Corporate Reporting: Quo Vadis?
Paradigm Shifts Shaping the Future of Corporate Reporting: Purpose, Accountability, Value and Sustainability

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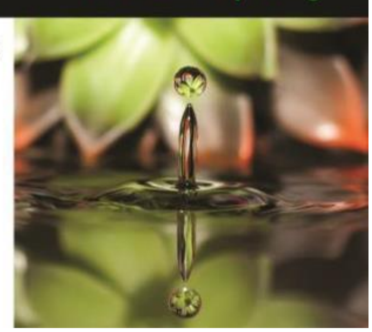

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By Alan Willis, FCPA, FCA

Alan Willis, FCPA, FCA, is an independent researcher, writer and advisor on corporate reporting and performance measurement outside the scope of financial statements, and the implications of such reporting for corporate governance and assurance. Since 1991, he has pioneered concepts, standards and practical guidance for sustainability accounting and reporting, and lately for integrated reporting – in short, the transformation of corporate reporting. Alan was a member of the founding Steering Committee of the Global Reporting Initiative from 1997 to 2002, and of the Working Group of the International Integrated Reporting Council in developing its 2013 Integrated Reporting Framework. He has served on the Advisory Council of the Sustainability Accounting Standards Board, the Integrated Business Reporting Committee of the International Corporate Governance Network, the Technical Working Group of the Climate Disclosure Standards Board, and the Sustainability Advisory Board of CPA Canada.

"Following a period of huge innovation in sustainability reporting, it is now time to consolidate and rationalize these various standards…. they (companies) have to be mindful of how the requirements of social license may evolve." Mark Carney, Value(s), *2021*[1]

We are at an inflection point in corporate reporting. Three significant phenomena are occurring concurrently that are having unprecedented influence on the future of corporate reporting: convergence among proliferating standards and guidelines for meeting user information needs in the sustainability reporting space; shifts in long-accepted doctrines about corporate purpose and accountability; and conceptualizing anew, i.e., re-thinking, the fundamental nature of value and value creation – all in a time of urgency for achieving the UN Sustainable Development Goals (SDGs)[2] and, driven by climate change, the transition to low-carbon economies and renewable energy.

In the next few years, we can expect more notable developments in the global reporting landscape flowing from those announced in 2020, 2021 and 2022, but will they represent genuine progress in fulfilling society's as well as investors' needs for decision-useful information about corporate performance, value and impacts?

Will they embody fresh insights about the path to a sustainable future, or simply perpetuate out-dated mindsets about business as usual? Will there be uptake of the holistic concept that enterprise value creation over time for the benefit of all stakeholders depends on interactions between connected, interdependent systems of natural, social and man-made resources, or will we continue to think just in terms of earning returns for shareholders?

Convergence in Standards for Sustainability Reporting

As to the direction of reporting, since 1997 we have seen how the regularly updated and expanded sustainability reporting guidelines developed and promulgated by the Global Reporting Initiative (GRI)[3] (and converted by them in 2016 into the format of standards) became the *de facto* global standards for sustainability reporting. These have been widely adopted by most of the world's largest companies (and many other organizations) for reporting – voluntarily in most jurisdictions – to all of an organization's stakeholders on its sustainability performance and management, namely its environmental, social and economic impacts, and its performance relative to the UN Sustainable Development Goals (SDGs).

Then, since early in this century, we have seen increasing demands by mainstream investors and other financial market actors for decision-useful information outside financial reporting about environmental, social and governance (ESG) issues they consider material to their decisions. This information is not clearly identified as such in typical lengthy corporate sustainability reports, even those prepared according to the GRI sustainability reporting standards. Such sustainability reporting aims to present information of concern to a wide range of stakeholders, whose concepts of what is relevant and material to them often vary considerably among them.

The acronym "ESG" was coined in investor circles around 2005 for information they consider material about the impacts of environmental and social issues on a company's financial performance and prospects and about corporate governance regarding such issues.[4] Recently, this investor-led demand for decision-useful ESG information (i.e., embodying reliability, comparability, consistency, etc.) has become so strong that it can no longer be ignored by capital market regulators, as we see in Europe and now even in the US.

And, during the last decade, we have seen the emergence of other well-intentioned frameworks and standards for reporting outside the scope of financial statements, such as, to name a few, those of the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC), the Climate Disclosure Standards Board (CDSB) and the Task Force on Climate-Related Financial Disclosures (TCFD), not to mention the disclosures about GHG emissions etc., requested annually by the CDP since 2004. The confusion to report preparers and users arising from this proliferation of frameworks and standards has resulted in an urgent and widely expressed need for their convergence and consolidation, ideally within a rational framework that would integrate financial information with the other information – especially ESG-related – that is essential for a comprehensive understanding of corporate performance, value creation and impacts on stakeholder interests.

2020 marked a dramatic turning point in this 20-year trend of proliferation in sustainability-related reporting frameworks and standards. As described in more detail below (**2020: A Year of Unexpected Progress towards Convergence)**, there suddenly emerged a number of initiatives announced by leading bodies in the reporting standards and guidelines space.[5]

Since early in this century, we have seen increasing demands by mainstream investors and other financial market actors for decision-useful information outside financial reporting.

