

Accountancy Europe
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Our ref.: HB

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Interconnected Standard Setting for Corporate Reporting

Dear Florin and Olivier,

Den norske Revisorforening welcomes the publication of the Cogito Paper “Interconnected Standard Setting for Corporate Reporting”.

The timing of the paper is good. We see that the European Commission after the Cogito Paper was issued, has published a consultation on the NFI-directive, and several other discussions have also been raised. The users of corporate reporting are expanding, and they expect a continuous development of the reporting. They expect to see one common presentation covering both financial and non-financial information on the company’s performance.

The line between financial information and NFI is fading. Integration of corporate reporting is important in meeting the UN Sustainable Development Goals, the Paris Agreement and recommendations from the EU.

Companies struggle to provide comparable and reliable information. The number of standards and recommendation on NFI is high. And they are not coordinated well and not consistent. And the standards for financial information are not well developed to meet the Sustainable Development Goals.

The possibility for real integration of both standards and practice will increase if some regulatory requirements, are changed. From a European perspective it is therefore important that the EU directive on NFI is changed. There are some barriers in the directives today that make a complete integration of FI and NFI difficult. We encourage Accountancy Europe to continue influencing the Commission and the Parliament to making a real integration possible.

The Need to Act

The need to act is well documented in the Cogito Paper. Today’s corporate reporting do not meet the needs of the user groups. And it is important to understand the users of corporate reporting are widened. New user groups are recognized during several years. The investors are still important. But the reporting entities and the standard setters have to take account of the need of the new groups. We see that many companies understand and respond to these needs. The new stakeholders have power as customers, influencers and investors.

Sustainable investments are on rise, and these investors are asking for more information than traditionally has been reported in the financial statements on sustainable and green activities. There is a need that also standard setters pay more attention to these stakeholders especially related to NFI, but also to the integration of FI and NFI.

Nine criteria to evaluate potential standard setting approaches

We support the introduction of the nine criteria to evaluate potential standard setting approaches. These criteria seem to be well discussed. They are important to consider in the process of finding the best possible way to develop corporate reporting in the direction of the need of all user groups.

The Core and More concept that Accountancy Europe developed in 2015, is a concept that seem to be very useful for development of a reporting model that meet the users' need and is customized to work well under new technology.

Approaches to Interconnected Standard Setting

We believe that Approach 4 The Global Corporate Reporting Structure, would probably be most appropriate for a longer-term solution. Approach 4 would be the ultimate vision for interconnected standard setting for corporate reporting.

Approach 4 enhances to provide a broad public oversight and link to public authorities. The IFRS Foundation Trustees has a strong reputation and is considered to be legitimate, authoritative and independent. This approach builds on the current the IFRS Foundation Trustees to create a Corporate Reporting Foundation, responsible for financial and nonfinancial reporting oversight.

Approach 4 includes the creation of an International Non-financial Reporting Standards Board (INSB) to set International Non-financial Reporting Standards (INFRS) which connects the financial and nonfinancial standard setters through a conceptual framework for connected reporting. This provides an effective connection between financial and non-financial reporting.

Approach 2 Regional Consolidation would be useful for the short term. The European Commission has shown strong leadership in this area. The EC recently announced intentions to develop a set of NFI-corporate reporting standards for Europe.

Legal requirements are necessary for creating a solution that will be effective in the short term. We acknowledge that other approaches build on voluntary application, and possible political endorsement which is time-consuming. Approach 2 would be a good solution when waiting for approach 2 being developed.

The need for SMEs

There is also a need for developing integrated corporate reporting for SMEs. NFI is not only a question for large and listed entities. We recommend that the needs of SMEs are on the agenda for Accountancy Europe also in this area.

Assurance

The NFI reported by enterprises need to be reliable. Investors and other stakeholders need assurance on this information, to make informed judgements. Independent assurance enhances the quality and reliability of the NFI that companies report. Professional accountants have experience in providing independent assurance.

Assurance on sustainability reports have developed within the current suite of standards. Some will still say it is immature and need further development. At the point of time that we will have integrated reports covering both FI and NFI, further developments need to take place.

Accountancy Europe has already worked well with assurance on NFI on several occasions for example the discussion paper from 2017. We encourage Accountancy Europe to continue this work. We understand that the question of assurance will be part of the expected revised NFI-directive by the end of this year. Influencing that work is important.

Conclusion

For this long-term solution, we believe that Approach 4 The Global Corporate Reporting Structure would probably be most appropriate. Approach 2 Regional Consolidation would be the most useful for the short term. Considering the risks and time to establish Approach 4, we recommend that work on Approach 2 be started as soon as possible. The results of this work will be useful in developing Approach 4.

We would be pleased to discuss with you any aspect of this letter you may wish to raise with us.

Yours sincerely,
Den norske Revisorforening



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