



**ACCOUNTANCY  
EUROPE.**

**FOLLOW-UP PAPER:  
INTERCONNECTED STANDARD  
SETTING FOR CORPORATE  
REPORTING**

Feedback analysis

June 2020

## **HIGHLIGHTS**

This paper follows up on the Cogito project [\*Interconnected standard setting for corporate reporting\*](#) (December 2019). The Cogito paper built the case for global interconnected standards to address non-financial information (NFI) topics such as climate change, environmental degradation, human rights and social concerns.

The Cogito paper was well-received, featured in various media and led to debate at events and meetings. 41 leading European and global organisations responded to the call for feedback. Please see the key takeaways below.

This follow-up paper:

- analyses the feedback received in writing and through events
- provides an update on the latest European Union (EU) and global developments
- reflects on a way forward on the NFI standard setting agenda

## **KEY TAKEAWAYS**

The following key takeaways are drawn from the 41 comment letters received:

- The ultimate objective should be a ‘system solution’ to deliver global NFI reporting standards connected to financial information. Decisive moves towards this objective are needed, especially given the urgent action required to address existential challenges – including climate change.
- The ‘system solution’ could be achieved in steps such as bilateral moves to closer align or converge NFI reporting standards, policy developments, and expand the mandates for multilateral organisations.
- A ‘building blocks’ approach could address global challenges and varying policy needs. A core set of global metrics for NFI reporting would ensure comparability, address global challenges and direct capital to sustainable enterprises. Further blocks could be added to reflect jurisdictional priorities or address sector-specific topics.
- Quickest progress could be made by building on the best of NFI frameworks and standards. This paper includes a significant and exclusive statement from CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) which confirms their commitment to working together towards a globally harmonised system (page 14).
- The EU has a leading role to play and should collaborate with different organisations to help catalyse a global solution.

## TABLE OF CONTENTS

<b>Introduction</b> .....	<b>2</b>
<b>Recent developments</b> .....	<b>3</b>
EU developments .....	3
European NFI standards.....	3
The Non-financial Reporting Directive revision and EU legislative procedure .....	3
Global developments.....	4
The IFRS Foundation and sustainability reporting .....	4
International Organisation of Securities Commissions report on sustainable finance .....	5
Institute of International Finance report on ESG disclosures for the finance industry .....	5
World Economic Forum International Business Council core metric and disclosures .....	5
International <Integrated Reporting > Framework revision.....	6
United States of America and ESG disclosure.....	6
Asia and sustainable finance .....	6
<b>Main areas of feedback</b> .....	<b>7</b>
Why: factors driving the need to act .....	7
What: a system change .....	7
A core set of global metrics.....	7
How: 9 criteria to evaluate potential standard setting approaches .....	8
Materiality lens.....	8
Approaches to interconnected standard setting.....	8
Conceptual framework for connected reporting .....	10
Focus on digitalisation.....	10
Re-think SMEs.....	11
Unlock assurance on reported information .....	11
<b>Paving a way forward</b> .....	<b>13</b>
Achieving the Global Corporate Reporting Structure vision .....	13
Build on what is already well-established .....	13
A ‘building block’ approach.....	14
EU leadership on setting non-financial reporting standards.....	15
<b>Appendix 1: Summary of the Cogito Paper</b> .....	<b>16</b>
<b>Appendix 2: Outreach on the Cogito paper</b> .....	<b>17</b>
Respondents to the Cogito paper .....	17
Other outreach of the Cogito paper .....	19

## INTRODUCTION

The publication of the Cogito<sup>1</sup> Paper *Interconnected standard setting for corporate reporting* (see Appendix 1: Summary of the Cogito Paper) stimulated debate on how we can make urgent progress towards a global approach for interconnected standard setting for corporate reporting.

This urgency has been reinforced once again by the publication earlier this year of the World Economic Forum's (WEF) *Global Risks Report*<sup>2</sup>, ranking global risks in terms of likelihood and impact (see Figure 1: Global risk ranking (likelihood and impact)\*

The report was issued before the coronavirus (SARS-CoV-2) outbreak but it confirms the need for urgent action to address global concerns such as climate change, biodiversity loss, and other natural disasters.

Figure 1: Global risk ranking (likelihood and impact)\*

	LIKELIHOOD	IMPACT
1	 Extreme weather	 Climate action failure
2	 Climate action failure	 Weapons of mass destruction
3	 Natural disasters	 Biodiversity loss
4	 Biodiversity loss	 Extreme weather
5	 Human-made environmental disasters	 Water crisis

\*adapted from *The Global Risks Report 2020*, World Economic Forum

The call for comments received 41 response letters from different stakeholders, including preparers, investors, standard setters, NFI initiatives, academics<sup>3</sup>. In addition, the paper was referenced in many publications, articles, public and private meetings and events.

Accountancy Europe and Eumedion held a joint roundtable discussion *Towards a global standard setter for non-financial reporting*. The event allowed investors (the main event's participants) and other stakeholders<sup>4</sup> to share their views.

This follow-up paper summarises the views of stakeholders following the publication of the Cogito paper and reflects on the way forward.

<sup>1</sup> This publication is part of Accountancy Europe's Cogito series. We set up Cogito (i.e. I think) to provide new ideas for the European accountancy profession, enhance innovation and contribute more to business and society. Cogito publications aim to stimulate debate; the views expressed thus do not reflect the official positions of Accountancy Europe or those of any of its 51 member bodies.

<sup>2</sup> WEF (2020), *The Global Risks Report 2020*, see: <https://www.weforum.org/reports/the-global-risks-report-2020>

<sup>3</sup> Accountancy Europe (2020), *Responses to Interconnected standard setting for corporate reporting – Cogito paper feedback*, see: <https://www.accountancyeurope.eu/publications/responses-to-interconnected-standard/>

<sup>4</sup> Accountancy Europe and Eumedion (2020), *Event summary: Towards a global standard setter for non-financial reporting*, see: <https://www.accountancyeurope.eu/events/towards-a-global-standard-setter-for-non-financial-reporting/>

## RECENT DEVELOPMENTS

Since the publication of the Cogito paper, there have been many developments in the NFI agenda in Europe and globally.

### EU DEVELOPMENTS

#### EUROPEAN NFI STANDARDS

The European Commission (EC) announced its intention to set European non-financial reporting standards<sup>5</sup> (European NFI standards). The EC noted that it is looking to collaborate with and lead other organisations in the NFI reporting field to achieve consistent non-financial reporting standards<sup>6</sup>.