These have the promise of resulting, before long, in two broad, hopefully connected, streams of corporate reporting, each guided by appropriate globally accepted and enforceable standards and recommendations. One stream will focus broadly on the information needs of all stakeholders (e.g., customers, suppliers, employees, communities and the general public) who are concerned about a company's impacts on the planet and society (sustainable development), achievement of the UN SDGs and the interests of future generations. The second stream will focus primarily on meeting the needs of investors and capital market participants for decision-useful information they need to assess a company's performance and prospects in generating cash flows and creating enterprise value – in particular, the principal factors and risks that sooner or later may affect such prospects.

Realistic evaluation of the merits of these two approaches and their implementation needs to take into account the unprecedented fundamental shifts we are now seeing in the context for doing business in the 21st century. Developing and applying reporting standards with a "business as usual," shareholder primacy 20th century mindset will not promote and support progress toward sustainable development or enlightened corporate, investor and other stakeholder decision making in times of transformational change.

Early in 2019, in a lecture to masters' students in a Toronto university class on Financial Accountability, I said: "Business and companies are in a period of fundamental transformation in the global, societal context for doing business and creating value for stakeholders, while respecting the needs of future generations. This has significant implications for business purpose, corporate accountability and transparency – what to report, to whom and how."

So, what are these transformational changes to be mindful of? In addition to the imperatives of transition to net-zero, low carbon economies and meeting the UN SDGs by 2030, business enterprises in general and companies in particular are beginning to recognize and respond to fundamentally new thinking about corporate purpose, accountability and the nature of value and value creation.

Corporate Purpose and Accountability

Until very recently, dialogue about, and proposals for, future directions in corporate reporting occurred in the context of long-held beliefs and mindsets about corporate purpose and accountability, which in turn are foundational underpinnings of corporate reporting. In just the past few years, we have been seeing the erosion of concepts and, indeed, mindsets that have shaped business and investor thinking for more than 150 years.

Imagine, for a moment, the time back in the 19th century when legislators were drafting laws and charters for limited liability companies – unquestionably an innovative vehicle for harnessing private wealth to produce goods and services that satisfy societal needs and wishes at a scale unattainable by individuals. I first wrote about this in December 2019.[6]

A company was to be a legal person with indefinite life. Should it encounter financial failure, the stock holders who invested in it were to be liable for its debts only to the extent of what they had invested.

In return for these privileges, the company's directors, appointed by the shareholders, were to be held accountable – but only to the shareholders – for stewardship of the funds invested. Further, directors were to report in writing annually to the shareholders on their stewardship.

For this purpose, there already existed the well-established practice of drawing up balance sheets and profit and loss accounts according to the principles and practices laid down by a Venetian monk (viz. Fra Pacioli[7]) a few centuries earlier.

It simply did not occur to those mid 19th. century legislators that company directors should be held accountable to anyone other than shareholders, for anything else besides stewardship of invested capital.

We are now in a time when the very purpose of a corporation is under reconsideration, along with emergence of the concept of accountability to all stakeholders.

Nor did they foresee either the size and global reach of future corporate enterprises or the devastating scale and extent of impacts on the planet and society that companies would be causing a 100 or more years later, affecting the interests and wellbeing of not just local communities, but of future generations and of humanity around the world. and of future generations.

The 19th century social contract between companies and society unwittingly paved the way for the era of shareholder primacy and the famous (or infamous) Friedman doctrine that the social responsibility of business is to increase its profits for the benefit of shareholders.

Thankfully, that is now under serious challenge. Consider what Britain's Professor Charles Handy wrote for a 2002 article in the *Harvard Business Review*,[8] in which he stated: "The purpose of business is not to make a profit. It is to make a profit so that business can do something more or better."

This narrative has even progressed in the US, as we saw in the notable statement by corporate CEOs in the US Business Roundtable in mid-2019, about the purpose of a corporation and its accountability to stakeholders:[9] Larry Fink's 2019 letter to CEOs about "Profit and Purpose" eloquently reasoned the case for accountability to all of a company's stakeholders, not just its shareholders,[10] and highlighted the concerns of the new generation and workforce (future leaders!) about company purpose.

In other words, we are now in a time when the very purpose of a corporation is under reconsideration, along with emergence of the concept of accountability to all stakeholders, present and future, beyond just shareholders, for more than simply returns on financial investment.

This leads to my working definition of accountability, namely that it is "the obligation to accept responsibility for and report on one's actions." Under a broader view of accountability, the question therefore arises "to whom should a corporation report and for what?"

