value balancing alliance

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Accountancy Europe

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Value Balancing Alliance response to the Cogito Paper "Interconnected standard setting for corporate reporting"

The value balancing alliance is delighted to respond to Accountancy Europe's publication entitled "Interconnected standard setting for corporate reporting", published under the Cogito series in December 2019. We appreciate the paper as a constructive contribution towards creating legitimate governance structures that are required for sustainable development and the ambitious goals set out by the European Green Deal.

Accountancy Europe introduced nine criteria for evaluating potential standard setting approaches and advocates for approach number 4: we believe that a global corporate reporting structure is *desirable* and *feasible,* because cross-sector partnerships can ensure the legitimacy and effectiveness to create a shared language for global standards. We welcome this approach for the reasons outlined in the following:

How: Urgency
Our view: Decrease the number of players and push towards a global solution

The value balancing alliance is a market-led initiative founded by several large international companies. Our members have global activities with global value chains. They are already dealing with different and increasing amounts of frameworks and standards. This has led to increased transaction costs overall, while at the same time both comparability and transparency suffered to the disadvantage of those that engaged in corrective activities and to the advantage of those who did not. Our contribution to the system change is that we joined forces in form of a cross-sector partnership to develop a global impact measurement and valuation standard – but we also need cross-border institutions to tackle the challenges systematically, as the current landscape lacks connectivity between key actors.

Therefore, we believe that approach 2 – regional consolidation – will be an intermediate step of great significance, but it will not reflect the reality of international organizations whose impacts and dependencies reach far beyond the European border. We agree that Europe together with like-minded jurisdictions can take on a leading role and accelerate progress. Nevertheless, we believe that in the long-term, only a global solution with aligned policies and frameworks will drive the systemic change that is needed.

What: A System Change
Our view: Connected information requires one language

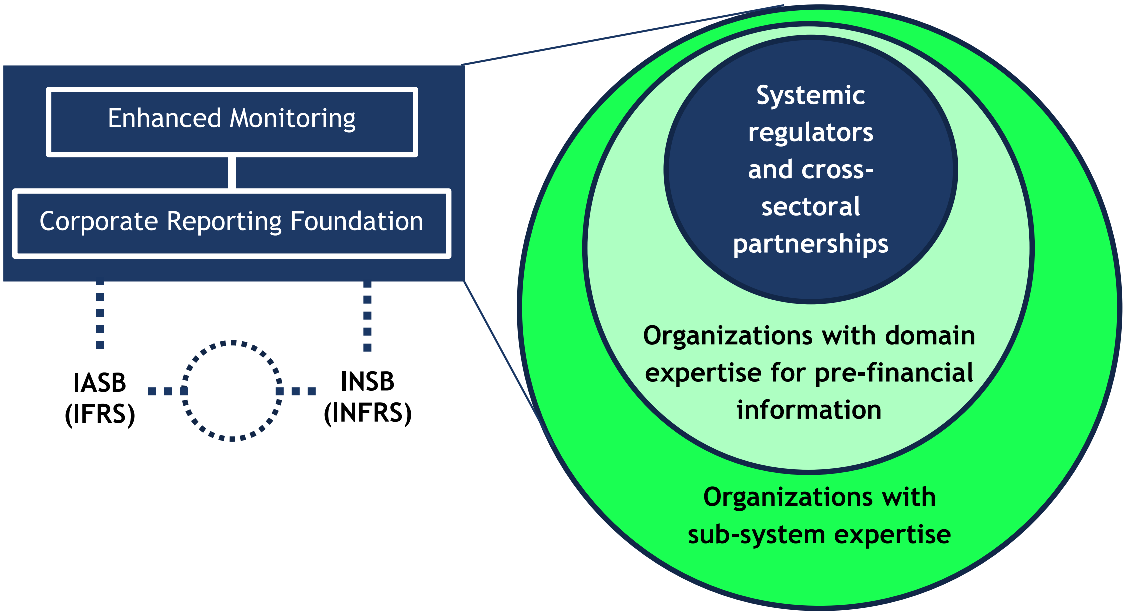
We agree with your view that connecting financial information and NFI is needed for better insight into company performance, impacts and dependencies. Here, we would like to urge the need to create a common language which should be clearly outlined in the conceptual framework as proposed by Accountancy Europe. This requires, first, the establishment of a clear understanding of the differences between impacts (value to society) and dependencies (value to business). This means, the positive and negative effect that corporate activity has on society and the environment and how these impacts, in turn, influence the company's ability to create long-term value. Additionally, as other initiatives and scholars have argued before, we advocate against the use of the term "non-financial" which hinders the key underlying aspect of connectivity. Environmental and societal impacts have financial consequences, thus, expressions, such as "pre-financial" would be more accurate.

