Response to Accountancy Europe's proposal for sustainability reporting standards

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Accountancy Europe's proposed (https://www.accountancyeurope.eu/publications/interconnected-standard-setting-for-corporate-reporting/) structures for sustainability and other forms of non-financial reporting mirror those of financial reporting that gave the world (except the US) International Financial Reporting Standards (IFRS). (The US has stuck with its more rule-based Accounting Standards issued by the US Financial Accounting Standards Board).

The paper is an important contribution to the ongoing debate. But before solutions can be considered, the 'problem(s)' needs to be identified. What works for financial reporting can't be assumed to be appropriate for non-financial reporting.

Challenging the arguments in the Accountancy Europe paper

When the International Accounting Standards Committee (the forerunner to the International Accounting Standards Board) was founded in 1973 financial reporting practices around the world differed substantially. Differences reflected differing national political regimes, legal systems and cultures, the varying strength of accounting as a profession and substantial national differences in dominant forms of organisational ownership and financing. When a company sought an additional stock exchange listing it had to prepare a different set of accounts or at least a reconciliation to a different set of accounting rules – a costly exercise leading to very different accounting numbers, confusing users.

In contrast 'sustainability reporting' frameworks *started* with global ambitions in late 1990s primarily through the AA1000 principles-based framework and the Global Reporting Initiative's (GRI) guidelines focusing on indicators. The GRI Standards now incorporate principles and are used by companies around the world. The International Integrated Reporting Council's (IIRC) Framework published in 2013 has given rise to narrative reporting on broader value (beyond profit) and forward-looking information. Other sustainability reporting frameworks have recently emerged offering something a little different. Bits of all of them have been incorporated into national requirements. But the problem is not widely different national practices as it was with financial reporting.

The Accountancy Europe paper cites climate change and other environmental and social issues, along with their impact on corporate value, as reasons for its proposals. These were reasons for the establishment of the GRI (in particular) and IIRC in the first place – not reasons for advocating new structures.

The ability of companies to 'framework shop' is not the cause of greenwashing as the paper suggests. Greenwashing occurs due to a poor tone from the top (a governance issue) allowing greed and low integrity to flourish. Mandatory reporting requirements would go some way to curbing it. But only if they are enforced. Enforcement is critical. It isn't clear how a structure similar to the one that produces IFRS would achieve this (particularly given that some countries still struggle to adopt and enforce IFRS).

The GRI already has the legitimating structures of a standard setting body with a Global Sustainability Standards Board and the Due Process Oversight Committee with members appointed by an Independent Appointments Committee.

In summary, I challenge Accountancy Europe to revisit some of the assumptions in the paper. I argue:

- there are different *global* standards rather than different sets of national standards as there were with financial reporting
- environmental and social concerns were a reason for establishing the current suite of frameworks – not a reason for changing them
- greenwashing occurs due to lack of governance oversight and mandatory standards that are enforced (not the existence of multiple frameworks)
- Standard setters such as the GRI already have similar governance structures to those of accounting standard setters

The 'problems' of the status quo

I agree with Accountancy Europe that preparers and users are overwhelmed and overloaded and yes, a number of different frameworks have arisen in recent times. Each adds at least something different and important, the recommendations of the Taskforce on Climate-related Financial Disclosure finalised in 2017, for example, being significant.

Being overwhelmed and overloaded is not just a function of the number of frameworks. The issues are complex and interconnected and getting more so, and resources going into preparing and using reports and developing appropriate internal control systems are not keeping up.

The boom in non-financial reporting is only 2-3 decades old. Some degree of innovation is needed. But any new initiative must be able to articulate what it adds and how it aligns to well established and well used frameworks/standards.

I see the 'problems' to be addressed as being:

- corporate investment in non-financial reporting, particularly sustainability reporting, is not where it should be and significantly less than in financial reporting
- different frameworks have developed in order to address emerging issues and newly concerned audiences faster than any one framework could
- nations are slow to regulate key aspects of non-financial reporting

Addressing the problems

Reporters need to increase their investment in sustainability and other non-financial reporting relative to financial reporting.

Existing framework/ standard setters should not be offering reporting solutions that overlap existing frameworks and standards and should collaborate on how to reduce these overlaps and agree on who sets what standard/framework for what purpose/audience.

Existing framework/standard setting bodies should be collaborating on how to achieve a minimum level playing field through national legislation and enforcement agencies.

The United Nations Sustainable Development Goals are a great example of nations making a collective commitment. Perhaps nations could be persuaded, maybe through the United Nations, to agree on mandatory corporate reporting requirements to assist in achieving them. A starting point might be the SDGD Disclosure Recommendations that were developed through consultation and draw on existing frameworks/standards.

EU Regulation could set an example for other nations to follow.