We should recall in passing that the GRI, back in 1997, was founded on a belief, grounded in the Brundtland definition of sustainable development, that companies (and organizations of all types) should be accountable to society in general for their impacts, both positive and negative, on the environment, society (including employees) and the economy. Therefore, they reasoned, there was a need for global guidance on how organizations should be transparent and report to all stakeholders about their environmental, social and economic performance and impacts.[11]

Value and Value Creation

To answer the "accountability to whom, for what" question, it is helpful to reconsider the terms "value" and "value creation" in the context of what a company aims to do through its purpose, business model and execution of strategy. As noted above, starting in Victorian times, the social contract between companies and society legitimized a focus on creating financial value and returns for the benefit of shareholders through effective stewardship of invested capital. For too long, this been the prevalent mindset of business executives and boards of directors, investors, lawyers, regulators, academics and, yes, professional accountants about the purpose of a company. It's what we all learned in business and professional education.

But relatively recently it has dawned on thought leaders in business, academia and civil society that, first, creation of financial value by any enterprise, corporate or otherwise, depends on the availability and use of other forms of capital besides financial – such as human, natural, social, manufactured/man-made and intellectual capital – and that, second, as a result of a company's value creation processes and activities, those same capitals are affected in various ways (positively or negatively), sooner or later. It follows that the interests of stakeholders in those capitals are, or will be, inevitably affected. Further, it is not in the long-term best interests of a business or company to act in ways detrimental to the capitals on which it depends.

Value, like beauty, needs to be considered through the eye of the beholder. Value created for shareholders may not be seen as value by other stakeholders if it is created at the expense of, say, employee health and welfare, the natural environment's finite resources or community security and well-being. Value and values are multi-nuanced words whose implications are now challenging business, investors and accountants to consider in conversations about value creation, stakeholders and accountability. Contemporary concepts of value and value creation were thoughtfully explored and discussed in a 2012 background paper to the IIRC Integrated Reporting Framework[12] and more recently by Mark Carney in his 2021 book, *Value(s)*.[13]

It is, therefore, important to view enterprise value creation through a multi-capital, multi-stakeholder lens, recognizing and understanding the process holistically, not just unidimensionally. It is a process calling for complex interactions between the several affected capitals. It also affects the present and future interests of societal stakeholders in those capitals, not just shareholders or other providers of financial capital (such as lenders and creditors).

Value, like beauty, needs to be considered through the eye of the beholder.

We can find, in his submission on the IASB Management Commentary Exposure Draft, the eloquent words of Mervyn King, former chair of the GRI and of the International Integrated Reporting Council, expressing the emerging 21st. century concepts of corporate purpose and value creation:

"The governance dictate during the 20th century was to follow Prof Friedman's thesis that the sole purpose of the company was to make profit as long as it remained within the rules of the game. We know that the 20th century was one of unsustainable development and ended with ecological overshoot, namely the use of natural assets faster then nature was regenerating them. The consequence was a century of unsustainable development. The focus on profit and increasing the wealth of the shareholders has been replaced by a value creation process from inputs into a company, its activities in producing its product or service and its outputs namely its product or service and waste, for example. These go out into society and have an impact on the three critical dimensions for sustainable development namely the economy society and the environment."[14]

Moreover, "non-financial" stakeholders may, in turn, be able and choose to influence a company's access to one or more of the non-financial capitals on which its value creation depends. There is, therefore, a reasonable business case for companies to engage and communicate effectively (openly, reliably, regularly, etc.) with all key stakeholders, as well as with providers of financial capital. Trust building with stakeholders is increasingly seen as a valuable, resilience-building process that can enhance access to capitals, customer relations and talent attraction.

Thus, a new paradigm of multi-stakeholder accountability and transparency is emerging, along with broader concepts of corporate purpose and value creation, replacing the former mindset focused solely on stewardship of financial capital and returns to shareholders. Indeed, in some jurisdictions, we are already seeing the appearance of new forms of social contract and corporate charter, such as the Benefit Corporation.[15]

Implications for Future Corporate Reporting
Imagine therefore, in a 21st century context, how the obligation of a corporation to report on its actions might now be viewed in the two broad streams mentioned on Page 4 above: one stream for all stakeholders, a second stream for investors. Imagine, too, how these two streams might function under the broad umbrella or keystone of a new core public accountability statement on enterprise value creation. This would provide an overarching context for understanding how an enterprise creates value, with concise disclosures about purpose, business model, key risks, highlights of use of and impacts on (changes to) resources (capitals), corporate structure, governance and external operating conditions.

This core public accountability report would be similar to, and built on, the IIRC's International Integrated Reporting Framework,[16] but focused on the interests of all stakeholders, not just "providers of financial capital." It is similar in concept to what I envisaged in the 2007 Corporation 20/20 paper *Transforming Corporate Reporting*.[17] Carney writes: "As corporate and investor understanding of the connectivity between value and values evolves, integrated reporting provides a framework for companies to highlight and communicate their purpose and what they view as the drivers of value creation."[18] There could be no more credible and authoritative voice for connectivity in reporting than those in comments submitted by Mervyn King regarding the IASB Exposure Draft on Management Commentary:

"The IR framework has been tested over the last 10 years and its efficacy and resilience as an overarching framework connecting the financial and the non-financial has been proven."[19]

Stream A: Reporting to all Stakeholders on Sustainability
First, to recognize accountability to society and multiple stakeholders whose present and future interests are affected, all publicly listed and large privately owned limited liability companies would be required to report regularly on their environmental, social and economic

performance, impacts and risks that stakeholders deem material to their interests: in other words, on how well a company is fulfilling its social license to operate.

