



Accountancy Europe
Avenue d'Auderghem 22-18
1040 Brussels
Belgium

27 April 2020

Dear Sirs/Madam

Re: Interconnected Standard Setting for Corporate Reporting

Thank you for giving us the opportunity to comment on your proposals. We recognise Accountancy Europe's efforts to tackle this important issue and provide some thoughts on the current environment for Corporate Reporting.

Summary

We fully support the objective of having a consistent global set of interconnected standards for corporate reporting of financial and non-financial information. This ambition is broadly shared - we hear it from the investment community as well as NGOs, from policy makers as well as business decision makers. The question is not whether to move in this direction, but how best to do so. A balance needs to be struck between this long term strategic goal and the need to quickly respond to current stakeholder demands which require specific solutions delivered in the short to medium term.

Global Standards - a strategic vision

Capital markets overall want consistent, high quality and comparable non-financial information. Such comparability would be improved when backed by strong governance, quality processes and controls over the production of generally accepted standards combined with third-party assurance of the data.

Where global consistency would be of greatest benefit is in enabling the universal understanding of key concepts, including non-financial, materiality and risks.

The measurement, recognition and disclosure of non-financial reporting metrics should be governed by a principles based "conceptual framework: to provide the necessary basis from which to report financial and non-financial metrics outside of the financial statements". We think this is an area where global engagement would be valuable.

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Convergence of existing standards and frameworks - a near-term imperative.

Our experience is that obtaining a consensus on core global principles will take time. Unlike financial reporting which has become “generally accepted” over centuries, non-financial reporting has evolved in recent decades and therefore many different stakeholders, investors, countries and individuals still have legitimately different views on what forms of reporting should be required and what and how it should be measured. This has contributed at least in part to the diversity in presentation and measurement of non-financial metrics. There are a number of quality standards and frameworks that have already been created, however these can overlap and cause confusion. We believe consolidation is needed.

In our view, consolidation processes should build on existing efforts to produce shared standards. Examples of how this may happen are via the Corporate Reporting Dialogue (such as GRI, SASB, IIRC) or initiatives like TCFD and IBC/WEF 4Ps. This is an attempt to move towards a more consistent and coordinated standard setting/adoption basis. Many of these organisations have governance boards independent from the standard-setting function, well-respected Board members, and have sought buy-in from business, investors and other stakeholders. We believe the promotion of these initiatives as part of a market solution will help a global solution.

The key advantage of drawing on existing approaches is that this would build on work already undertaken and the trust such organisations have already built among stakeholders. It would not be delayed by the lengthy process that the establishment of a completely new global body would inevitably involve.

The short-term goal of any global, regional or local standard setter should be to define certain base metrics key to their needs/objectives and then link these to those that have already been used and tested in practice leveraging the TCFD and WEF/IBC work. Linking these base measures to existing standards and guidance on how to report would also be helpful and reinforce consistency and comparability. Where gaps or issues with existing guidance/standards are identified, the relevant bodies should be engaged to update/revise their guidance.

Ultimately as we move to converged and potentially global standards these should be relevant to deliver the strategic aims of reporters and meet the needs of stakeholders. A single high quality set of standards could help achieve synergies for both preparers, auditors, investors and stakeholders. Focussing on the most important base metrics that have the highest level of consensus in the market today will likely ease concerns about the potential costs versus benefits of such standards.

Conclusion

Any global efforts should be broad enough to take into account the views of preparers and users and also have sufficient representation amongst different industries. One of the critical factors in securing



buy-in from stakeholders will be a clear demonstration of the benefits of such base metrics/standards exceeding the costs of reporting and global standard setters should remember not to lose sight of this.

It is likely in the short-term various regional initiatives will occur, the European Commission's public consultation on the Non-Financial Reporting Directive (NFRD) is a recent and welcomed example. Where this happens we recommend they take the same approach as suggested above - identify key metrics, linking these to existing standards and initiatives rather than setting out to produce their own local standards. This will help promote convergence and consistency over time and align with any global initiative. It will also mean that global work can be done in parallel to regional initiatives.

It will take time for securities regulators or other relevant bodies to endorse such standards for local markets. For example, International Financial Reporting Standards were not created overnight and took several decades to gain widespread acceptance through agreement with securities regulators or other national bodies who endorsed the application of such standards in their respective territories. However, global standard setting efforts may help as inputs for regional initiatives and vice versa and therefore might accelerate the process of moving to a globally accepted framework.

If you have any questions about our response, please contact Henry Daubeney or myself.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Richard Oldfield', with a horizontal line extending from the end of the signature.

Richard Oldfield
Global Markets Leader