The EC issued an information note to the Accounting Regulatory Committee<sup>7</sup> which stated that as a next step to establishing European NFI standards, two mandates shall be issued to the European Financial Reporting Advisory Group (EFRAG):

1. *a technical mandate to launch preparatory work on EU non-financial reporting standards* which could be achieved through a task force established at the EFRAG Lab, and
2. *a separate mandate to recommend changes to EFRAG's governance in order to create a second pillar to develop non-financial reporting standards alongside the current pillar dealing with financial reporting.*

At the time of this publication, EFRAG had not yet received such mandates.

#### THE NON-FINANCIAL REPORTING DIRECTIVE REVISION AND EU LEGISLATIVE PROCEDURE<sup>8</sup>

The EC announced its intention to review the Non-financial Reporting Directive (NFRD) in its Communication on the European Green Deal as part of the strategy to strengthen the foundations for sustainable investment. In line with the Communication, the EC launched a public consultation on the review of the NFRD. Stakeholders were invited to submit their views by 11 June 2020.

The EC asked for feedback on a range of topics in the review of the NFRD consultation including:

- *standardisation*, where amongst others, the EC is exploring how to incorporate current NFI initiatives in the European NFI standards<sup>9</sup>, as well as how to connect NFI standards to financial standards
- *materiality*, where the EC is looking to define NFI materiality
- *digitalisation*, where the EC is exploring the link between technology and standard setting

Afterwards, the EC is expected to prepare a legislative proposal probably in the first quarter of 2021. This may either be a directive (for which the EU legislative procedure is described below), or a regulation (which is automatically and uniformly applied to all EU Member States as soon as it enters into force). The EC will submit the proposal to the European Parliament and to the Council of the EU (representatives of 27 countries) for further

<sup>5</sup> Remarks by Executive Vice-President Dombrovskis at the Conference on implementing the European Green Deal: Financing the Transition (2020), see: [https://ec.europa.eu/commission/presscorner/detail/en/speech\\_20\\_139](https://ec.europa.eu/commission/presscorner/detail/en/speech_20_139)

<sup>6</sup> Speech by Executive Vice-President Valdis Dombrovskis at the IFRS Foundation conference "Financial reporting: remaining relevant in a changing environment" (2020), see: [https://ec.europa.eu/commission/commissioners/2019-2024/dombrovskis/announcements/speech-executive-vice-president-valdis-dombrovskis-ifrs-foundation-conference-financial-reporting\\_en](https://ec.europa.eu/commission/commissioners/2019-2024/dombrovskis/announcements/speech-executive-vice-president-valdis-dombrovskis-ifrs-foundation-conference-financial-reporting_en)

<sup>7</sup> EC (2020), *Information note*, see: [https://ec.europa.eu/transparency/regcomitology/index.cfm?do=search.documentdetail&Dos\\_ID=19192&DS\\_ID=66991&Version=1](https://ec.europa.eu/transparency/regcomitology/index.cfm?do=search.documentdetail&Dos_ID=19192&DS_ID=66991&Version=1)

<sup>8</sup> EC, Law-making process, see: [https://ec.europa.eu/info/law/law-making-process\\_en](https://ec.europa.eu/info/law/law-making-process_en)

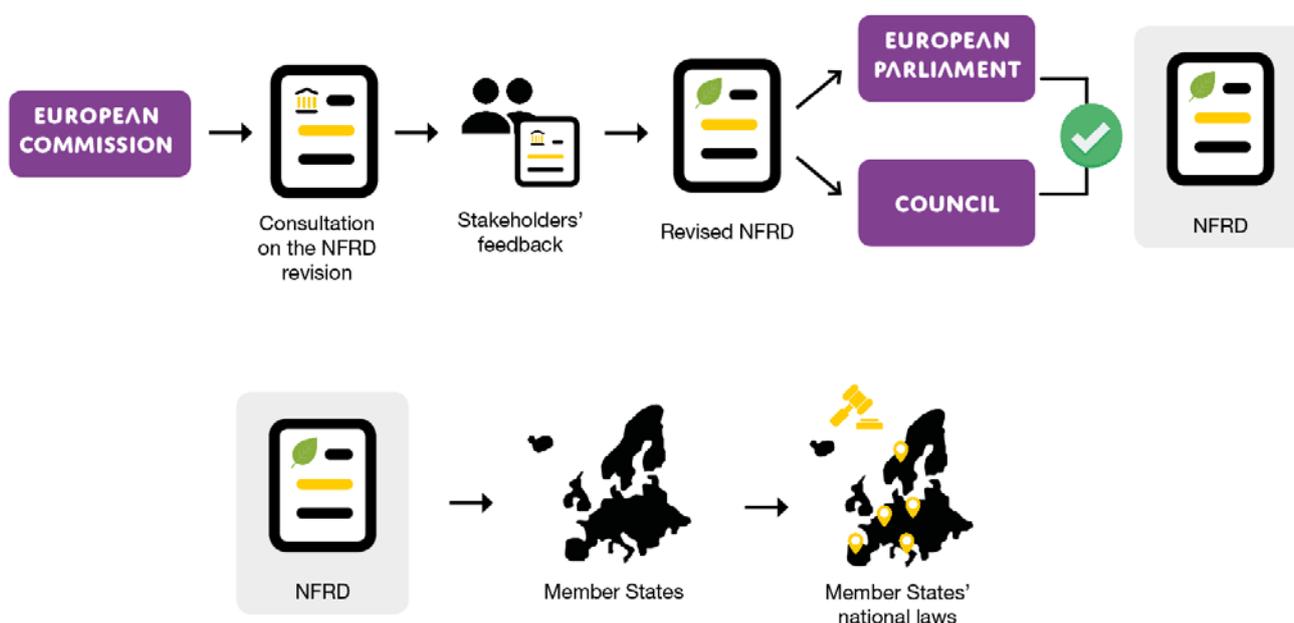
<sup>9</sup> Initiatives referred include the [GRI](#) standards, the [SASB](#) standards, the [International Integrated Reporting Framework](#) (<IR> Framework), the [TCFD](#) recommendations, the [CDSB](#) framework, etc.

deliberation. The two institutions have an equal say on approving the proposal, therefore, they will have to negotiate until they reach a compromise.

The revised NFRD (assuming that the proposal is a directive) shall be published in the EU Journal, upon agreement of the Parliament and the Council. Member States will have two years from its publication to turn this into national legislation. The EC is expected to follow Member States' progress in terms of implementation and proceed with infringement procedures in case of delays.