This could be seen as consistent with reporting to stakeholders in the non-financial capitals on which enterprise value creation depends. No planet, no people, no profit! It remains to be seen whether a single multi-stakeholder accountability report would suffice, or multiple capitals-focused reports to their respective stakeholders within an integrative framework would be preferable. In either case, linkages with financial value creation would need to be apparent for a holistic appreciation of enterprise value creation within the context of the capitals on which that depends.

Stream B: Reporting to Providers of Financial Capital
Second, within the prevailing and probably continuing socio-economic context of capitalism and capital markets, providers of financial capital are a particular category of stakeholders who are understandably concerned with assessing future prospects for financial value creation, cash flows, debt repayment, returns on capital, etc. They are interested in information, beyond that provided through traditional financial reporting, such as about business models and processes for value creation, including use of, and risks to, non-financial capitals on which these depend – information deemed material to assessment of future prospects for financial value creation.

Further, the emergence of public policy concern about the role of capital and financial markets in aligning with the achievement of the UN SDGs and of actions that promote sustainable finance (capital flows and market practices that promote financial stability, sustainable development and transition to low-carbon economies) underscores the need for information about corporate environmental, social and economic performance and risks, notably climate change-related disclosures. Legislation, regulation and stock exchange requirements are increasingly addressing how capital markets and business practice can support and reward – not impede or punish – global progress toward achievement of the SDGs.

It is clearly foreseeable that corporations will be required before too long to report to providers of financial capital information that communicates a holistic view of enterprise value creation across the financial and other affected capitals, including the present and likely future impacts of environmental and social issues on value creation. They will probably also have to report on ways in which they affect society and the environment, which could, over time, become prejudicial to the capitals on which enterprise value creation depends – arguably a matter of corporate self-interest as well as common sense and social responsibility.

Before then, however, we can certainly expect that standards and requirements will be introduced and adopted in capital market jurisdictions worldwide that call for companies to disclose to investors alongside annual audited financial statements material environmental and social risks and issues, and related governance factors, that affect future cash flows and financial performance and business prospects. And first priority will be standards and requirements for mandatory climate-related financial disclosures in corporate annual filings to capital markets. This is explained further below under **2020: A Year of Unexpected Progress towards Convergence.**

Flashback

Two years ago, in the summer of 2019, I proposed that future corporate reporting needed to be shaped in two "bundles" to address, on the one hand, the information needs of investors and providers of financial capital and, on the other hand, the information needs of other stakeholders.

For the former I proposed the development of a "Value Creation Report" for companies to prepare and issue in accordance with a set of reporting standards or guidelines based on a consolidation of existing frameworks and standards (e.g., those of the IIRC, SASB, TCFD, IASB Practice Statement on Management Commentary), to be accompanied by financial statements prepared in accordance with IFRS (or, in the US, FASB standards). The importance of IOSCO support for this Value Creation Report was highlighted but I confess to expressing doubts as to whether the requisite level of cooperation and collaboration among existing standards setters to develop the Value Creation Report would be forthcoming. In my mind's eye, I characterized the Value Creation Report as an MD&A on steroids!

As to who would develop the standards for the Value Creation Report, the boldest I dared to be at that time was to say: "Design and development of the Value Creation Report would be undertaken by a credible consortium similar to the IIRC's Corporate Reporting Dialogue, convened by organizations accustomed to due process in setting corporate reporting standards. This work would not necessarily call for establishment of a new global organization if an existing one, such as the IIRC, were widely seen as capable of undertaking it, subject to showing it had or could acquire suitable leadership, governance and resources."

For the latter (other stakeholders' needs), I proposed the development of an "Accountability and Sustainability Report," based on the GRI Sustainability Reporting Standards, augmented or refined by sources such as, among others, the UN SDGs, the UN Global Compact Principles and the Future Fit Business Benchmark.

As to who would develop the standards for the Accountability and Sustainability Report, I ventured to suggest: "To accomplish this work, the GRI could convene an appropriate new multi-stakeholder collaborative task force to design and develop the new Accountability and Sustainability Report, building on the GRI's original mission and its current reporting standards."

Above all, I argued: "What we don't need now is even more piecemeal reporting frameworks for this and that – we need integration and consolidation of what's already out there, through a meaningful, trusted contemporary process and a lens that all stakeholders, including investors and companies, can align with: long-term value creation, the importance of ESG factors and wide acceptance of the new concepts of corporate purpose and accountabilities…"

See https://thinktwenty20.com/docs/Enhancing_Relevance_IFAC.pdf.

2020: A Year of Unexpected Progress toward Convergence

I proposed my two-part approach, summarized in the box above, in mid-2019. Fast forward to 2022. During 2020, we suddenly witnessed a steady stream of significant new reporting initiatives, proposals and commitments, some from wholly unexpected sources. Together, they augur well for collaboration in global convergence of standards for sustainability and ESG reporting. The most noteworthy of these are summarized below.

