

INTERCONNECTED STANDARD SETTING FOR CORPORATE REPORTING

FROM ACCOUNTANCY EUROPE THOUGHT-LEADERSHIP SERIES

Climate change, environmental degradation, human rights and social concerns, are of growing global concern to companies, investors, policymakers, regulators and civil society. In addition, internally generated intangibles have become a major component of the market value of companies. In response, hundreds of non-financial information (NFI) reporting frameworks and standards have been developed, which are leading to confusion and the potential for greenwashing.

The publication [Interconnected Standard Setting for Corporate Reporting](#) seeks a way to coordinate, rationalise and consolidate the many non-financial reporting initiatives, create a core set of global metrics, and connect this information to financial reporting.

WHY: FACTORS DRIVING THE NEED TO ACT

- urgent issues and risks affecting businesses globally
- companies evolve towards a broader stakeholder focus

- change needed beyond corporate reporting
- momentum for growth in sustainable investment
- calls for harmonisation of frameworks and standards in NFI reporting

WHAT: A SYSTEM CHANGE

Stakeholders need to understand both financial information and NFI together for a better insight into company performance, impacts and dependencies. An approach to interconnected standard setting for corporate reporting could promote a system change by:

- coordinating, rationalising and consolidating NFI initiatives
- include a core set of global metrics for NFI in mainstream reports, reported with the same discipline and rigour as financial information
- connecting NFI with financial reporting

HOW: 9 CRITERIA TO EVALUATE POTENTIAL STANDARD SETTING APPROACHES

The following nine criteria are used to evaluate the various approaches to interconnected standard setting:

1. URGENCY

How quickly can different approaches be implemented, especially in the light of existential challenges such as climate change?

2. GLOBAL OR LOCAL SOLUTION

How do the approaches address global issues while taking account of momentum and priorities at regional or local levels?

3. OVERSIGHT

How can the public and private players effectively collaborate to oversee interconnected standard setting?

4. DUE PROCESS OF STANDARD SETTING

How are the principles of our Cogito paper [Standard Setting in the 21st Century](#) addressed?

5. RESPONDING TO STAKEHOLDER INTERESTS

How does the approach engage different stakeholders?

6. FRAMEWORK AND METRICS

Does the approach allow for an interconnected conceptual framework and does it achieve a core set of global metrics for NFI?

7. MATERIALITY LENS

Does the approach expand the financial materiality to include impacts that can become dependencies in the short or long term, quantitatively or qualitatively?

8. LEGAL EMBEDDING

How would the standards be adopted within jurisdictions?

9. ROLE OF TECHNOLOGY

How does the approach harness technology?

WHERE DO WE GO FROM HERE?

We set out an approach for a global corporate reporting structure (see figure below) as the ultimate vision for interconnected standard setting for corporate reporting, which could be achieved in stages, based on the collaboration of 'like-minded parties'. The approach:

- 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, responsible for financial and non-financial reporting oversight
- includes the creation of an International Non-financial Reporting Standards Board (INSB) to set International Non-financial Reporting Standards (INFRS)

- connects the financial and nonfinancial standard setters through a conceptual framework for connected reporting

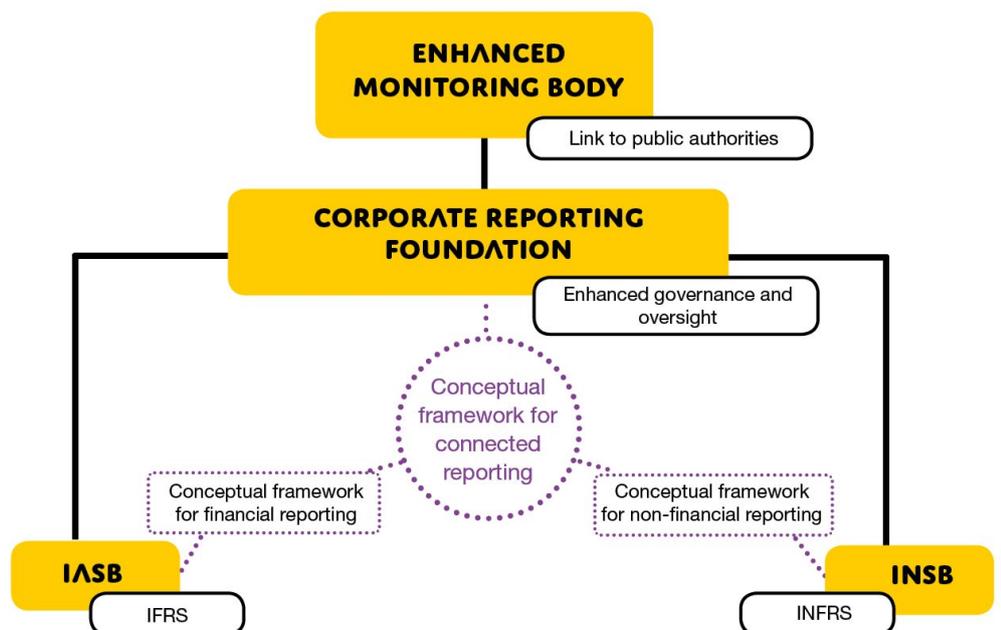
BENEFITS OF THE APPROACH

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

CHANGE STARTS TODAY!

Market action is required to drive a solution. A system change is needed to address the urgent global issues and respond to the calls for harmonisation. Read more about [Interconnected Standard Setting for Corporate Reporting](#) and let us know your thoughts and comments by email to jona@accountancyeurope.eu by 31 March 2020.

GLOBAL CORPORATE REPORTING STRUCTURE



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