An EU Directive allows for EU Member States to decide themselves on the means to be used for achieving the desired result. The following figure illustrates the respective decision-making procedure (see Figure 2).

**Figure 2: NFRD and EU legislation procedure**



## GLOBAL DEVELOPMENTS

### THE IFRS FOUNDATION AND SUSTAINABILITY REPORTING

The International Financial Reporting Standards (IFRS) Trustees held a meeting in Brussels with other stakeholders focusing on sustainable development and digital possibilities<sup>10</sup>. The Chair of the Trustees of the IFRS Foundation, Erkki Liikanen moderated a panel discussion which highlighted that environmental, social and governance (ESG) factors are important in financial reporting.

More recently, IFRS Foundation Trustee Teresa Ko has confirmed that a task force of Trustees has been established to explore the possible future roles the IFRS Foundation could play in supporting progress towards NFI standards<sup>11</sup>. She also noted that in her view, financial information and NFI should be connected in order to enable decision-useful information.

<sup>10</sup> IFRS (2020), *Summary of Brussels meeting of the Trustees and stakeholder event article now available*, see: <https://www.ifrs.org/news-and-events/2020/03/summary-from-trustees-brussels-meeting-and-article-from-stakeholder-event-now-available/>

<sup>11</sup> Teresa Ko (2020), *Sustainability reporting and its relevance to the IFRS Foundation*, see: <https://www.ifrs.org/news-and-events/2020/05/sustainability-reporting-and-its-relevance-to-the-ifrs-foundation/>

## INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS REPORT ON SUSTAINABLE FINANCE

The International Organisation of Securities Commissions (IOSCO) issued its final report *Sustainable Finance and the Role of Securities Regulators and IOSCO*<sup>12</sup>, highlighting that sustainability issues are important for investor protection, and market transparency. The report articulates the need for IOSCO to play a leading role.

“ [...] IOSCO should take an active role in facilitating global coordination and addressing transparency.”

*IOSCO, Sustainable Finance and the Role of Securities Regulators and IOSCO, 2020*

## INSTITUTE OF INTERNATIONAL FINANCE REPORT ON ESG DISCLOSURES FOR THE FINANCE INDUSTRY

The global association of the financial industry, the Institute of International Finance (IIF), published a report that sets out the increasing demand for ESG information but notes the barrier to adoption created by a fragmented landscape<sup>13</sup>. The paper encourages clear, practical steps towards a globally harmonised approach.

“ While a proliferation of reporting frameworks in past decades has stimulated innovation in disclosure practices (including metrics and methodologies), the rapid mainstreaming of ESG issues in financial markets creates a pressing imperative for consolidation.”

*IIF, Building a Global ESG Disclosure Framework: a Path Forward, 2020*

## WORLD ECONOMIC FORUM INTERNATIONAL BUSINESS COUNCIL CORE METRIC AND DISCLOSURES

The World Economic Forum International Business Council (IBC) published a White Paper *Toward Common Metrics and Consistent Reporting of Sustainable Value Creation*<sup>14</sup>. The report proposes a set of metrics and recommended disclosures built from the existing NFI frameworks and standards<sup>15</sup> to demonstrate *long-term value creation for all stakeholders on an internationally consistent basis across industries*.

“ The purpose of this initiative is to enable IBC firms to begin reporting in a consistent fashion on key dimensions of sustainable and shared value creation. In so doing, the IBC hopes to catalyse faster progress towards the creation of a more formal, systemic solution such as a generally accepted international accounting or other reporting standard for material ESG and long-term value considerations.”

*WEF IBC, Toward Common Metrics and Consistent Reporting of Sustainable Value Creation, 2020*

The Council of Institutional Investors (CII) highlighted the importance of NFI standards for both common and sector-specific metrics in their response to the WEF IBC publication<sup>16</sup>. They also stated their preference for the creation of an independent NFI standard setting body.

“ Improving the availability, comparability and reliability of sustainability information is a high priority for many investors. [...] We believe the IBC could better serve investors, the financial markets and the economy by encouraging companies to utilize existing prominent frameworks to provide both industry-agnostic disclosure and industry-specific disclosure... We believe [...] independent standard setters [...] should [...] guide the development of standardized sustainability reporting.”

*CII, Response to the WEF IBC report, 2020*

<sup>12</sup> IOSCO (2020), *Sustainable Finance and the Role of Securities Regulators and IOSCO*, see: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD652.pdf>

<sup>13</sup> IIF (2020), *Building a Global ESG Disclosure Framework: a Path Forward*, see: <https://www.iif.com/Publications/ID/3945/Building-a-Global-ESG-Disclosure-Framework-a-Path-Forward>

<sup>14</sup> IBC (2020), *Toward Common Metrics and Consistent Reporting of Sustainable Value Creation*, see: <https://www.weforum.org/whitepapers/toward-common-metrics-and-consistent-reporting-of-sustainable-value-creation>

<sup>15</sup> The IBC core metrics and disclosures consider the work of the Global Reporting Initiative (GRI), Embankment Project for Inclusive Capitalism (EPIC) Report, Sustainability Accounting Standards Board (SASB), CDP, Climate Disclosure Standards Board (CDSB), Task Force on Climate-related Financial Disclosures (TCFD), and others.

<sup>16</sup> CII (2020), *Responses submitted electronically on May 21, 2020 to World Economic Forum ESG Metrics and Disclosures Consultation*, see: [https://www.cii.org/files/issues\\_and\\_advocacy/correspondence/20200521%20CII%20letter%20to%20WEF\(4\).pdf](https://www.cii.org/files/issues_and_advocacy/correspondence/20200521%20CII%20letter%20to%20WEF(4).pdf)

## INTERNATIONAL <INTEGRATED REPORTING > FRAMEWORK REVISION

The International Integrated Reporting Council (IIRC) started consulting on the International <Integrated Reporting> Framework (<IR> Framework)<sup>17</sup> revision to ensure it responds to the evolving market context and supports effective reporting. The consultation is open for comments until 19 August 2020 (see Charles Tilley OBE, Interim CEO quote, given exclusively for this paper<sup>18</sup>).

“ *The IIRC is committed to bringing about a comprehensive corporate reporting system with a multi-capital focus. The European Commission's leadership is welcome and we believe it is well placed as a member of the G20 to drive international consensus towards an interconnected system for the benefit of all.*

Charles Tilley OBE, Interim CEO

## UNITED STATES OF AMERICA AND ESG DISCLOSURE

The Investor-as-Owner Subcommittee of the United States (US) Securities and Exchange Commission (SEC) Investor Advisory Committee highlighted the importance of ESG disclosures and recommended that the SEC addresses this topic<sup>19</sup>.

