

Interconnected standard setting for corporate reporting

Cogito paper issued for comment by Accountancy Europe in December 2019

Comments from ACCA
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OUR VIEWS

ACCA welcomes the opportunity to provide views in response to the Cogito paper which have been developed with the assistance of our Global Forum on Corporate Reporting.

ACCA very much supports overall the content and conclusions of the paper.

The issue of developing standards to improve the quality and comparability of the reporting of non-financial information (NFI) is an urgent and very important one for the reasons given in the paper – the wider stakeholder interest in corporate reporting, a desire from investors and others to understand in a holistic way the value creation by the entity and assess all the material risks and opportunities it faces in the shorter and longer term. The NFI should be including in our view not only information on environmental and social issues, but also very important non-financial ‘operational’ information on a company’s performance – which might be customer satisfaction, market penetration, R&D drug pipelines etc.

A system of reporting of NFI should retain the primary stakeholder as investors, while recognising the importance of other stakeholders, with some specific guidance on what should be included in reports for these secondary stakeholders. Our concern is that without retaining this primary focus, reporting will end up too broad, hence with reduced comparability and quality, and too onerous for high quality adoption.

We agree that Approach 4 represents the best model for setting the standards needed to address the issue.

On the main conclusions set out in the final section we make the following comments.

- We very much support the objective of global standards for the reporting of NFI. However it must be recognised that the IFRS Foundation have not achieved global standards for financial reporting, given their absence in the United States as the largest economy and capital market.
- On interconnected standard setting again we would support the objective, while noting that this would require more than is set out in the paper. The paper promotes a structure for standard setting that links two independent boards. This is a useful start but does not in itself ensure that the standards produced by the two boards will be coherent, compatible and complete. While a common conceptual framework would help with this and is essential and feasible (see for example our report on the Tenets of Good Corporate Reportingⁱ) common concepts are not sufficient for providing the best reporting to meet the needs identified. There would have to be an overall structure for the reporting of financial and non-financial information developed – which the IIRC’s integrated reporting framework is currently best placed to provide, or possibly what may emerge from the IASB’s management commentary revision or good examples developed by different jurisdictions. It may be that this is what is intended by the connected conceptual framework, but these all go beyond concepts to include content elements as well. Figure 6 in the paper appears to suggest two conceptual frameworks

somehow linked by a third common one. This needs to be explained in more detail.

- The paper notes that a staged approach may be possible. In taking these ideas forward (especially the global standards) the leading role of the European Union needs to be acknowledged, the urgency of the issue and the length of time to establish any global mechanism.
- On stronger collaboration we agree that in recognising the wider stakeholder interest in corporate reporting a revision would be needed of the composition of the Corporate Reporting Foundation and the enhanced Monitoring Body. Both will need links to the authorities responsible for mandating financial and broader corporate reporting, in addition to the current representation of users, preparers and auditors in the oversight body.
- While there is a need to make appropriate use of the frameworks and standards that have been developed in market-led voluntary reporting, what is needed now are standards for reporting NFI that should to the extent possible be mandatory, backed and enforced by the regulatory authorities.
- We agree that the TCFD recommendations should be the basis of an immediate standard on climate change given the urgency of the issue. The INSB in Approach 4 could review it for improvements in due course. While starting with climate change, the new system should be mindful how the TCFD could be used as a model for other areas such as environmental and social issues.
- We agree with the role of technology set out here.
- In the final section 'Change starts today' the paper invites respondents to take this further. We would support a clearer statement of the need for key international bodies (identified on the same page as having that capability) to make a decisive move in this regard. They and key jurisdictional regulatory bodies should come together to drive progress and alignment, or else this Cogito paper will be the next in a long run of documents that describes the problems really well and proposes a workable solution without actually bringing about change.

It would be helpful for others to understand the Accountancy Europe position better and to start on the next matter that needs to be addressed, if some idea of what INFRS might look like could be developed. For example:

- We have noted above that in our view either the IASB or the INSB would need to put together a framework for corporate reporting as a first standard, using the IIRC Framework as the starting point.

- Minimising the development of sectoral standards and developing common core principle-based standards with the possibility of more company or sector specific measures being included in addition.
- There might be a core set of indicators for, in Accountancy Europe's words, a 'Core' report with others more detailed and sectoral perhaps in a 'More' report
- The INSB might be well advised to start with what is the most urgent, but also the most tractable issue first – being climate change and carbon. There are risks in slowing progress here by INSB attempting to develop standards covering all sorts of different issues, some of which may be difficult to standardise at present.

ⁱⁱ <https://www.accaglobal.com/uk/en/professional-insights/global-profession/Tenets-of-good-corporate-reporting.html>