AccountancyEU

Accountancy Europe

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 36 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).