

Response to the consultation on the Future of Corporate Reporting by Accountancy Europe

Thank you for your leadership on this issue. We welcome the step to create an interconnected standard for corporate reporting, as it is long overdue. The goal has to be to converge to one global standard setter for all-encompassing corporate reporting.

Criteria to evaluate potential standard setting

We recognize the nine criteria that you have identified as important for the standard setting process and believe those nine are relevant to use.

We would propose to add one more criterium: context. One of the problems with current non-financial corporate reporting is that information is not put into context. This means that information is not connected to goals set by the company, or even goals set by the broader community. For instance, if we look at climate disclosures on carbon efficiency, the information often lacks a clear context on whether the steps taken are appropriate for a 1,5 or 2 degree world. This could also be said by comparing information to the context of planetary boundaries, social minimums such as legal minimum wage etcetera. Within your proposal for metrics, we recognize our call for context in the mention of science-based assessments and targets. We believe that it is important to put all information into some context and make that a key deliverable of the standards set. For financial information, this context is far more obvious as there is one common denominator: monetary value. We therefore believe that any standard setting process should therefore start with a clear definition of the context within which the standards are set.

We do argue against monetizing impacts, as this makes an inappropriate trade-off between short-term economic gains and long-term detrimental societal effects possible. Furthermore, most of the time different topics are not related to each other and therefore adding or detracting one from the other does not make any sense.

Global or local solution

When it comes to the global vs local solution, it is good that you note that a robust solution needs to accommodate the potential for supplementary local requirements. The same is true for additional sector-specific requirements that can be set worldwide.

Due process of standard setting

For the due process of standard setting, we would applaud a due process that is robust but also quick. The last requirement is often lacking in due processes. This might also be achieved by early publication and urge for implementation of standards that have not yet been through the full consultation process. Early adoption in this sense is highly welcome as it will immediately increase comparability between companies.

Balanced membership is one of the elements of standard setting. We believe it is important that membership is not only limited to well-known institutions, as that will only keep the standard setting process within the common mindset and paradigms. It is important to include knowledgeable members that are not coupled to the normal institutions that are included in this type of processes, such as the big four auditing firms. It is important to have a fine balance struck between business interests, stakeholder needs, academic input and governmental institutions.

Materiality lens

We believe that the materiality lens proposed should include the double materiality that is included in the EU non-financial reporting directive and also part of the TCFD vision. From the information provided, we are not certain this is included in this set.

Four approached for interconnected standard setting

You have defined four approaches from which we prefer approach four, as that will make interconnected corporate reporting in the future most likely. The future goal should be for the INSB and IASB to converge to one standard setter for all-encompassing corporate reporting.

While we believe the creation of an International Non-financial reporting Standards Board is the best approach to take, we believe that speed in standard setting is imperative given the need for stakeholders to receive reliable information on topics that matter most.

Given the current traction with the European Union on this topic, it would be good to try and make their efforts on improving the EU Non-financial reporting directive a starting point for standards to be then integrated and approved by the new INSB. Hopefully the EU mutually recognizes the need to make the non-financial reporting metrics global. Any EU legislation could start with own defined metrics but keep a possibility for switching to the acceptance of a global standards set like they do with the endorsement projects of the IFRS.

Additional requirements

What is missing in your paper are considerations on the interests of small and medium-sized entities. These entities might also have an enormous impact but are not in the position to provide extensive corporate reporting. Strong corporate reporting will also weigh their needs to the needs of stakeholders and propose practical solutions for this group.

Furthermore we miss a consideration on the possibility of assurance. In order to provide reliable information, assurance on corporate reporting has to be part of the future outlook. This means that any standards should meet the characteristics of criteria set in the International Framework for Assurance Engagements of the IAASB.

Conclusion

We really welcome your idea for a new conceptual framework for corporate reporting that provides a starting point for both financial reporting and non-financial reporting. This will make the ultimate end goal of providing one set of interconnected corporate reporting standards more probable and achievable.

Next steps

The Center for Multiple Value creation will continue our work to strengthen multi-capital reporting by performing research with and in SME companies. We welcome the opportunity to be part of the standard setting process and ask for transparency on the steps taken and decisions made.

On behalf of Koos Wagenveld, director, and Usha Ganga, lecturer

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