

Submission by the Climate Disclosure Standards Board (CDSB) response to AccountancyEurope report on “Interconnected Standard Setting for Corporate Reporting”

31 March 2020

CDSB welcomes the opportunity to offer our written response to AccountancyEurope’s report¹ (hereon referred to as “the report”) on interconnected standard setting and each of the four approaches that have been suggested.

CDSB is an international consortium of nine business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We do this by offering companies a framework for reporting environmental and climate information (the CDSB Framework²) with the same rigour as financial information. In turn, this helps companies to provide investors with decision-useful environmental and climate information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials. Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems.

The CDSB Framework has been referenced in Defra’s Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance, the London Stock Exchange’s ESG reporting guidelines, as well as in guidance to mandatory reporting requirements and stock exchange reporting guidelines internationally.

Our comments are intended to be constructive, to support AccountancyEurope in achieving a common standard for non-financial reporting.

Please find our comments below and do not hesitate to contact us if we can be of further assistance.

Best regards,



Mardi McBrien
Managing Director
Climate Disclosure Standards Board

¹ AccountancyEurope (2019), Interconnected Standard Setting for Corporate Reporting. [Online]. Available at: <https://www.accountancyeurope.eu/publications/core-more-smarter-corporate-reporting/>

² Climate Disclosure Standards Board (2018) CDSB Framework for reporting environmental and climate change information. [PDF]. Available at: <http://cdsb.net/Framework>

General Points

The CORE and MORE approach, as referenced in the report, is an interesting approach to achieving interconnected standard setting for corporate reporting and ensuring concise reporting in the mainstream report. A similar approach has recently been proposed by the World Economic Forum (WEF) to report both Core and Expanded Metrics in ESG Reporting³. However, we wonder how this could fit with current approach of working towards integrating material non-financial reporting fully within the management report, which is then supported by additional information reported elsewhere in supplementary documents or on the reporting entity's website. We therefore recommend further work on assessing the role of the management report as a central repository of overarching information, supported by complementary reports that provide more detail on specific topics.

On page 9 of the report, AccountancyEurope argue that a system change is needed in order for stakeholders to be able to fully integrate both non-financial information (NFI) with financial information (FI). CDSB shares the same view with the points raised in this argument, notably the necessity for a global standardised set of metrics and that leadership from Europe in the form of its Green Deal can be the catalyst to accelerate this process. We also agree with the role of technology, such as XBRL, being a mechanism to demonstrate the connection between NFI and FI data. AccountancyEurope are correct to highlight at the end of the report that this remains a global problem and this requires a global solution, thus a global standard is required as the final goal.

We found the point that reporting companies are able to “framework shop” and thus be able to report on their company in the best possible light very interesting. This demonstrates the necessity for a single set of agreed metrics for companies to report under, in order to mitigate risk of greenwashing and to generate comparable datasets across organisations.

The broader stakeholder argument that AccountancyEurope adopts is to an extent true, but does not sufficiently reflect the fact that different stakeholders require different information. In its upcoming review of 50 European corporate reports, CDSB has found that the investor audience has been under-served, citing that reporting is “*failing to provide a coherence view of the company's overall position*”. In addition, within the context of this paper, it is also important to note that the IASB Conceptual Framework clearly states that “*The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.*”⁴ It is crucial to ensure the consistency in audiences within FI and NFI to preserve consistency and comparability, as well as common characteristics, to ensure that the resulting information is suitable for investor decision-making. As such, CDSB has also called for greater focus on the investor as a primary audience for reporting in the current review of the Non-Financial Reporting Directive⁵, while recognising that some of this information may also be suitable to satisfy the needs of other stakeholders. It must also be noted that over long-term horizons, impacts on stakeholders and the investor perspective are better aligned.

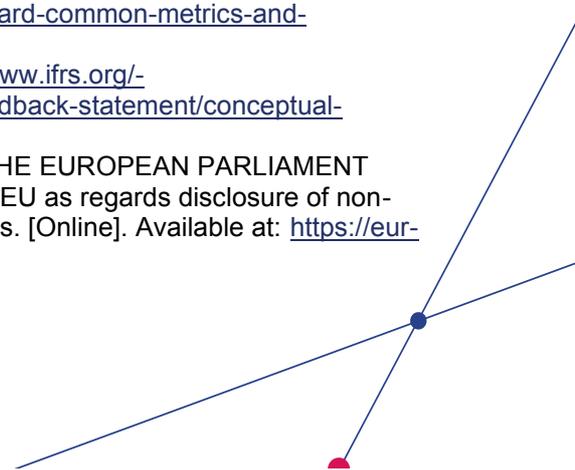
³ World Economic Forum (2020), Towards Common metrics and Consistent Reporting of Sustainable Value Creation. [Online]. Available at: <https://www.weforum.org/whitepapers/toward-common-metrics-and-consistent-reporting-of-sustainable-value-creation>

⁴ IFRS (2018), IFRS Conceptual Framework. [PDF]. Available at: <https://www.ifrs.org/-/media/project/conceptual-framework/fact-sheet-project-summary-and-feedback-statement/conceptual-framework-project-summary.pdf>

⁵ European Parliament and Council (2014) DIRECTIVE 2014/95/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. [Online]. Available at: <https://eur-lex.europa.eu/legalcontent/EN/TXT/?uri=CELEX:32014L0095>

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CDSB also agrees with the point made on page 11, highlighting that due process of standard setting being essential for credibility and expects this to be a key consideration for the European Commission as it embarks in the creation of its own Non-Financial Reporting Standard.

