

Accountancy Europe
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Brussels

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Dear Sir/Madam,

Interconnected Standard Setting for Corporate Reporting

Thank you for the opportunity to comment on the latest thought leadership paper from Accountancy Europe. We support setting standards for non-financial reporting and believe that establishing the right infrastructure for the development of those standards is of critical importance.

We consider that the set-up of an international standard setter should be the long-term aim. The current position of multiple voluntary frameworks creates a confusing landscape for companies and results in a lack of comparable information for users and will only be overcome by setting of a single set of mandatory standards in this area.

The broader context

Before discussing the appropriate governance structure to support the development of International Non-Financial Reporting Standards (INFRS), we believe that there are a number of broad questions to be considered:

- 1) What are the objectives of the body responsible for setting standards for non-financial reporting?
- 2) Who is the intended audience of non-financial information that will result from these standards?
- 3) How is non-financial reporting defined for the purposes of setting these standards? This will determine the scope of standard setting activities in this area.
- 4) The paper puts forward proposals for a Corporate Reporting Foundation. If this is taken forward, how wide will its remit be in respect of corporate reporting?
- 5) Is it realistic for one body to fulfil this wide remit?

We include our views on some of these questions below which frame our thinking on the appropriate governance structure for a standard setter for non-financial reporting.

Objectives and audience

Non-financial reporting is not limited to information in management commentary (or the Strategic Report in the UK) and extends to other forms of corporate reporting such as the sustainability report. Whilst traditional financial reporting is focussed on the information needs of investors, non-financial information is of interest to both investors and wider stakeholders.

Therefore, we consider that standards for non-financial reporting should be applicable across different forms of corporate reporting and for a range of stakeholders.

Definition of non-financial reporting

There is no commonly agreed definition of non-financial reporting and the term is capable of being interpreted broadly or narrowly. For example, all information contained in management commentary could be classified as non-financial information which is close to the approach in the EU Non-Financial Reporting Directive (NFRD). Alternatively, non-financial reporting could be narrowly defined covering environmental, employee, social, human rights matters.

We note that the Accountancy Europe paper creates another grouping to cover ESG, CSR, internally generated intangibles and other value drivers.

As a first step we consider that the scope of the work of an international non-financial reporting standard setter should be focussed on sustainability matters. Over time, that standard setter should also be responsible for narrative reporting more broadly. We note that the IASB is currently developing a Practice Statement on Management Commentary which includes elements of non-financial reporting consistent with the NFRD. In time, this aspect of the IASB's remit could be transferred to the International Non-financial reporting Standards Board (INSB).

Governance

We have considered the four approaches to governance of the standard setter for non-financial reporting set out in the paper. We do not consider these to be mutually exclusive.

We can see that approaches 1, 3 and 4 all have merits and could be viable options depending on the objectives, remit and speed with which the INSB needs to be established.

We support a governance structure that has the following features:

- A monitoring body that is linked to the public authorities – there is a broad public interest in non-financial information and is often an area provided to meet public policy objectives. It will be important to have the support of public authorities to achieve alignment at an international level and for the standard setter to have legitimacy.
- An independent body such as the IFRS Foundation Trustees providing oversight of IFRS. We believe that it is important that the process for setting standards for financial and non-financial reporting remains independent and is subject to a thorough due process.
- The set-up of an INSB for technical issues

We consider that the current governance structure for the development of IFRS standards works well and is a model that has been adopted by other organisations such as the International Federation of Accountants (IFAC).

Long-term vision

We agree with Accountancy Europe's vision of a Corporate Reporting Foundation (CRF) (approach 4), with an enhanced monitoring body over the longer term.

We believe that the CRF should have a broad objective and audience covering the information needs of investors and other stakeholders. In our view, approach 4 has the following benefits and drawbacks.

Benefits:

- Likely to achieve the most coherent approach to corporate reporting, integrating financial and non-financial elements.
- Set up of an enhanced monitoring body may be relatively straightforward. The European Commission, for example is currently part of the IFRS monitoring board is already taking a wider view of corporate reporting. Other capital markets authorities are also doing the same.

Drawbacks:

- Most radical and difficult to implement of the four options and can see a case of approach 3 to be a staging post towards that goal.
- Establishing the CRF could be difficult as the corporate reporting landscape nationally and internationally is complex. Different regulators have responsibility for different aspects of corporate reporting so this approach would require greater collaboration between those bodies as well as navigation of the legal requirements in each jurisdiction.

If approach 4 is adopted, the CRF will need to consider the breadth of corporate reporting that might fall under its remit. In our view, whilst one organisation can develop a conceptual framework for corporate reporting, it would be challenging for a single organisation to set mandatory standards for all aspects of corporate reporting.

As noted above, we believe that the role of the CRF should be to meet the information needs of investors and other stakeholders. It follows that the composition of members of the CRF and INSB should be representative of a range of stakeholders. The members of the INSB will need to have the appropriate expertise in non-financial reporting which may require a different skill set to financial reporting.

Short-term step

As the development of non-financial reporting standards is needed with some urgency, we believe that approach 3 could be an interim short term step to achieve the longer term vision.

In our view, approach 3 would be easier to implement within the current IFRS structure compared to approach 1 as it would be easier to set up a new NFI oversight body which represents the interests of a range of stakeholders than to modify the current role and membership of the IFRS Foundation Trustees that focusses on financial reporting for investors.

The steps that could be taken to achieve the long-term vision are:

- 1) Retain the IFRS Foundation Trustees in the short-term
- 2) Set up an NFI oversight body in the short term
- 3) Establish INSB
- 4) In time, merge the IFRS Foundation Trustees and NFI oversight body into the Corporate Reporting Foundation
- 5) Develop a Conceptual Framework for Corporate Reporting

Development of a conceptual framework for corporate reporting

We believe that it is necessary to develop a conceptual framework for corporate reporting as a whole to ensure that reporting remains cohesive.

The FRC currently has a thought-leadership project underway to consider the Future of Corporate Reporting. As part of that project it is considering the development of a principles based framework for corporate reporting which includes ideas for a conceptual framework for corporate reporting that includes qualitative characteristics of corporate reporting that could be applied across the corporate reporting system. A key characteristic is establishing connectivity in reporting.

Accountancy Europe sets out a different approach to materiality – financial materiality, impacts on value creation and wider materiality. We support the idea of different materiality lenses as we believe that a single materiality assessment, based on the accounting standards is unsuitable for all forms of corporate reporting.

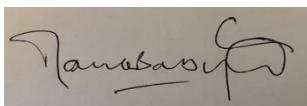
Framework and Metrics

As a step towards a conceptual framework for corporate reporting, the INSB should develop a conceptual framework for non-financial reporting which sets out key concepts such as the application of materiality to non-financial information.

In addition to an overarching framework, we consider that there is a need for a consistent set of global metrics relating to non-financial matters. We note the good work done by a number of organisations to develop frameworks and metrics in this arena. In our view, elements of these could be used as a foundation for development of metrics and standards for non-financial reporting.

If you would like to discuss these comments, please contact Deepa Raval on d.raval@frc.org.uk or 0207 492 2424.

Yours faithfully



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