First out of the gate, in January 2020, the World Economic Forum's International Business Council published a consultation white paper developed with the Big Four accounting firms, *Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*. This was updated and reissued by the WEF in September later that year as a report, *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*.[20] These proposed metrics were developed from existing reporting frameworks and standards such as those of the GRI, organized around a four-pillar framework. It also introduced an interesting concept that it termed "dynamic materiality," to reflect the likelihood that disclosures not deemed material to investors today might become so over time in light of new insights about the impact of ESG factors on enterprise value creation.

Next, in July 2020, the GRI and SASB announced that they were going to collaborate in promoting clarity and comparability in the sustainability reporting landscape.[21] This was followed in September by the joint publication by CDP, CDSB, GRI, IIRC and SASB (hereafter referred to as "The Five") of their "Statement of Intent to Work Together Towards Comprehensive Corporate Reporting," proclaiming a shared vision for what is needed for progress towards comprehensive corporate reporting and their intention of working together to achieve it.[22]

Their proposed approach recognized the differing information needs and materiality concepts of "providers of financial capital" (e.g., investors) as distinct from those of other, broader categories of stakeholders. The former are seen as primarily concerned with decision-useful information for the assessment of performance and prospects concerning enterprise value creation and future cash flows; the latter mainly concern themselves with a wider range of sustainability topics and related disclosures about enterprise impacts on the economy, environment and people, and contributions to the UN SDGs.

The Five envisaged a stepping stone approach to harmonization, with two main building blocks. The first building block, based on what has come to be termed "outside-in materiality," would address disclosures about how ESG issues affect enterprise value creation. This approach would deploy information from the existing frameworks and standards of both financial statement standards setters (IASB and FASB) and those of the Five proponent organizations, plus maybe others such as the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The IFRS Foundation recognized the widespread and urgent demand for consistency and comparability in sustainability reporting.

The second building block would draw on the same existing frameworks and standards (especially those of the GRI), but, under an "inside-out" concept of materiality, would go beyond the first building block, recognizing the wider range of information needed by a broader range of users who seek to understand an enterprise's impacts on the economy, environment and people, not just the value it creates for shareholders.

On the very same day in September 2020 as the Five's announcement, the International Federation of Accountants (IFAC) issued a release[23] calling for the "creation of an International Sustainability Standards Board alongside the International Accounting Standards Board." This was accompanied by "The Way Forward," a schematic depiction of the objectives and structure of the proposed new board. "The Way Forward" included a structural element advocating that this new sustainability standards board should "adopt a building blocks approach," working with and leveraging the expertise and disclosure requirements of leading initiatives, including CDP, CDSB, GRI, IIRC, and SASB. In May 2021 IFAC updated its *Way Forward* with an even clearer depiction of this building block architecture.[24]

The real game-changer occurred on September 30, 2020, when the Trustees of the International Financial Reporting Standards Foundation (under which the IASB develops and issues IFRS) published a consultation paper to assess the demand for global sustainability standards and what role the IFRS Foundation might play in their development.[25] In short, the IFRS Foundation proposed that it establish a new Sustainability Standards Board (SSB) alongside the International Accounting Standards Board (IASB), echoing what IFAC had proposed earlier that same month. On the same day, September 30, IFAC issued a release applauding the IFRS Foundation's new initiative!

The IFRS Foundation paper recognized the widespread and urgent demand for consistency and comparability in sustainability reporting – a demand shared among investors, preparers, central banks, regulators, public policy makers, auditing firms and other service providers – and noted the multiplicity of sustainability reporting frameworks, standards and metrics. Indeed, earlier in 2020, at a conference in Toronto on sustainable finance and investment, a leading figure in the sustainable investment research world had publicly called for "IFRS for ESG"!

The paper further pointed out that any contribution by the IFRS Foundation would build on its track record of expertise, credibility and due process in standard setting (i.e., for the work of the IASB in developing IFRS used by public companies in nearly all jurisdictions and capital markets around the world), plus, through IOSCO, its worldwide supportive relationships with securities regulators and governments.

After consideration of strategic options to (a) do nothing or (b) try to facilitate harmonization among existing initiatives, the IFRS Foundation paper concluded that (c) its best response to the demand for consistency and comparability in sustainability reporting to serve investors and other primary users of financial statements would be to create a Sustainability Standards Board (SSB) alongside the IASB.

The IFRS Foundation paper clearly recognized the importance to a new SSB of not only developing and acquiring its own expertise in setting standards for sustainability reporting, but also collaborating with and building on the established work of the existing leading organizations in this space, such as the Five plus the TCFD.

Strangely, the IFRS Foundation consultation paper was silent as to the role of the IASB's Practice Statement on Management Commentary (equivalent to the MD&A in North America) in the future corporate reporting system, a statement which was already (and still is) under revision, and about which more is commented below.

