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Accounting for a hopeful world

Themin SUWARDY
Singapore Management University, tsuwardy@smu.edu.sg

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The IFRS sustainability standards will include disclosure requirements that address companies' impacts on sustainability matters relevant to assessing enterprise value and making investment decisions, and will enable companies to provide comprehensive sustainability information for the global financial markets.
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Accounting for a hopeful world

Many organisations say they want to do good, but reporting can be challenging given the plethora of seemingly competing frameworks – until now. BY THEMIN SUWARDY

WORLD leaders gathering in Glasgow for the 2021 United Nations (UN) Climate Change Conference (COP26) have been discussing how the world can do much better in dealing with climate change.

There is a concerted effort to keep the 1.5 degrees Celsius goal alive. Pledges are being counted, but whether or not they are just more of the usual "blah blah blah", as claimed by Swedish environmental activist Greta Thunberg, remains to be seen.

In the last 10 years, environmental reporting has become more common. The general business community has been doing its part. Companies are embracing sustainability reporting despite the challenging myriads of seemingly different models, frameworks and regulations.

GROUP OF FIVE'S SHARED VISION

A June 2021 report from EY suggests that beyond the "Group of Five", there are over 600 ESG (environmental, social and corporate governance) reporting provisions globally, with many having differing interpretations of sustainability.

The Group of Five is the alphabet soup of CDP, CDSB, GRI, IIRC and SASB, which stands for Carbon Disclosure Project, Climate Disclosure Standards Board, Global Reporting Initiative, International Integrated Reporting Council, and Sustainability Accounting Standards Board, respectively.

Late last year, shared interests brought the Group of Five to work on a joint statement of intent to a shared vision for a comprehensive corporate reporting system, and a commitment to work together to realise this vision.

The group felt that the International Accounting Standards Board (IASB)'s approach in standard-setting, from its Conceptual Framework for Financial Reporting to how its accounting standards are promulgated, would be beneficial in developing sustainability standards.

This culminated in an open letter to the International Organisation of Securities Commissions (IOSCO), the global standard-setter for securities regulation. The letter suggested that IFRS Foundation could play a larger role, given its experience in international standard-setting, its well-established standard-setting processes and its governance structure.

A COMPREHENSIVE GLOBAL BASELINE

Erkki Liikanen, chair of the IFRS Foundation, formally announced the formation of the International Sustainability Standards Board (ISSB) to develop a comprehensive global baseline of sustainability disclosures for the financial markets. The ISSB will be part of the IFRS Foundation, just like its older sibling, the IASB. While the IASB issues IFRS Financial Reporting Standards, ISSB will be issuing IFRS Sustainability Disclosure Standards.

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IS THIS ANOTHER 'BLAH BLAH BLAH'?

In June 2021, 2 of the Group of Five members has merged. IIRC merged with SASB as Value Reporting Foundation (VRF). CDSB grew out of CDP and have generally worked together. Now, IFRS Foundation will also consolidate VRF and CDSB into the ISSB. In addition to IOSCO's support, ISSB has also received endorsement by G20 leaders (through their G20 Rome Leaders' Declaration) and the Financial Stability Board.

The ISSB will be aided by a Sustainability Consultative Committee, which will include representation from the International Monetary Fund, the Organisation for Economic Co-operation and Development (OECD), the UN, the World Bank, and other experts.

This all seems to suggest there is a bit more than just "blah blah blah".

In fact, right out of the gate, the IFRS Foundation has published 2 prototype climate and general disclosure requirements.

For example, the prototype on general disclosure requirements is modelled after IAS 1 Presentation of Financial Statements. It uses the same constructs such as materiality, fair presentation, comparative information and many other concepts in the IFRS Financial Reporting Standards. The general disclosure prototype would require an entity to disclose 4 critical information on sustainability: governance, strategy, risk management, and metrics and target.

The Technical Readiness Working Group also recommended a standards architecture supporting the general disclosure prototype with thematic and industry disclosure requirements.

Thematic disclosure requirements relate to issues that are pervasive across industries, say, climate change. As such, they will be comparable marketwide disclosures on a specific theme that investors and other capital market participants can utilise in evaluating and assessing enterprise value.

Industry disclosure requirements facilitate specific intra-industry comparisons for industry participants. There was no indication of which industry is likely to get its disclosure requirements. Entities with multi-industry business models may have to prepare more than one set of industry disclosure requirements.

The combination of general, thematic, and industry disclosure can work together and allow for comparability across industry sectors, yet is flexible enough to cater to specific industry characteristics.

WHAT DOES THIS ALL MEAN?

The continuing consolidation of different reporting frameworks reminds me of the early days of IASB and the adoption of IFRS around the world. There was a clear path for doing good through a common global set of principles-based, high-quality financial reporting standards back then. As of 2018, IFRS is required in 144 out of 166 jurisdictions (87 per cent) for publicly accountable entities.

We are hoping that IFRS can replicate its success with sustainability disclosure standards for financial markets.

This bodes well for the accounting profession and professionals. We should embrace this development wholeheartedly. Given our experience dealing with accounting standards, we are in the driver's seat to help organisations do and report good.

Who says accountants cannot be heroes? Let us do our part, one sustainability standard at a time.

▮ The writer is associate professor of accounting (practice) and associate provost for postgraduate professional education at Singapore Management University.