CIMA

CIMA response to the Accountancy Europe Cogito paper – Interconnected standard setting for corporate reporting.

Dear Olivier,

29 April 2020

Introduction

CIMA welcomes the opportunity to comment on the Accountancy Europe paper published on 21st December 2019 entitled '*Interconnected standard setting for corporate reporting*'. We recognise this paper as a significant part of the global debate on the corporate reporting agenda and especially welcome the focus on how standards can be better coordinated and delivered.

CIMA concurs that there is a "need for interconnected standard setting for corporate reporting to coordinate, rationalize and consolidate the many non-financial reporting initiatives that exist" and supports the objective of an assessment of the various approaches to standard setting currently in operation at a global level as outlined in the paper.

It is evident that the proliferation of current standard setting is leading to confusion within the marketplace and the potentially inefficient allocation of capital by investors. It is also important to remember that the wide-ranging data and the reporting thereof can be costly to businesses and reporting standards must ideally remain relevant and material to business decision making.

Building on Progress

Given the existence of numerous frameworks, we believe that it is critical to build consensus around the key characteristics of a sound framework and, from that, set appropriate standards. In that regard, we acknowledge your consideration of existing frameworks which have already gained traction globally that are making significant advances in this arena, including the Task Force on Climate Related Disclosures (TCFD), the Corporate Reporting Dialogue (CRD) Better Alignment Project, the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), the Climate Disclosures Board (CDSB), and the World Benchmarking Alliance (WBA).

In particular, we are supportive of the IIRC framework[1] which sets out how financial value creation connects with value creation across five other types of capital. Unlike other frameworks, the IIRC one does not concentrate solely on environmental matters but is more broadly related to value. The framework is sufficiently flexible to be used as a basis for the development of international standards and is a good basis for global collaboration. As an indication of the global backing for this framework from the accountancy profession, IFAC's recent paper "*Enhancing Corporate Reporting*" affirms IFAC's support for integrated reporting.

Another excellent source of knowledge is the IASB work on management commentary. This workstream looks at how financial statements can be developed alongside narrative reporting. It is relevant because linking financial reporting to wider corporate reporting will involve greater focus on risk and governance structures and on the context in which financial information is being prepared.[2]

A Comprehensive Perspective

However, we acknowledge that the IIRC framework and management commentary revisions alone will not be sufficient to achieve success and we should draw on the strengths of other initiatives as well. We are supportive of many initiatives at global level, including the well-established GRI, which provides information to a broad range of stakeholders, and others noted above. Additionally, critical to success will be the support of mainstream businesses who can relate these frameworks to operational decisions on long-term value creation.

With respect to the standardization of metrics, we commend to you the World Economic Forum (WEF) Consultation Draft by the International Business Committee (IBC) of January 2020[3]. This report presents a useful starting point in terms of developing a core set of universal ESG disclosures which build upon all the existing major frameworks. It also has the advantage of global reach through the WEF.

We would also urge consideration of the results of the '*Embankment project*'[4] which, similarly, sought global business support for development of appropriate non-financial metrics. Of note in this report was the focus on company culture and purpose which is critical to long term success. This seems particularly relevant given the pressing need to re-evaluate organisational strategy during the current global crisis.

A Global Approach

One other point to note is that a global approach should in our view consider standard setters in the United States, one of two preeminent capital market centres. In particular, SASB[5] has contributed significantly to this debate and has already developed a comprehensive set of standards for 77 specific industry sectors which are already seeing uptake on an international basis.

---

[1] https://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf
[2] https://www.ifrs.org/projects/work-plan/management-commentary/
[3] https://www.weforum.org/whitepapers/toward-common-metrics-and-consistent-reporting-of-sustainable-value-creation
[4] https://www.ey.com/Publication/vwLUAssets/ey-at-embankment-project-inclusive-capitalism/$FILE/EY-the-embankment-project-for-inclusive-capitalism-report.pdf
[5] https://www.sasb.org/

In the discussion of Approach 3 being an approach that can leverage the work and expertise of existing bodies, it is noted that "this approach would allow the new standard setting organizations to crystallize the TCFD recommendations as their first and most urgent priority." On this point of urgency regarding the issue of climate change, the SASB and the CDSB have developed two critical resources – the *TCFD Implementation Guide: Using the SASB Standards and the CDSB Framework to Enhance Climate-Related Financial Disclosures in Corporate Reporting* and a follow on *TCFD Implementation Guide*.

Furthermore, global investment company *State Street Global Advisors* plans to use their recently launched "R-Factor" scoring system as part of its evaluation of the performance of a company's business operations and governance as it relates to financially material ESG matters. This transparent scoring system leverages the SASB's materiality framework, likely further driving greater adoption of the SASB Standards.

In our view it would be prescient to consider these in any global initiative. It is disappointing to see that they, or any other U.S involvement is not prominently referenced within this paper. Such a global approach has not yet been achieved in financial reporting, in part because the United States has historically developed a separate system and coordination globally was left until financial standards were already too embedded. There is now an opportunity to avoid global misalignment once again and we believe that management accounting professionals will be key to ensuring this.

The Role of the Management Accountant

The management accountant's role in the creation and publication of the financial statements and accompanying reports means they are well placed to deliver on standards reporting around wider metrics. The management accountant has a unique focus on how organisations create and preserve value and a recent focus on business model disclosures shows how a greater understanding of the value creation process, linking this to the wider business ecosystem and performance management means that they are well placed to develop these metrics further. Further to this, we would note that the perspective of the investor is also critical in standard development.

The work of the Financial Reporting Council Lab[6] in the UK shows how the investor perspective can be brought in to developing quality reporting. This model could equally be applied to non-financial reporting information. In our view, investor decisions that are made on the basis of the information supplied in response to these standards should be the ultimate aim of any global player in this arena. It would be good to see evidence of investments made or forgone because of non-financial information provided; as this would be a measure by which we could judge the success of the new institution. This outcome would lead to the optimum allocation of resource to business.

Developing the Standards

In developing metrics, we agree that flexibility should be embedded in the system and that different regional and possibly sectoral standards could be developed based on a core and more approach. However, such flexibility should be kept to a minimum and justification criterion need to be developed so that variations are understood by all. More critically, is that the standards need to ensure that all information is material in both financial and potentially in environmental and social terms. A standard setter needs to ensure it is driven by a stakeholder endorsed definition of materiality. This should be

[6] https://www.frc.org.uk/investors/financial-reporting-lab

kept as an underlying principle guiding new standards. It should also be noted that organisations often exercise influence rather than control over non-financial metrics. This means greater flexibility in how the standards are drafted will be needed.

Finally, consideration is needed on how reporting under the standards may be adequately assured. In addition to the provision of assurance by external providers, the role of internal auditors is important in this regard.

Conclusions

In summary CIMA is supportive of the ideas outlined in *approach four* of this paper and the need to provide a cohesive regulatory structure to non-financial information. However, we would welcome a stronger focus on what the standards might be, how they might practically apply to the operations of an individual business and how they may be adequately assured and hence compared.

Yours Faithfully,

Andrew Harding FCMA CGMA

Chief Executive - Management Accounting