The IFRS Foundation's paper proposed that, in the interests of making early progress, the sustainability reporting standards established by the SSB should initially focus on the information needs of investors and other financial capital market participants, based on what is presently considered material to their decision making. The paper recognized, however, that, over time, new types of information about an entity's impacts on sustainability, i.e., on the environment, economies and society, might in fact become material in the eyes of investors, not just, as today, in the eyes of broader categories of stakeholders. Therefore, in due course, the SSB would need to consider whether it should broaden the scope of its standards to align with, for example, the very widely recognized and used sustainability reporting standards that the GRI has developed over the last 20 years. Over 500 comments on the IFRS Foundation's Consultation Paper were received by year's end, a very robust and mostly encouraging response.

It seems important, from a sustainability perspective, to consider first how business and companies have an impact on the planet and society and, accordingly, to address the information needs of various societal stakeholders.

Meanwhile, in November 2020, came an unexpected announcement by the IIRC and SASB that, in 2021, they were going to merge into a new unified organization, to be called the Value Reporting Foundation (VRF).[26] The aim of this, they stated, would be to provide investors and companies with a comprehensive framework for reporting on the full range of information that is relevant and material to understanding and assessing enterprise value creation.

This announcement emphasized that the IIRC <IR> Framework and the SASB Standards are complementary, that the new Value Reporting Foundation would work to integrate other existing frameworks and standards as appropriate into the new corporate reporting system, and engage with the IFRS Foundation, IOSCO, *et al*, in "working towards global alignment on a corporate reporting system" in which "integrated reporting and sustainability disclosure have the same level of rigour as financial accounting and disclosure." This merger officially took place in June 2021.

The comments received on the IFRS Foundation's Consultation Paper, including the Five, as well as from IOSCO and IFAC, the Big Four accounting firms and a wide range of interested parties from business, investment, NGO, civil society, academia and accounting profession circles, made it clear that there was broad worldwide support for the IFRS Foundation to establish a new International Sustainability Standards Board (ISSB) alongside the IASB.[27]

A further encouraging sign was the December 2020 publication by "The Five" of a prototype for a climate-related financial disclosure standard as an illustration of what reporting on enterprise value might look like under a comprehensive corporate reporting system in which ISSB standards would be a key component. This aligns with what has long been seen as the first priority for the ISSB's work, namely a standard for climate-related disclosures.

During 2021, IFAC and IOSCO published various statements about their support for the IFRS Foundation to establish an International Sustainability Standards Board.[28] Indeed, IFAC called on national public accounting bodies worldwide to promote in their respective jurisdictions the establishment of the ISSB in progressing the sustainability agenda.[29] A summary of CPA Canada's steps in this regard may be found on CPA Canada's website.[30] In April 2021, the IFRS Foundation published the conclusions it had reached from its analysis of the comments on its consultation paper,[31] and issued a further consultation paper about considerations regarding the suitability of its present governance structure and processes to accommodate the new ISSB.[32]

Later in 2021 the IFRS Foundation called for nominations for the chair and vice-chair of the ISSB, established various working groups to explore aspects of the path forward and clearly stated its aim to announce the establishment of the ISSB by the time of the November 2021 COP26 meeting in Glasgow.[33]

In November, 2021, at COP26 in Glasgow, the IFRS Foundation duly announced the establishment of its new International Sustainability Standards Board, to be based in Frankfurt, Germany with a second office in Montreal, Canada. Its declared purpose? To develop "a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs."

It further announced:

> "A commitment by leading investor-focused sustainability disclosure organisations to consolidate into the new board. The IFRS Foundation will complete consolidation of the Climate Disclosure Standards Board (CDSB—an initiative of CDP) and the Value Reporting Foundation (VRF—which houses the Integrated Reporting Framework and the SASB Standards) by June 2022; and
>
> The publication of prototype climate and general disclosure requirements developed by the Technical Readiness Working Group (TRWG), a group formed by the IFRS Foundation Trustees to undertake preparatory work for the ISSB."

In March, 2022, the ISSB announced the publication of its first two exposure drafts. One set out general sustainability-related disclosure requirements[34] and the other specified climate-related disclosure requirements.[35] The latter was based on the TCFD recommendations and includes industry-specific requirements based on SASB Standards. The ISSB exposure draft for a climate-related disclosure standard was similar in several ways to the SEC proposals for new

10K disclosure requirements also released in March 2022, but presented a different approach for disclosures of GHG emissions. More interesting, however, was the likelihood that the SEC's new rule for climate-related disclosures will likely lead to earlier implementation than the ISSB standard, because the latter only becomes mandatory in any jurisdiction when adopted or enacted therein.

The Path Ahead to Global Standards for Sustainability Reporting[36]
The building blocks approach proposed for a future comprehensive corporate reporting landscape[37] envisages two broad connected components, at least for the foreseeable future. Block 1 is to be Investor Focused (referred to above as *Stream B: Reporting to Providers of Financial Capital),* and Block 2 (referred to above as *Stream A: Reporting to all Stakeholders)* is to be multi-stakeholder focused.

