Think Ahead ACCA

Principles for Connected Corporate Reporting Standard Setting

ACCA Policy Paper
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ACCA believes that corporate reporting standards should:

1. **Cover a broad scope of topics that highlight the interactions between the value that organisations create for themselves, and the impact that they have on society and planet**

Good quality reporting should cover a wide range of value drivers for organisations, beyond financial performance and position but equally beyond environmental or social impact. This includes intangibles not recognised on the balance sheet, such as innovative processes, know-how and corporate culture.

Businesses, society, and the planet depend on each other. The way each organisation manages its key resources and relationships affects the value that it generates for economies, societies, and nature. Conversely, organisations' external impacts can ultimately affect its ability to create value for itself. For example, investors are now considering corporates' environmental and social impacts in evaluating the risks associated with investing or lending decisions.

The information needs of investors often correspond with those of other stakeholders (such as customers, suppliers, communities and policy-makers). A report that follows a robust and forward-looking approach will likely address an organisation's most significant impacts on the economy, environment and people.

2. **Be based on a common language and clear definitions**

Precise terminology and clear definitions that are well-understood by everyone are paramount to good standard-setting. Special care is needed to ensure that global, regional and national standard-setters align the language that they use, so that there is a consistent understanding across the world of the meaning of key terms.

Standard-setters across the world need to agree a common definition for key terms, including 'sustainability,' 'sustainability reporting,' and 'enterprise value.'

In this paper, we're referring to 'connected corporate reporting' instead of 'sustainability reporting' to indicate that reporting outside of the financial statements should encompass a broad range of factors that affect organisations' ability to create value in the short, medium, and long term, beyond financial performance and position but equally beyond environmental or social impact. This also means that information outside of the financial statements must be consistent and connected with information in the financial statements.

3. Strike a balance between being principles-based and providing a minimum core set of comparable metrics

Global standards should, as much as possible, be principle-based and applicable to the broad range of businesses using them. As with the IFRS Standards, some sector-specific standards may be necessary, but they should not predominate.

Global standards should be based on a multi-capital approach, focused on factors that affect an entity's ability to create value over time. The related performance metrics are likely to be specific to each entity. Principle-based standards allows entities to exercise judgement, to reflect what is being reported internally to deliver strategy.

Alongside principles-based standards, a minimum core set of common metrics should be required, to provide comparability for the different users across a range of organisations. Regional and national standard-setters may also mandate specific disclosure requirements and metrics.

Mandatory metrics should be scoped and defined in precise terms to ensure comparability. They should also be targeted and limited in number, to ensure ease of use by investors and other stakeholders.

We call on jurisdictions around the world to cooperate multilaterally, with oversight by an international organisation such as the OECD, to ensure that countries and regions adopt the same mandatory metrics relating to each given topic.

4. Avoid disclosure overload, so that users of reports can easily access the information they need

Conciseness is key to ensuring that the information reported is decision-useful to its intended audience. It's a core aspect of reporting quality that standard-setters should monitor.

Strategically-focused information should be included in the annual reports alongside the financial statements, because connectivity between financial and other information is paramount to decision-making by both management and external stakeholders. If separate reports are mandated, standard-setters should identify unequivocally the objective and primary audience of the report, to ensure reporting is clear, concise and meets users' information needs.

When setting standards around the reporting of entities' external impact, standard-setters should lay out precise and focused mandatory disclosure requirements, rather than leaving the onus of impact-focused materiality assessments to preparers. This is because it is more difficult for preparers to assess the materiality of their entity's external impacts on society and environment, than to assess the impact of matters on the entity. Placing the onus of complex materiality judgements on them can lead to reporting that is disjointed and lacks conciseness, to the detriment of comparable and decision-useful information. Such disclosure requirements should be limited in number and target the most significant impacts, to avoid disclosure overload.

5. Balance the cost and benefits of reporting

Good quality corporate reporting requires time and effort. Standard-setters and policy-makers should consult with preparers to ensure the impacts of new mandatory reporting requirements are proportionate. In developing standards, the decision-usefulness of information to the intended audience should be weighed against the effort required to report the information. The impact of the standard on the quality of reporting should be monitored post-implementation.

Reporting is only one policy lever to promote more responsible business decision-making and drive positive change for people and planet. Sustainable finance, corporate governance, taxation, regulation, and other policies to incentivise sustainable business models all play a part. A proportionate approach to mandatory reporting requirements means that business resources can be directed towards actively pursuing a green and just transition.

Coherent and inter-connected policymaking is paramount. ACCA urges governments to consider all the different levers available to achieve their public policy objectives, and evaluate their impacts in a holistic way.

6. Be based on a building-block approach: with the IFRS Foundation providing a baseline of global standards, on which national and regional standards can be built

We believe that the IFRS Foundation, with its experience of developing globally-adopted financial reporting standards through the IASB, is the right organisation to set global standards for connected corporate reporting. This is because connections between financial and other information are important for an integrated reporting system.

The IFRS Foundation's strength lies in developing standards for reporting to potential investors, lenders, and creditors. In addition to these standards, countries and regions may develop jurisdiction-specific disclosure requirements about companies' impacts on economy, society, and environment.

To ensure that information is comparable and decision-useful for its intended audience, and avoid undue reporting burden on preparers, jurisdictional disclosure requirements should be interoperable with global standards.

7. **Achieve reporting that is assurable**

Given the importance placed on both the financial statements and the management report, it's not ideal to have varying levels of external assurance between these two parts of the annual report. Independent assurance of the management report should therefore be mandatory.

Because the assurance practice over extended external reporting is not yet mature, to require reasonable assurance over this at this stage is likely to incur substantial extra costs for companies which might not yet be supported by the benefits. The ultimate aim, however, should be for standard-setting and practice to mature, such that reasonable assurance over non-financial information published in annual reports is the common practice.

The importance of internal assurance should not be ignored. The internal audit function should ensure that internal controls for the reporting process are effective, and that the information provided by different parts of the business is reliable and consistent.

8. **For SMEs, be proportionate and focus on information that improve business management**

The great majority of limited liability companies around the world are micro-entities or small companies. The burden of preparation would be particularly onerous for these companies and the demand would not outweigh the costs to justify making this an obligatory requirement. However, companies not within the mandatory scope (including SMEs) can benefit from embracing wider connected corporate reporting. A voluntary simplified and reduced reporting standard could be helpful in responding to what are likely to be increasing requests from customers or providers of finance, for example. A proactive approach to managing and reporting social and environmental impacts can help SMEs to seize business opportunities and pre-empt risks.

9. **Use technology with an eye on context**

Technology is changing the way that corporate reports are produced, distributed, and used. This provides opportunities in allowing more stakeholders (including policy-makers and the public) to access the information that they need. At the same time, the more unstructured nature of information outside of the financial statements also poses challenges that need to be managed carefully.

Outside of metrics, narrative information is key in informing users about the strategic context behind companies' performance. Access to, and analysis of, narrative information is also important in capturing aspects of organisations' value creation, preservation and erosion which may not currently be quantifiable.

Existing ACCA resources

Tenets of Good Corporate Reporting: https://www.accaglobal.com/gb/en/professional-insights/global-profession/Tenets-of-good-corporoate-reporting.html

Tenets of a Quality Audit: https://www.accaglobal.com/us/en/professional-insights/global-profession/Tenets-of-quality-audit.html