Second, we believe that monetizing NFI is the essential methodological step for connecting both financial and non-financial impacts of business. This has helped organization to connect stakeholders internally and to make informed decisions. Several actors have pushed towards a core set of global metrics or key performance indicators what we generally support and from where most of us started our sustainability journey. However, the monetary unit was essentially what helped sustainability departments in our member organizations to enter the board-rooms. These organizations had gathered de facto standardized output metrics, such as GHG emissions, for many years in the past, but monetization was perceived as the major breakthrough. In the end, what needs to change is not only reporting, but rather how reporting information is translated into business steering. We need to provide organizations with tools that help them better steer their activities and integrate information that is currently missing in the picture within the reporting processes that are intuitively understood. Shifting the focus of non-financial reporting from output to valued impact indicators will be crucial.

Separate governance structures for financial and NFI reporting – as proposed in approach 3 – would in our view rather reinforce the disconnection and view of “two” worlds. This separation needs to be overcome by language, methodologies, and consequently governance institutions.

How: Oversight
Our view: Driven by cross-sectoral partnerships, backed by systemic and global regulators

If urgency and system change are at the heart of the new standard-setting architecture, then we need to advocate for a systemic approach under a common conceptual framework for connected reporting. This means that the relevant institutions should be involved in different degrees and at the appropriate level. The success of the TCFD guidelines both in scale and speed is partly due to its origin in the global systemic regulatory body, the Financial Stability Board, and its diffusion through a range of decentral actors. Monitoring and oversight should thus be exercised by cross-sector partnerships and systemic regulators with three arenas:



In the European context, a system change approach means that top-level monitoring and oversight could be shared between the European Central Bank and the Sustainable Finance Forum, including bodies such as the Technical Expert Group on Sustainable Finance (TEG). This structure ensures synchronization to two important constituencies: first, the global macro-prudential regulation through the network of the Financial Stability Board of IBS, the OECD, and the G20, and, second, with cross-sector partnerships and

various standard- and framework-setter in corporate reporting (e.g. IASB, SASB, GRI, IIRC, IMP, CDSB). The next layer could consist of organizations with specific domain expertise for pre-financial information, such as the European Environment Agency, the European Agency for Fundamental Rights, and the European Labour Authority. Finally, this domain expertise would engage in top-down and bottom-up processes with organizations of sub-systems that are relevant for impact valuation: the European Securities Markets Authority, European Banking Authority, European Insurance and Occupational Pensions Authority.
Although we agree that the IFRS structures have achieved legitimacy with the potential to facilitate global uptake, we think that lacking expertise and representation are strong arguments against approach 1 – INSB within the IFRS structures. A new expertise field will be added in which lots of methodological development has yet to be done. We, thus, see the risk that structures intentionally build up for the previous school of thought will not be agile enough to meet the requirements of the new one and, potentially, undermine the power of the latter.

We believe that our proposals for urgent, systemic change based on cross-sector partnerships address the challenges raised by Accountancy Europe in relation to approach 4: ensuring legitimacy and multi-jurisdictional buy-in, facilitating changes within the IFRS structure, and guaranteeing the fair and balanced funding, participation, and representation in the new Corporate Reporting Foundation.

In sum, approach 4 – setting up global corporate reporting structures – is the considerably brave solution that is needed to respond to the global challenges of sustainable development and a matter of utmost urgency. Restructuring the corporate reporting foundation will provide NFI the power that is needed to drive fundamental conceptual changes that are required to overcome the disconnection of impacts and dependencies.

Please do not hesitate to get back to us in case of questions.

Yours sincerely,

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