In the earlier part of this paper, Stream A was positioned before Stream B, because, conceptually, it seemed important from a sustainability perspective to consider first how business and companies have an impact on the planet and society and, accordingly, to address the information needs of various societal stakeholders of today and tomorrow who depend upon finite planetary systems, thriving communities and inclusive economies that support business enterprise. Sustainability reporting as conceived by the GRI and promoted in its standards has always aimed to guide accountability reporting to all stakeholders about an organization's contributions to and impacts on sustainable development.

Stream B was positioned to follow Stream A because investors and other providers of financial capital are a vital sub-category of stakeholders and a key element of the financial markets to which enterprises turn for the financial capital on which they depend for value creation and for access to other forms of capital they need. Under a multi-capital, multi-stakeholder concept of value creation within today's global economies and financial markets, it is essential that investors and other actors in capital markets can readily access decision-useful information specific to their decision-making needs, available from both financial statements and other types of subject-matter disclosures, such as management commentary, sustainability reporting and prescribed governance filings.

So, what does the path ahead look like? *Quo vadis,* corporate reporting?

Building Block 1: Investor Focused
It is presently undetermined exactly what the ISSB will look like in terms of its membership and leadership, but clearly there will be appropriate inclusion of members with ESG/sustainability knowledge. In terms of constitutional arrangements and due process, it is likely to mirror the IASB.

Its first priority, focused on "enterprise value creation," is to be a standard for climate-related financial disclosures, built on the TCFD recommendations as well as VRF input (likely derived largely from SASB standards), with an exposure draft released in March, 2022. Following this, the ISSB plans to turn its attention to other, broader, aspects of sustainability reporting through a priority-setting process determined by the board. There is no doubt that the ISSB will devise processes for building on existing frameworks, standards and guidelines, for which close collaboration with the VRF (SASB and IIRC), TCFD and other organizations will be critical. The extent and manner of ISSB collaboration with, and input from, the GRI initially seemed less certain but, encouragingly, in March 2022, the GRI and ISSB entered into a memorandum of understanding to cooperate and liaise in their respective standard-setting agendas.

Meanwhile, it was also unclear how ISSB standards would interface or align with the IASB's future *Practice Statement on Management Commentary*, the May 2021 exposure draft that includes extensive detailed recommendations for environmental and social disclosures.[38] At present, the IASB *Practice Statement on Management Commentary* does not require presentation of Management Commentary along with IFRS-based financial statements in order for a company to assert compliance with IFRS. It is expected, however, that, with IOSCO support, ISSB standards will be made mandatory for corporate reporting in securities regulatory jurisdictions around the world – although the USA's SEC is expected to introduce its own rules for climate-related disclosures in 10K filings and, later, broader environmental and social disclosures for investor purposes.

Will truly global reporting standards evolve in a scenario where there might be ISSB standards, European standards and US SEC standards?

A key issue continues to be the definition of materiality used in developing ISSB standards, not only for climate-related financial disclosures but, in due course, for disclosures about the broader range of environmental, social and governance issues that providers of financial capital are concerned with. There's no question that it will be essential to embody "outside-in" focused materiality about E&S impacts on companies' financial performance and prospects. "Inside-out" disclosures about a company's impacts on the environment and society may, however, be more difficult to agree on from an investor perspective, especially if, under the "dynamic materiality" concept, E&S issues that today are not considered to have a material impact on enterprise value creation could in future become issues of significant (material) interest to investors. Governance-related disclosures are likely to be regarded as material regardless of how E&S issues are viewed, as is currently the case with the TCFD recommendations on climate-related financial disclosures.

Three more questions arise about the emerging global landscape of investor-focused reporting:

***Role of Management Commentary/MD&A and the IIRC Integrated Reporting Framework*.**
First, comprehensive reporting about enterprise value creation entails more than providing just financial, environmental and social information. Investors also need information about matters such as business model, strategy and risks, intangibles such as intellectual capital, external conditions in the business environment, and corporate governance. Management commentary or MD&A reports are well-known possible places for such disclosures, but typically fail in doing so in a decision-useful way. The IIRC Integrated Reporting Framework[39] offers the most promising way of providing such information in a connected format, along with disclosures

about entity impacts on natural, social, human, man-made and intellectual, as well as financial, capital. But, under the ISSB and the IIRC components of the Value Reporting Foundation's intellectual capital, will integrated reporting eventually fulfil the promise of a single, overarching accountability statement to providers of financial capital (and indeed to all stakeholders) about enterprise value creation? Indeed, this possibility substantially reflects the IIRC's vision for integrated reporting[40] and the views of, for example, visionary thought leaders like Mervyn King, as noted earlier.

The IASB had issued, in 2021, an exposure draft for revision of its *2010 Practice Statement on Management Commentary*. This not only was remarkably similar to content elements in the IR Framework, but it proposed disclosures about environmental and social (but not governance) matters and intangible resources that would be material to investors. Meanwhile, the IFRS Foundation's proposal for a new International Sustainability Standards Board had been announced, whose future standards might clearly overlap or duplicate what was proposed in the ED for Management Commentary.

