

# FOLLOW-UP PAPER

## INTERCONNECTED STANDARD SETTING FOR CORPORATE REPORTING

The [Follow-up paper: Interconnected standard setting for corporate reporting](#):

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

The Cogito paper [Interconnected standard setting for corporate reporting 2019](#)<sup>1</sup> (the Cogito paper) built the case for a global interconnected standard setting solution to address non-financial information (NFI) topics such as climate change, environmental degradation, human rights, social concerns and internally generated intangibles. Over 40 organisations commented on the Cogito paper, which was also featured in various media and led to debate at events and meetings.

### RECENT DEVELOPMENTS

In Europe, the European Commission set out its intention to develop European NFI standards and held a public consultation on the review of the Non-financial Reporting Directive.

Globally, the [International Financial Reporting Standard](#) (IFRS), the [International Organisation of Securities Commissions](#), the [Institute of International Finance](#), the [World](#)

[Economic Forum's International Business Council](#), the [International Integrated Reporting Council](#), the [Investor-as-Owner Subcommittee of the United States Securities and Exchange Commission](#) and the [Asia Securities Industry and Financial Markets Association](#) advanced the NFI agenda.

### MAIN AREAS OF FEEDBACK

Respondents gave the following feedback on the main topics of the Cogito paper.

#### **Why: factors driving the need to act**

There was a universal agreement that NFI topics are business-critical and in need of an urgent solution.

#### **What: a system change**

The need for system change was almost unanimously supported: financial information and NFI should be connected and there is a need for a core set of global metrics. However, a few respondents noted that a European mandated and regulatory solution could be faster as the agenda is more advanced in Europe.

#### **How: 9 criteria to evaluate potential standard setting approaches**

The criteria to evaluate standard setting approaches were widely supported, particularly the proposals on the materiality lens to include issues that affect long-term value creation.

<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.

## Approaches to Interconnected standard setting

The vision for a global corporate reporting structure was supported by the majority. Some respondents noted that intermediary steps, such as the European initiative, may be necessary. However, they note that regional solutions should consider global integration as the ultimate goal.

There was a strong support for the need for a conceptual framework for connected reporting to address concepts such as materiality, connectivity, multi-capital approach, impacts and dependencies. It could be built both from the International Accounting Standards Board's Management Commentary and the <IR> Framework.

### Focus on digitalisation

Technology should be incorporated in standard setting and highlighted that a single taxonomy for NFI standards is essential to comparability.

### Re-think SMEs

Some respondents recommended that NFI standards should consider SMEs through a proportionate approach.

### Unlock assurance on reported information

Developing NFI standards is necessary to unlock the potential for assurance which would in turn enhance the reliability of NFI reporting.

## PAVING A WAY FORWARD

Respondents agreed that the ultimate objective should be a 'system solution' to deliver global NFI reporting standards connected to financial information. This could be achieved in steps such as bilateral moves to align or converge NFI reporting standards, policy developments, or expanding the mandates given by multilateral organisations.

They also provided considerations in paving a way forward:

### Build on what is already well-established

Quickest progress can be made by building on the best of existing NFI frameworks and standards. CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) gave the following exclusive statement on their collaboration:



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

Following a 'building blocks approach' could address global challenges and varying policy needs. A core set of global metrics for NFI reporting would ensure comparability and address global challenges. Further blocks could be added to reflect jurisdictional priorities or to address sector-specific topics.

### EU leadership on setting non-financial reporting standards

The EU has a leading role to play and should collaborate with different organisations to help catalyse a global solution.

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