In addition, BlackRock Chairman and CEO, Larry Fink, announced in his 2020 letter to CEOs<sup>20</sup> that the organisation would shift its investing policy towards sustainability and emphasised the need for a standardised approach to reporting. Therefore, he called on companies to report in accordance with SASB and TCFD by the end of this year.

Other investors also supported and helped advance the sustainability agenda in the US, including State Street Global Advisors<sup>21</sup> which confirmed their focus on financially material ESG issues.

## ASIA AND SUSTAINABLE FINANCE

In their report, the Asia Securities Industry and Financial Markets Association (ASIFMA)<sup>22</sup> called for policymakers in Asia Pacific to align policies and frameworks to international standards and, where those standards are not yet developed, to *encourage and catalyse* their development.

ASIFMA further welcomes the leadership of regions in this area, but says it is not *prudent* for standard setting to be left to any one jurisdiction alone, which could lead to *market distortions*. Instead, the report emphasises global co-ordination to *support the appropriate flow of funding to maximise investment in sustainability*.

<sup>17</sup> IIRC (2020), *International <IR> Framework 2020 Revision*, see: <https://integratedreporting.org/2020revision/>

<sup>18</sup> The quote was given exclusively by Charles Tilley OBE, Interim CEO for this follow up paper.

<sup>19</sup> Recommendation from the Investor-as-Owner Subcommittee of the SEC Investor Advisory Committee Relating to ESG Disclosure (2020), see: <https://www.sec.gov/spotlight/investor-advisory-committee-2012/recommendation-of-the-investor-as-owner-subcommittee-on-esg-disclosure.pdf>

<sup>20</sup> Larry Fink, Blackrock Chairman and CEO (2020), *A Fundamental Reshaping of Finance*, see: <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

<sup>21</sup> Cyrus Taraporevala, *President and CEO of State Street Global Advisors, CEO's Letter on our 2020 Proxy Voting Agenda*, see: <https://www.ssga.com/us/en/individual/etfs/insights/informing-better-decisions-with-esg>

<sup>22</sup> ASIFMA (2020), *Sustainable Finance in Asia Pacific Regulatory State of Play*, see: <https://www.asifma.org/wp-content/uploads/2020/03/sustainable-finance-in-asia-pacific.pdf>

## MAIN AREAS OF FEEDBACK

### WHY: FACTORS DRIVING THE NEED TO ACT

There was almost unanimous agreement among respondents on the factors driving the need to act.

NFI topics such as climate change, environmental degradation, human rights and social concerns are business-critical issues. Therefore, investors and broader stakeholders have a growing interest in corporate reporting (see ACCA quote).

Many respondents commented that these issues are global: businesses have global supply and value chains, face global risks and have global investors. These global issues will most appropriately be addressed by a global solution to corporate reporting, including both financial and non-financial information (see NBA quote).

### WHAT: A SYSTEM CHANGE

There was almost unanimous agreement that there is a need for system change. Financial information and NFI should be connected to improve transparency in the market and avoid greenwashing in the system (see World Intellectual Capital/Assets Initiative quote).

Therefore, most respondents argued that this objective can only be delivered through a systemic solution that delivers interconnected standard setting and harmonises the current plethora of NFI initiatives (see PwC quote and Center for Audit Quality quote).

The NFI agenda is seen as being more advanced in the EU due to the political agenda and public interest. Therefore, a few respondents noted that it could be faster if the EU mandated a regulatory solution to address these issues.

However, investors at the Eumedion/Accountancy Europe event and in the letter from the CFA Institute emphasised the need for global consistency and global standards (see CFA Institute quote).

### A CORE SET OF GLOBAL METRICS

Almost all respondents agreed that there is an urgent need to develop a core set of global metrics for NFI reporting, which would be applicable to all companies in all jurisdictions (see DASB quote). Many commented that these metrics should be derived from the wealth of intellectual capital already developed by the current NFI initiatives.

A few respondents noted that to be company relevant, the standards or metrics should include relevant guidance on materiality, rather than prescribe a set of mandated metrics that are pre-determined to be material in all cases. This should help avoid reporting turning into a 'tick-box' exercise.

“ [There is a] wider stakeholder interest in corporate reporting, a desire from investors and others to understand in a holistic way the value creation by the entity and assess all the material risks and opportunities it faces in the shorter and longer term.”

ACCA

“ There is an increasing need for alignment and convergence on a global scale, but initiatives for this are insufficiently successful by lack of leadership and lack of sense of urgency.”

Royal Netherlands Institute of Chartered Accountants (NBA)

“ [A] global perspective such as that of IFRS, may be needed.”

World Intellectual Capital/Assets Initiative

“ We fully support the objective of having a consistent global set of interconnected standards for corporate reporting of financial and non-financial information.”

PwC

“ A globally accepted system built from existing standards and frameworks that can be adapted to the market needs in different jurisdictions could help support companies in presenting ESG information that is comparable.”

Center for Audit Quality

“ [W]e have consistently supported high-quality global financial reporting standards. [...] Our view on the need for consistency and uniformity of information described in the report as “non-financial information” is no different. A solution that results in greater global convergence around such disclosures would be optimal for investors.”

CFA Institute

“ [I]nternational guidance towards common metrics and consistent disclosure of non-financial information is preferable to the current diverse situation.”

Dutch Accounting Standards Board (DASB)

## HOW: 9 CRITERIA TO EVALUATE POTENTIAL STANDARD SETTING APPROACHES

There was a wide agreement by the respondents that the nine criteria identified in the Cogito paper are necessary when considering any approach to standard setting (see Text box 1).

A few respondents also noted that NFI standards are beneficial to all sectors of a country's economy, including the public sector.

### MATERIALITY LENS

The Cogito paper noted that the materiality lens should be expanded to include the issues that affect long-term value creation. This would involve extending time horizons and an understanding of the financial implications of wider factors (see **Figure 3** and ICAS quote).

These considerations were generally accepted by respondents and have been referenced more widely. For example, the IIRC's focused engagement exercise which formed part of its <IR> Framework revision<sup>23</sup>, supported the proposal, noting that it explores the two components of impact, which they see as:

“*The universe of societal and environmental effects stemming from the organization's activities and outputs, whether directly or indirectly [and]*

*The subset of those impacts that materially affect (or have the potential to materially affect) the organization's continued ability to create value.”*

In addition, many respondents agreed with extending the definition of materiality as currently used in financial reporting to include *impacts that can become material dependencies in the short or long term, quantitatively or qualitatively*. They noted that the proposal is aligned with the double materiality concept included in the NFRD.