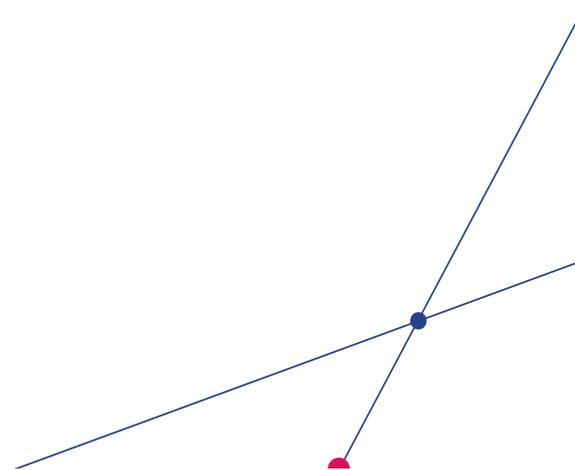
CDSB acknowledges the challenges faced in materiality determination, which the paper discusses on pages 12 and 13. Although the CDSB Framework aligns with the International Accounting Standards Board (IASB) definition of materiality, we recognise the challenges noted as regards capturing impacts on value creation. This is a challenge that all NFI standard setters currently face. The expanded definition provided in page 13 to include “impacts that can become material dependencies in the short or long term, quantitatively or qualitatively” is an interesting concept that CDSB welcomes in the journey to provide a suitable definition for materiality. It is however crucial that this discussion is continued in the context of the IASB definition of materiality, in order to align financial and non-financial information. We also note that the IASB's narrow financial definition is often interpreted to be a twelve-month window. It would be important to establish a common practice of applying materiality to longer-term time horizons in order to capture long tail risks associated with ESG matters.

The paper correctly highlights that “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.” It is crucial for the success of this work to secure buy-in from these organisations.

The idea of the Corporate Reporting Foundation covering both financial and non-financial information is welcomed, the interconnectivity between both NFI and FI is a key consideration. The connection between the two must be stronger than a conceptual framework and needs to be reflected in both financial and non-financial reporting standards. In the case of financial reporting standards, we refer Accountancy Europe to CDSB's Uncharted Waters report⁶, which outlines how certain IFRSs could apply to climate-related matters. Conversely, the TCFD's approach on linking climate-related matters to financial performance can also be applied to other forms on non-financial information.

Finally, any proposed conceptual framework needs to incorporate the TCFD's seven principles for effective disclosure, as well as the CDSB Framework's Principles. While we recognise the challenges with evolving the IASB's principles, both of these are aligned with each other, as well as the IASB Conceptual Framework's principles and as such, only minor changes would need to be made.

⁶ CDSB (2018), Uncharted Waters. [PDF]. Available at:
https://www.cdsb.net/sites/default/files/uncharted_waters_final.pdf



Approaches

CDSB offers comments on the four suggested approaches below.

Approach 1: INSB within the IFRS Structures

AccountancyEurope are correct to acknowledge getting NFI players may take some time. We note however that recent and ongoing work, such as the work conducted under the Corporate Reporting Dialogue⁷, means that conditions are more favourable than ever to support more rapid change.

Approach 2: Regional Consolidation

A regional approach may not be the best method to develop a global standard. This problem is further exacerbated by the issue that jurisdictions outside of Europe may be hesitant to adopt regional concepts, such as the double materiality of the NFR Directive, as it differs significantly from established international practices. Further work on the existing IASB materiality definition is also not without challenges, but we believe it would result in a more pragmatic approach for international adoption.

Approach 3: Separate Governance Structure for F and NFI Reporting

Approach 3 is a potentially cumbersome solution, but may represent the most pragmatic solution for achieving the papers intended aims in the short term. The IFRS Foundation and IASB may not be open to complete incorporation of NFI Reporting and could result in a long timeline. However, we agree that Approach 3 may act as a steppingstone to achieving Approach 4.

Approach 4: Global Corporate Reporting Structure

Approach 4 is the preferred route for CDSB. This approach enables the connectivity and FI and NFI, which is the key consideration for interconnected reporting, whilst also offering a global solution.

⁷ Corporate Reporting Dialogue (2019), Driving Alignment in Climate Related Reporting. [Online] Available at: <https://corporatereportingdialogue.com/climatereport2019/>

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