



Wider corporate reporting: an overview

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Wider corporate reporting: summary of presentation

- This presentation covers:
 - Background and context of the staff work on wider corporate reporting.
 - Overview of the confusing landscape of frameworks etc.
 - Summary of growing support for wider corporate reporting among different stakeholder groups.
 - Implications for the Board's work: should the Board be doing more?
 - Reference to Board discussions at its March 2017 meeting and IFRS Advisory Council in April 2017.
 - Seeking ASAF's views on the work being undertaken by staff on the possibility of a Board project to update and revise the *Management Commentary* Practice Statement (MCPS).
 - Potential next steps.
 - Questions for ASAF.

Background and context

Wider corporate reporting: background and context

- Board's role examined as part of the Foundation Trustees' latest review of structure and effectiveness (2015-16).
- Trustees' Request for Views (RFV) in July 2015 set out view that Board's current approach of co-ordination and co-operation with other bodies active in this arena – such as the International Integrated Reporting Council (IIRC) and the Corporate Reporting Dialogue (CRD) - should continue.
- Large majority of respondents agreed with this current strategy.
- Trustees reaffirmed Foundation's strategy towards wider corporate reporting: Board should play an active role, but not be at the forefront of leading developments in areas outside the traditional boundaries of financial reporting.
- Trustees also agreed to dedicate a modest amount of staff resource to this area to monitor developments and to develop a study of what the future role of the Board should be.
- Outcome of Trustees' review noted in Board's Agenda Consultation Feedback Statement November 2016.

Wider corporate reporting: staff work to date

- Initial research of extensive literature, which has revealed:
 - as anticipated, a confusing myriad of frameworks, standards, goals and codes, but equally
 - growing support for companies to report on a broader range of factors than purely financial ones.
- Monitoring developments in the field, notably the work of the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD).
- Enhanced contacts with the IIRC and other contacts, eg with the Climate Disclosure Standards (CDSB), Carbon Tracker, CRD (with appointment of Ian Mackintosh as Chair) and the Sustainability Accounting Standards Board (SASB).
- Initial work undertaken on mapping the provisions of the IIRC's 2013 Integrated Reporting (<IR>) Framework with the Board's MCPS.
- Papers presented to the Board at its March 2017 meeting (initial survey of the wider corporate reporting landscape) (Agenda Paper 28A for that meeting).
- Presentation to Advisory Council April 2017 (Agenda Paper 9 for that meeting).



A confusing landscape

Wider corporate reporting: a confusing landscape

- Lack of globally accepted standards on reporting for value creation.
- Similar lack for sustainability (Global Reporting Initiative, GRI, standards come closest to global acceptance, on a voluntary basis).
- Estimates of the number of frameworks, standards, goals and codes vary, but are large, eg:
 - OECD/CDSB 2015 research suggests around 400;
 - 2016 *Carrots and Sticks* report identifies 383 ‘reporting instruments’ in 64 countries and regions;
 - Principles for Responsible Investment (PRI) 2016 research identifies almost 300;
 - a new *Reporting Exchange* claims over 1000!
- CRD is the first attempt to bring together some coherence and alignment, but the CRD’s *Landscape Map* covers only 8 organisations.



Growing support for wider corporate reporting

Growing support: the user community

- Strong evidence of investor support for integrating a wide range of factors (not just financial) into investment analysis and decision-making.
- PRI encourages institutional investors to incorporate ESG issues.
- PRI seen significant growth in the last decade – now over 1700 signatories with Assets Under Management (AUM) of US\$60 trillion.
- ICGN (AUM of over US\$26 trillion) a supporter of <IR>.
- CFA Institute a supporter of integrating ESG issues into investment analysis.
- Board’s Investors in Financial Reporting (IIFR) programme: 17 out of 18 participants have policies on integrating ESG.
- Blackrock a notable example, including a public call to encourage “standardized ESG disclosures within a consistent global reporting framework, similar to international accounting standards”.

Growing support: global policy-making level – (1) General

- UN has for years had a number of initiatives supporting aspects of wider corporate reporting, now under major theme of 17 Sustainable Development Goals (SDGs) and 169 targets (one relates specifically to corporate reporting).
- OECD advocacy through *Guidelines for Multinational Enterprises* and *Principles for Corporate Reporting* (the latter endorsed by G20 leaders in 2015).
- Other than the above, despite lobbying, G20 has not made specific calls for <IR./sustainability reporting, but general statements made in communiqués in support of sustainable growth and long-term value creation.