## APPROACHES TO INTERCONNECTED STANDARD SETTING

There was near universal support for a standard-setting approach to NFI reporting as opposed to legislated or voluntary approaches (see the 100 Group quote).

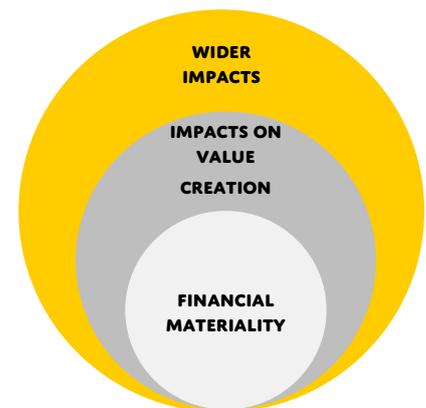
Most respondents supported the global reporting structure for interconnected standard setting as set out in the Cogito paper (see Figure 4 below)<sup>24</sup> and emphasised the importance of having an adequate due process in setting standards.

### Text box 1: Criteria to evaluate the approaches

- urgency
- global or local solution
- oversight
- due process of standard setting
- responding to stakeholders' interests
- framework and metrics
- materiality lens
- legal embedding
- role of technology

“*[T]he materiality lens should be expanded to include the wider impact on long term value creation.*”  
ICAS

Figure 3: Materiality lens



<sup>23</sup> IIRC (2020), *International <IR> Framework revision, Topic 2: Focused engagement*, see: <https://integratedreporting.org/2020revision/topic-paper-2/>

<sup>24</sup> In the figure, the additional following abbreviations are used: International Non-financial Reporting Standards (INFRS), International Non-financial reporting Standards Board (INSB)

They commented that this could be achieved by a new mandate from multilateral bodies to establish a global NFI standard setter. Therefore, buy-in from institutions such as IOSCO, the EC, the Financial Stability Board (FSB), the United Nations (UN) and the World Bank (WB) is essential (Accountancy Europe – Eumedion event).

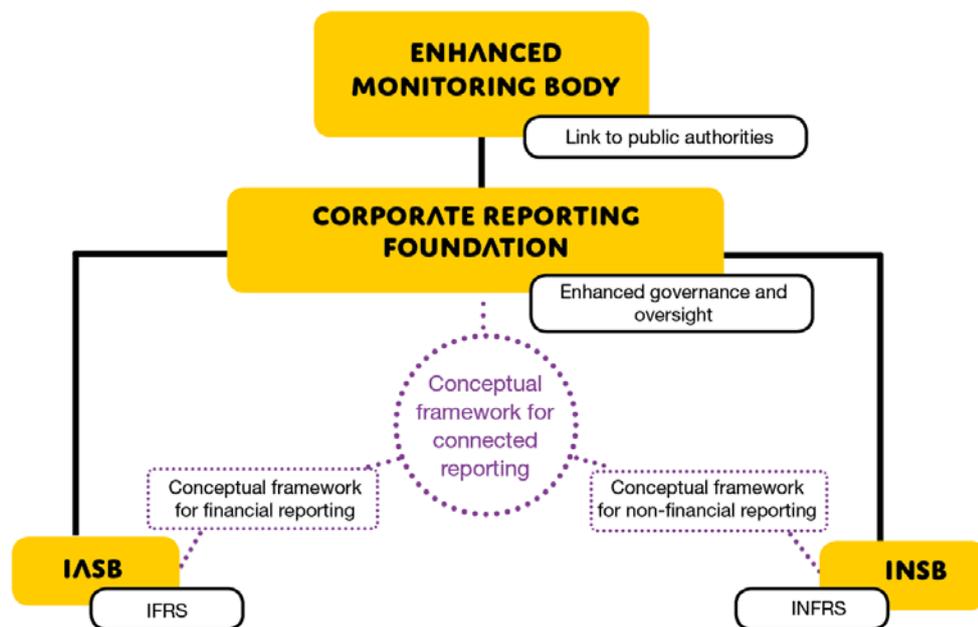
“[...] we support the proposal of a body with global authority, to distil, out of the hundreds of frameworks, metrics and standards, those which would constitute non-financial reporting standards.”

The 100 Group

“[T]here was a consensus that a successful solution must be mandated (perhaps by multilateral bodies) and should effectively involve both public and private players in the respective governance structures.”

Accountancy Europe – Eumedion event

Figure 4: Global reporting structure



Many respondents supported the creation of the *corporate reporting foundation* to provide oversight to both financial and non-financial standard setters and to develop and maintain the *conceptual framework for connected reporting*.

A few respondents noted that a move to global NFI standards could take time. They note that jurisdictions are in different stages in pursuing the sustainability agenda, and relevant institutions may not be ready to broaden the mandate to address global NFI standards. Therefore, these respondents considered European NFI standards to be a practical short-term and faster solution (see FSR – Danish Auditors quote).

However, they also noted that any regional solutions should consider global integration as the ultimate goal (see EY quote).

“The EU solution should [...] be seen as a temporary measure due to the need to act fast. Europe should at a later stage work towards a global solution and try to converge standards.”

FSR – Danish Auditors

“[A]ny national or regional short-term solution, however well-meaning and helpful, needs to consider the long-term goal of globally consistent frameworks and standards”

EY

## CONCEPTUAL FRAMEWORK FOR CONNECTED REPORTING

The Cogito paper noted that the *conceptual framework for connected reporting* should capture the following concepts: materiality, connectivity, multi-capital approach, integrated thinking and authenticity, impacts, dependencies and their circularity, etc.

Many respondents strongly supported the need for such a framework to link NFI and financial information and address the above key concepts.

Many respondents also supported the <IR> Framework as the starting point for the *conceptual framework for connected reporting* because it already addresses many of these concepts (see CA ANZ quote). In their response, the IIRC expressed their willingness to contribute to a high-quality conceptual framework (see IIRC quote).

Some respondents also highlighted the project by the International Accounting Standards Board (IASB) on Management Commentary as providing a link between financial reporting and NFI reporting, and capturing aspects of value creation. One of the stated objectives of the project is that management commentary should provide information and analysis to help investors and creditors understand how the entity's business model creates value and converts that value into cash flows.

Therefore, the conceptual framework for connected reporting may be built both from the Management Commentary project and the <IR> Framework (see IFAC quote).

## FOCUS ON DIGITALISATION

The Cogito paper stated that technology is leading to rethink how to communicate mainstream reporting, for example to permit users to make greater connectivity between data points, or to drill down behind the reported information.

Respondents agreed that in a fast-moving corporate reporting environment, digitalisation should be embedded in the process of standard setting.

They emphasised that high quality NFI standards must be developed with accompanying taxonomies. In addition, they identified the need for one single set of taxonomies to facilitate comparable NFI digital disclosures. Therefore, there are parallels between the benefits of having one set of global standards and having one set of taxonomies.

Many respondents noted XBRL as a potential mechanism to demonstrate the link between NFI and financial information, a comment which is also supported by XBRL International themselves (see XBRL International quote).

“*[T]he International Integrated Reporting Framework could provide a useful and suitable starting point*”

Chartered Accountants Australia  
and New Zealand (CA ANZ)

“*[...] IIRC expresses its willingness to engage with all market participants to secure agreement for a high quality, enduring conceptual framework that will gain the widest possible support from governments, regulators, standard setters, businesses, investors, the accountancy profession and civil society.*”

IIRC

“*In conjunction with developments with the International Integrated Reporting Framework, [the management commentary] might be escalated to enhance how this information is reported in management reports [...].*”

IFAC

“*Having a single set of taxonomies to facilitate comparable NFI digital disclosures is almost as important as having a single set of standards. [...]*

*XBRL taxonomies could provide a starting point for rigorously modelling existing standards.*”

XBRL International

## RE-THINK SMES

Some respondents emphasised that NFI reporting is relevant not only to large listed companies, but also to small and medium-sized enterprises (SMEs). Therefore, they said that participants beyond capital markets and financial stability public authorities should be included in the global corporate reporting standard setting.

Under many legislative requirements, SMEs benefit from a reduced disclosure regime (for example, they are not included in the scope of the current NFRD requirements). However, in practice they are increasingly faced with requests from capital providers, clients and suppliers to provide the relevant NFI on their activities.

Those that commented on this subject suggested that SMEs' concerns should be included in the scope of NFI reporting, but requirements should be proportionate to their size. They recommended that corporate reporting standard setting should encompass the development of an NFI standard for SMEs, similar to IFRS for SMEs (see CNCC quote).

However, this raises the question as to how companies are categorised as SMEs. Currently SMEs are categorised based on quantitative criteria (number of employees, turnover, total assets), which may not correctly address their impacts on society or the environment, or their risk profile. The Cogito paper *From risks to regulation: re-thinking company categorisation*<sup>25</sup> addresses this and suggests an approach to categorising companies via a risk profile scorecard.

“It would be helpful for those SMEs if they have a clear reference available for the information they should provide, rather than having to figure out themselves within a plethora of frameworks what is the information they should report on.”

CNCC

## UNLOCK ASSURANCE ON REPORTED INFORMATION

NFI needs to be credible and reliable, based on a robust process for accumulating, measuring and reporting, and subject to appropriate board oversight (see Center for Audit Quality quote).

“In an aligned ESG disclosure framework it will be important to specify common expectations for reasonable assurance of ESG disclosures. These should include expectations for internal governance which are likely to be akin to the processes for approving financial disclosures.”

*IIF, Building a global ESG Disclosure Framework: a Path Forward, 2020*

“Like the audits of financial statements and internal control over financial reporting, third-party assurance from a public company audit firm enhances the reliability of ESG information presented by companies to investors and other stakeholders.”

Center for Audit Quality

Recognising the importance of assurance, the International Auditing and Assurance Standards Board (IAASB) is undertaking a project on extended external reporting (EER) assurance, to provide better guidance to practitioners on assurance on integrated reporting, sustainability reporting and non-financial reporting about ESG matters<sup>26</sup>.

<sup>25</sup> Accountancy Europe (2020), *From risks to regulation: re-thinking company categorisation*, see:

<https://www.accountancyeurope.eu/publications/from-risks-to-regulation-rethinking-company-categorisation/>

<sup>26</sup> IAASB (2020), *Extended External Reporting (EER) Assurance*, see: <http://www.iaasb.org/projects/extended-external-reporting-eer-assurance>

Respondents highlighted that developing International Non-financial Reporting Standards (INFRS) is necessary to unlock the potential for assurance to ensure that NFI reporting is validated both by the internal and external audit process (see Malaysian Institute of Accountants and HAN University of Applied Sciences quote).

In June 2020, Accountancy Europe published a Position Paper *Setting up for high-quality non-financial information assurance in Europe*<sup>27</sup> exploring conditions to develop and ensure high-quality NFI assurance.

---

“ Having a set of established standards would better facilitate and enable assurance to be provided on the disclosures.”

Malaysian Institute of Accountants

---

“ In order to provide reliable information, assurance on corporate reporting has to be part of the future outlook.”

HAN University of Applied  
Sciences

---

<sup>27</sup> Accountancy Europe (2020), *Setting up for high-quality non-financial information assurance in Europe*, see: <https://www.accountancyeurope.eu/publications/setting-up-high-quality-non-financial-information-assurance-in-europe/>

## PAVING A WAY FORWARD

The coronavirus crisis is bringing a wide range of ESG factors to the fore, testing business resilience and highlighting the role of business in society. Changes to the economic landscape, consumption patterns, supply chains and operating models are likely to have long-term effects on business and wider economies. Investors and other stakeholders are looking for informative reporting on these matters (see KPMG quote).

Our recent publication *Corona crisis: lessons for a more sustainable future*<sup>28</sup> highlights the role of accountants in the transition towards sustainable and resilient business. The public sector should re-think how public money is spent and incentivise more investments in a resilient public health system and economy. The private sector should re-assess its impact and dependencies on the external environment to ensure business model resilience and sustainability.

### ACHIEVING THE GLOBAL CORPORATE REPORTING STRUCTURE VISION

Respondents agree that there is no single path to achieving the vision for a global corporate reporting structure (Figure 4) and global NFI standards. It is likely to succeed through a series of steps such as bilateral moves towards greater alignment or convergence, policy developments, or broader mandates provided by multilateral organisations. However, it is important to have a clear destination in mind which would ultimately help achieve this objective (see FRC quote).

Some respondents noted that faster convergence could be achieved if it were to start with NFI initiatives that share the investor materiality lens. The global nature of cash flows and investors could be a catalyst for global convergence and would help address challenges such as different civil society and policy objectives between jurisdictions (see CFA Institute quote).

Further, metrics and standards that address a wider stakeholder group could be brought in and produce a core set of global metrics to address the wider impacts of business.