Growing support: global policy-making level – (2) FSB TCFD

- TCFD Phase II consultation report issued December 2016 (60-day comment period).
- Contains specific recommendations for voluntary disclosure principles and leading practices in 4 areas:
 - Governance;
 - Strategy;
 - Risk management;
 - Metrics and targets.
- Emphasis is on ‘front-end’ disclosures (ie in *Management Commentary* or equivalent).
- TCFD received over 300 responses. At time of writing, final recommendations still awaited.
- Staff assessment is that at this stage there are no potential implications that could lead to the Board amending its current Work Plan, but final recommendations may be relevant to the Disclosure Initiative project.

Growing support: other examples of policy-making/regulatory initiatives

- EU Non-Financial Reporting (NFR) Directive for certain large undertakings and groups. Currently awaiting European Commission proposals on guidelines for such reporting.
- UK Companies Act requirements for all but small companies to publish a Strategic Report. UK FRC planning to consult on revision in the near future.
- France: legal requirements (Grenelle II) on listed companies to report environmental and social responsibility information and – starting in 2017 – strengthened mandatory carbon disclosure requirements for listed companies and carbon reporting for institutional investors under Article 173 of the French Energy Transition Law.
- India: SEBI circular February 2017 mandating a Business Responsibility Report (BRR) for the top 500 listed entities.
- USA: Securities and Exchange Commission (SEC) disclosure effectiveness review. SASB analysis of responses to April 2016 Concept Release showed strong support for improved disclosure of sustainability-related information in SEC filings.
- **But** impact of current federal administration and new SEC leadership could adversely affect any US momentum.

- Area of increasing importance for stock exchanges.
- Importance of UN-PRI Sustainable Stock Exchanges (SSE) initiative, launched in 2009, which now has 60 exchanges signed up, representing over 70 per cent of listed equity markets.
- SSE has developed *Model Guidance on Reporting ESG Information to Investors* and the World Federation of Exchanges (WFE) has developed recommendations to member exchanges on how to implement their own sustainability policies.
- According to the SSE, 12 exchanges incorporate ESG information into their listing rules and 15 provide formal guidance to issuers. A further 23 exchanges have made a commitment to introduce new ESG guidance.
- Specific leading examples include:
 - Johannesburg Stock Exchange (JSE) listed companies – under the King IV corporate governance code – have to produce an integrated report on an ‘apply and explain’ basis;
 - Singapore Stock Exchange (SGX) – from 2018 issuers required to prepare an annual sustainability report on a comply or explain basis;
 - The Taiwan Stock Exchange (TWSE) and Taipei Exchange (TPEX) require listed companies above a certain size and operating in certain industries (food processing, chemicals and financial services) to file a CSR report.

Growing support: accounting profession

- International Federation of Accountants (IFAC) strongly supports the IIRC and the implementation of the <IR> Framework (as most recently set out in a January 2017 Policy Position paper).
- Global Accounting Alliance (GAA) (10 accounting bodies – all IFAC members) statement of support for integrated reporting November 2016.
- Accountancy Europe (FEE as was) argues that integrated reporting is consistent with its CORE & MORE proposal.
- Major international accounting networks all heavily involved in sustainability and integrated reporting initiatives (for example, all of the Big 6 networks have representatives on the IIRC Council).

- Evidence that among the world's largest companies at least, sustainability and/or integrated reporting is becoming the norm.
- KPMG's 2015 survey of corporate responsibility reporting noted that over 90 per cent of the largest global companies (top 250 in the Fortune Global 500 list) published a sustainability or corporate responsibility report.
- In 2016, 82 per cent of the Standard and Poor's 500 companies published such reports.
- GRI research suggests that some 5,000 sustainability reports were published in 2015.
- IIRC claims that around 1,500 companies globally prepare integrated reports (although it is not clear whether they either adopt or reference the <IR> Framework).
- 'Big' integrated reporting jurisdictions include South Africa (where some 400 companies are listed on the JSE, most of whom prepare and publish integrated reports). In Japan, some 320 companies are expected to publish integrated reports in 2017.

- Emerging academic evidence that companies with robust sustainability practices and reporting deliver improved economic performance.
- Oxford University and Arabesque Partners 2015 meta-study of 200 studies reported that 88 per cent of relevant sources reviewed found that companies with robust sustainability practices demonstrate better operational performance.
- Study revealed similar positive results relating to cost of capital and share price performance.
- 2015 review of over 2,000 empirical studies by Deutsche Asset Wealth Management and University of Hamburg revealed that the business case for ESG investing is “empirically very well founded”.
- Initial study of integrated reporting quality in South Africa by Mary Barth and others revealed positive associations in relation to stock liquidity, firm value and expected cash flows. A number of academic papers reveal similar positive findings, but some others are less positive about <IR>, in particular taking the view that it should be more about reporting to all stakeholders on sustainability in the wider sense rather than reporting to investors on business sustainability and value-creation. .