### BUILD ON WHAT IS ALREADY WELL-ESTABLISHED

There is currently a wide array of market-driven voluntary standards for NFI disclosures. The Corporate Reporting Dialogue (CRD) was convened by the IIRC to promote greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements. In keeping with its aims, it has succeeded in communicating about the developments of reporting frameworks, standards and related requirements and identifying practical ways to achieve alignment. However, the Better Alignment Project

“The current COVID-19 pandemic has underscored the key importance of transparent reporting of the risks facing entities in this environment, including the resilience of their business models and global supply and value chains, and the interconnected role that financial and non-financial information play in achieving that goal.”

KPMG

“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”

FRC

“[W]e believe that any global approach is best commenced with the financial value creation objectives of investors. [...] Again, this is not to say that the information needs of other stakeholders are not important.”

CFA Institute

<sup>28</sup> Accountancy Europe (2020), *Corona crisis: lessons learnt for a more sustainable future*, see: <https://www.accountancyeurope.eu/publications/corona-crisis-lessons-for-a-more-sustainable-future/>

was not able to resolve this issue and pointed to the need to have *one strong, internationally-recognised and used set of standards for ESG reporting*<sup>29</sup>.

Many respondents are looking for the current NFI initiatives to make a clearer statement on how they can help achieve harmonisation.

To this end, all participants of the CRD who responded to the Cogito paper noted that between them they already have the necessary elements of a cohesive solution that meets the needs of all stakeholders and point to efforts that are underway to harmonize through bilateral and multilateral discussions.

For this paper, CDP, CDSB, GRI and SASB gave the following exclusive communication about their collaboration efforts (see CDP, CDSB, GRI, SASB quote below).

““ *As leading independent global standard-setters for sustainability reporting, our efforts are the natural building blocks for a globally harmonised system. Sustainability reporting started as a stakeholder-driven accountability initiative and remains relevant to all stakeholders, but this information is now also recognized as critical to investment decisions because it has significant impact on business value and risk. Many of the sustainability issues that are critical for society are also relevant for financial value creation and this relevance is increasingly dynamic. As the global pandemic has shown, ESG impacts can rapidly become material for companies and their investors.*

*Collectively, the combination of our principles, frameworks, metrics and platforms provide the basis for a unifying system that can serve providers of capital and stakeholders more widely. We envisage a system that delivers on the pillars set out by TCFD of governance - strategy, risk management, metrics and targets - across all sustainability issues. Together, we are now working to provide the basis for such a globally harmonised system. We would be pleased to work toward this goal with the IFRS Foundation.”*

CDP, CDSB, GRI, SASB

## A 'BUILDING BLOCK' APPROACH

Respondents noted that the global set of metrics should be applicable to all companies in all jurisdictions. Progress is best achieved through a series of 'building blocks'. The core 'block' should provide a set of global metrics for NFI, to achieve comparable information to address global challenges and direct capital to sustainable enterprise. To this could be added further blocks: regional or other requirements to reflect particular policy priorities and objectives, or additional blocks on specific topics relevant to industry sectors (see Deloitte quote).

““ *[...] a 'building block' approach should be followed, where core standards are adopted by everyone, but they can be supplemented by local requirements, reflecting public policy priorities where necessary.”*

Deloitte

<sup>29</sup> CRD (2019), *Better Alignment Project*, see: <https://corporatereportingdialogue.com/better-alignment-project/>

## EU LEADERSHIP ON SETTING NON-FINANCIAL REPORTING STANDARDS

Momentum is increasing in Europe following the EC's announcement of its intention to set NFI standards and the planned revision of the NFRD.

Respondents commented that the EU is in a unique position to be the accelerator towards the consolidation of the numerous NFI initiatives and show the leadership needed to achieve the core set of global metrics.

The EU led the global movement towards the creation of a single set of globally applicable financial accounting standards (i.e. IFRS) twenty years ago.

Therefore, respondents noted that the EU is arguably best placed to replicate that leadership to catalyse a single set of globally applicable non-financial reporting standards (see Professors Barker, Camfferman, Giner, Joos, Jorissen, Sellhorn quote).

Most respondents emphasised the cross-border nature of business and capital flows. For this reason, they encouraged the EU to collaborate with different organisations and jurisdictions and to aim for a global vision (see Accounting Standards Committee of Germany quote).

Some respondents also stated their belief that a global solution is in reach (see Professor Eccles quote).

*“It was European legislation that was the critical, enabling factor in IFRS becoming global[...]. The difference now is that the EU can have a much larger say over the design of the standard setter, along with less change required at the level of national legislation and practice[...].”*

Professors Barker, Camfferman,  
Giner, Joos, Jorissen, Sellhorn

*“[W]e definitely share [a] preference for a global approach. [...] The reporting requirements are primarily targeting companies that are sourcing, selling and doing business beyond Europe's borders; further the areas to be reported on are non-genuinely limited by Europe's territory [...]”*

Accounting Standards Committee  
of Germany

*“For the first time in 30 years there is a real possibility to develop a set of high-quality global standards for nonfinancial information.”*

Professor Eccles

## APPENDIX 1: SUMMARY OF THE COGITO PAPER

Cogito Paper *Interconnected standard setting for corporate reporting*, published in 2019, explored how to coordinate, rationalise and consolidate the many non-financial reporting initiatives to achieve a global solution that would:

- address urgent global issues and provide a core set of global metrics for NFI
- strengthen governance through an enhanced collaboration of the public and private sector for oversight and standard setting
- transform existing structures to accommodate additional players effectively to address broader stakeholders' needs
- connect financial and non-financial reporting to enable transparency on how companies create long-term value
- incorporate technology from the start

Nine criteria (see Text box 1) were used to evaluate different potential approaches.

A global corporate reporting structure (see Figure 4) would be the ultimate vision for interconnected standard setting for corporate reporting, to be achieved in steps, leveraging the current NFI initiatives.

Europe can and should play a leading role in accelerating and catalysing the move.

The proposed approach involved the following key elements:

- enhancing the *Monitoring Body* to provide public oversight by a broader range of public authorities and agencies with an interest in corporate reporting
- reconstituting the current IFRS Foundation Trustees as the *corporate reporting foundation*, with the Trustees drawn from a wider background reflecting experience in financial and non-financial reporting oversight, with a broader corporate reporting mandate as well as broader responsibilities
- creating an International Non-financial reporting Standards Board (INSB), to set non-financial reporting standards

The financial and non-financial standard setters would share a *conceptual framework for connected reporting*, ensuring an interconnected standard setting approach that focuses on long-term value creation and stakeholder needs.

## APPENDIX 2: OUTREACH ON THE COGITO PAPER

### RESPONDENTS TO THE COGITO PAPER

We thank all those who responded and provided feedback for their time and expert views. The following is the list of respondents to our publication<sup>30</sup>:

Preparers	Investors	Regulators, standard setters and reporting initiatives	Audit/Accountancy Firms	Professional bodies	Other stakeholders	Academics
The 100 Group	Belgian Association of Financial Analysts (ABAF-BVFA)	Accounting Standards Committee of Germany	BDO	The Association of Chartered Certified Accountants (ACCA)	The Center for Audit Quality	Professor Adams
Swedish Enterprise	CFA Institute	Climate Disclosure Standards Board (CDSB)	Deloitte	Chartered Accountants of Australia and New Zealand (CAANZ)	Institute of Internal Auditors	Professors Barker, Camfferman, Giner, Joos, Jorissen, Sellhorn
		Dutch Accounting Standards Board	EY	Chartered Institute of Management Accountants (CIMA)		Professor Eccles (Forbes article)
			Grant Thornton	Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)		Professor Geba - Universidad Nacional de La Plata, Argentina

<sup>30</sup> Accountancy Europe (2020), *Responses to Interconnected standard setting for corporate reporting – Cogito paper feedback*, see: <https://www.accountancyeurope.eu/publications/responses-to-interconnected-standard/>

		Financial Reporting Council (FRC)	KPMG	CPA Australia		HAN University of Applied Sciences
		Global Reporting Initiative (GRI)	Mazars	Danish Auditors (FSR)		
		International Integrated Reporting Council (IIRC)	PwC	Institute of Chartered Accountants in England and Wales (ICAEW)		
		The Italian Standards Setter (OIC)		Institute of Chartered Accountants of Scotland (ICAS)		
		Sustainability Accounting Standards Board (SASB)		International Federation of Accountants (IFAC)		
		Value Benchmarking Alliance (VBA)		Malaysian Institute of Accountants (MIA)		
		World Intellectual Capital Assets Initiative Network (WICI)		The Norwegian Institute of Public Accountants (DNR)		
		XBRL International		Royal Netherlands Institute of Chartered Accountants (NBA)		

## OTHER OUTREACH OF THE COGITO PAPER

The Cogito Paper was included in many articles:

- ICAEW article of January 2020<sup>31</sup>
- IFAC article of February 2020<sup>32</sup>
- FD article of March 2020<sup>33</sup>
- Analyse Financière article of March 2020<sup>34</sup>
- Accountant (NBA platform) article of April 2020<sup>35</sup>
- The IDW Life magazine March edition (accessible by subscription only),
- Investments and Pensions Europe article of June 2020<sup>36</sup>,
- nwb DatenBank article of June 2020 (accessible by subscription only)<sup>37</sup> etc.

Accountancy Europe and Eumedion held a joint roundtable discussion *Towards a global standard setter for non-financial reporting* in March 2020<sup>38</sup>.

In addition, the publication was referred to in different meetings, events, webinars, both public and private.

DISCLAIMER: Accountancy Europe makes every effort to ensure, but cannot guarantee, that the information in this publication is accurate and we cannot accept any liability in relation to this information. We encourage dissemination of this publication, if we are acknowledged as the source of the material and there is a hyperlink that refers to our original content. If you would like to reproduce or translate this publication, please send a request to [info@accountancyeurope.eu](mailto:info@accountancyeurope.eu).

<sup>31</sup> ICAEW (2020), *Accountancy Europe calls for consistency in 'non-financial' reporting*, see: [https://www.icaew.com/insights/viewpoints-on-the-news/2020/jan-2020/accountancy-europe-calls-for-consistency-in-non-financial-reporting?utm\\_campaign=Members%20-%20ICAEW&utm\\_medium=email&utm\\_source=1265026\\_ICAEWdaily\\_News\\_24Jan2020&dm\\_i=47WY,R43M,JWFL5,38O8\\_V,1](https://www.icaew.com/insights/viewpoints-on-the-news/2020/jan-2020/accountancy-europe-calls-for-consistency-in-non-financial-reporting?utm_campaign=Members%20-%20ICAEW&utm_medium=email&utm_source=1265026_ICAEWdaily_News_24Jan2020&dm_i=47WY,R43M,JWFL5,38O8_V,1)

<sup>32</sup> IFAC (2020), *From Non-Financial Disclosure to Integrated Reporting*, see: [https://www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/discussion/non-financial-disclosure-integrated-reporting?utm\\_medium=email&utm\\_source=transactional&utm\\_campaign=GKG\\_Latest](https://www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/discussion/non-financial-disclosure-integrated-reporting?utm_medium=email&utm_source=transactional&utm_campaign=GKG_Latest)

<sup>33</sup> FD (2020), see: <https://fd.nl/ondernemen/1335922/wereldwijde-standaard-nodig-voor-niet-financiele-informatie>

<sup>34</sup> Analyse Financière (2020), *Des propositions pour une normalisation financière et non financière coordonnée*, see: <http://analysefinanciere.org/2020/03/20/danjou/>

<sup>35</sup> Accountant (2020), *Niet-financiële informatie: voor iedereen en door iedereen*, see: <https://www.accountant.nl/discussie/columns/2020/4/niet-financiele-informatie-voor-iedereen-en-door-iedereen/>

<sup>36</sup> Investment and Pensions Europe (2020), *Resolving the 'alphabet soup' of corporate reporting framework*, see: <https://www.ipe.com/home/guest-viewpoint-hilde-blomme-and-jona-basha/10045845.article>

<sup>37</sup> Nwb DatenBank, *Accountancy Europe: Global vernetztes Standard Setting für die finanzielle und nichtfinanzielle Berichterstattung*, see: <https://datenbank.nwb.de/Dokument/Anzeigen/826870/>

<sup>38</sup> Accountancy Europe and Eumedion (2020), *Event summary: Towards a global standard setter for non-financial reporting*, see: <https://www.accountancyeurope.eu/events/towards-a-global-standard-setter-for-non-financial-reporting/>



Avenue d'Auderghem 22-28, 1040 Brussels



+32(0)2 893 33 60



[www.accountancyeurope.eu](http://www.accountancyeurope.eu)



@AccountancyEU



Accountancy Europe

#### **ABOUT ACCOUNTANCY EUROPE**

Accountancy Europe unites 51 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).