Implications for the Board's work

Implications for the Board's work: introduction

- Staff view on the basis of the research to date is that wider corporate reporting is gaining in prominence and importance and important that the Board is across such developments and plays more of an active role in them.
- Does not mean that the Board should involve itself in developing IFRS Standards on integrated/sustainability/other wider reporting issues.
- But Board should set out a view on how it sees its Standards fitting with wider reporting issues.

Implications for the Board's work: what's the problem?

- “It is confusing for stakeholders that there is no universal nonfinancial information reporting framework yet...Regarding the content of NFI (Non-Financial Information), currently there are no international standards or guidance that can be applied across the board. While NFI reporting is still at an early stage, the debate on its content needs to start, as well as on how any requirement should be introduced, i.e. through international standards applicable across the board, industry practices and guidelines, or through legal requirements as applied in the EU. Some believe that the IASB, as an already well-established international standard setter, should expand its scope to include some aspects of NFI reporting despite the challenges that come with this proposal, such as competencies, resources, and dilution of focus on financial reporting.” (FEE, now Accountancy Europe, CORE & MORE Paper, October 2015, page 49).
- Support from bodies such as the IIRC for the Board to do something in this area.

Implications for the Board's work: options

- At its March 2017 meeting, the Board tentatively decided to play a more active role in this area and considered a number of options (Agenda Paper 28B). Outcome reported to the Advisory Council.
- Existing Standard-setting activities – question put to Board whether any of the research pipeline projects (Extractive Activities, Pollutant Pricing Mechanisms, Provisions) should be moved to the active research agenda. Board did not push for this.
- Alternative option presented to the Board is a proposal to revise and update the MCPS. Board asked the staff to do further exploratory work before considering whether or not to take on any such project. Board acknowledges that it was not included in the Board's Work Plan following the latest Agenda Consultation. Advisory Council expressed some caution and agreed that further work needed before any consideration of such a project.

Implications for the Board's work: updating the MCPS - proposal

- Staff view is that there is merit in revising and updating the MCPS.
- MCPS shares much in common with the <IR> Framework, but predates it as it does many other developments outlined in the preceding slides.
- As an indication, any update would need to look at areas such as the following;
 - Purpose – focus on value creation;
 - Reporting on a company's business model;
 - Greater emphasis on integration, connectivity and linkage;
 - Explicit reference to a broader range of capitals, including those related to environmental and social aspects.
- Staff view is that revising and updating the MCPS to reflect such developments, as well as the forthcoming final recommendations of the TCFD, could be seen as to aiding better communication by companies, even though it is non-mandatory.

Implications for the Board's work: use and influence of MCPS

- Some question whether this would be worthwhile. MCPS non-mandatory. Only found a small number of companies that explicitly assert compliance: HSBC, SAP, KazTransOil.
- **But** MCPS has been an influence in development of other frameworks and guidance, including <IR> Framework (2013), CDSB Framework (2012), German GAS 20 (2012), Malaysian SOP 3 (2013), UK FRC Strategic Report guidance (2014). Referenced in Australian ASIC OFR Guide (2013).
- MCPS used as a benchmark in academic literature assessing quality of companies' narrative reporting.
- Would assist in bringing some clarity to a confused landscape. As Eumedion said in 2011: "We hope that Management Commentary will gain more acceptance globally as we see great merit in its use as a fundamental document for any integrated reporting framework".
- Board well-placed to ensure a good fit and connectivity between financial reports and wider, non-financial information, and to ensure integrity and discipline in the way that financial figures are reported in management commentary.

Implications for the Board's work: issues for consideration

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- Staff undertaking further preparatory work on whether Board should undertake research project.
- Further work needs to cover issues such as:
 - Scope;
 - Whether the project satisfies the factors for inclusion as an active research project set out in the Agenda Consultation Feedback Statement;
 - Whether the Board should conduct the project alone or with other parties;
 - Potential risks and benefits;
 - Resource implications, including what impact including such a project would have on the existing Work Plan.

Implications for the Board's work: potential next steps

- Discussion today to gauge initial reactions of ASAF members.
- Subject to that, to bring proposal to a public Board meeting for consideration and discussion, including rationale for recommending a project to revise and update the MCPS even though it was not included in the Board's Work Plan following the Agenda Consultation.
- Advisory Council would need to be consulted on any proposal (IFRS Foundation *Constitution*, Section 43(a)).
- Need to inform the Trustees, who have a duty to consider, but not determine, the Board's agenda (*Constitution*, Section 15(d)).
- As well as the aspects set out in earlier slides, need to consider timing.

Implications for the Board's work: questions for ASAF

- Do you agree with the conclusion that wider corporate reporting is growing in prominence and importance and, as such, the Board should consider playing a more active role in this area?
- What are your thoughts on the staff view that there would be merit in the Board pursuing further the idea of taking on a project to revise and update the MCPS? Do you have any comments and suggestions on areas for the staff to examine in their further research and analysis?
- Any other views, comments or suggestions?

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