Mervyn King, the Institute of Chartered Accountants in England & Wales[41] and others sensibly suggested in their comments on the Management Commentary ED that it might be sensible to pause work on that project until the new ISSB was fully established and functioning, so as to allow collaboration and coordination in the work of the IASB and the ISSB, and avoid undue duplication or overlap in investor-focused sustainability disclosure standards. Indeed, perhaps the very concept of Management Commentary may need revisiting in light of the potential for integrated reporting to provide the necessary contextual information relevant both to financial statements and other types of information needed by stakeholders.

Proposals for New SEC (USA) 10K Disclosure Requirements*:* Second, the IASB's global standards for financial statements are IFRS, which have become mandatory in most jurisdictions around the world. A notable exception is in the US, where the SEC-mandated FASB issues its own version of general-purpose accounting standards required to be used by corporations registered with the SEC, i.e., public companies in the world's largest capital market. SEC 10K filings have not required providing specific disclosures about ESG matters or even climate change related performance and risks (subject to complying with the 2010 interpretive release about disclosures of climate related issues that meet the SEC rules about material risks and uncertainties).

Since November 2020, however, under new leadership, the SEC indicated very clearly its intention to introduce a new rule about climate-related disclosures before the end of 2021[42] and, further, that it would be considering new rules for broader ESG-related disclosures demanded by investors.[43] In fact it, was in March 2022 that the SEC published its (lengthy) proposals for a new rule regarding climate-related disclosures in 10Ks and financial statements, with the intention of finalizing the new requirements by the end of 2022.[44] These would then begin to apply in 2024 filings relating to fiscal 2023. By typical precedents for SEC rule making, and indeed financial statement standard setting, this is very rapid progress!

A question arises as to whether the SEC will act entirely independently in these respects, or will it in some way attempt to harmonize its future climate and ESG disclosure rules with ISSB standards? It is encouraging that both the ISSB and the SEC have clearly decided to base their climate-related disclosure requirements on the TCFD's 2017 Recommendations. The influence of IOSCO and the G20 finance ministers may have some bearing on the extent to which we end up with a single set of global sustainability reporting standards or one set for the US and another for the rest of the world. The European Union situation is discussed below.

Indeed, it remains to be seen how successful IOSCO will be in persuading its member countries to adopt and mandate ISSB sustainability reporting standards alongside IASB accounting standards in their respective jurisdictions.[45] For example, the terms of reference of an independent committee established in May 2021 to review standard setting in Canada call for the committee to review and make recommendations about "the potential creation of a Canadian Sustainability Standards Board to mirror the proposed establishment of the ISSB by the IFRS (sic) Trustees."[46]

European Union Proposals for Corporate Sustainability Reporting Directive: Third, in April 2021, the European Union introduced proposals for a new, updated version of its Non-Financial Reporting Directive (NFRD), called the Corporate Sustainability Reporting Directive (CSRD).[47] The CSRD would apply to many more companies than the NFRD, both listed and unlisted. The new sustainability reporting standards for the CSRD are to be based on the "double materiality" concept, meaning that companies will have to report on how sustainability issues affect their business and on how they affect people and the environment. The new EU sustainability reporting standards are to be developed by the European Financial Reporting Advisory Group (EFRAG), a private association of appropriate reporting bodies and individuals, whose constitution is to be strengthened to ensure due process as a standards-setting body serving the public interest. The EU has indicated its intention that the new CSRD reporting standards will be aligned with the standards issued by the forthcoming ISSB and build on the work of the TCFD on climate-related disclosures.

Further, in July 2021, the GRI entered into an agreement for cooperation with EFRAG in developing the new CSRD reporting standards.[48] In the announcement, John Berrigan, Director General for Financial Stability, Financial Services and Capital Markets Union, European Commission, stated: *"*European sustainability reporting standards should build on and contribute to the progress of existing standards and frameworks that are widely used by companies. I welcome this Statement of Cooperation between EFRAG and GRI as an important step towards promoting convergence between European and global sustainability reporting standards."

To which Patrick de Cambourg, Chair of the EFRAG Project Task Force, added that: "In the spirit of the co-construction and convergence we promote, we want to benefit from long-standing precursors and avoid reinventing the wheel while contributing at the same time to further substantial progress globally."

This is a complicated process. As Eric Hespenheide, GRI's Chair at the time, commented: "We firmly believe that requirements that position sustainability reporting on an equal footing with financial disclosure – as set out in the EU proposals – will ensure transparency for all stakeholders on the impacts of companies while acting as an enabler for responsible business conduct and societal dialogue on pivotal issues. This agreement is the first step towards establishing a long-term strategic collaboration on the co-construction of standards which meet the requirements of the CSRD to become legally binding in the EU but also can be incorporated in the voluntary global standards from GRI."

Questions remain, therefore, as to how truly global reporting standards will evolve in a scenario where there might be ISSB standards, European standards and US SEC standards.

Building Block 2: Multi-stakeholder Focused
For more than 20 years, the GRI has been the source and custodian of the world's continuously evolving and widely used *de facto* standard for reporting to stakeholders of all types on an organization's sustainability performance and impacts. Sector-specific versions of the standards are periodically issued.

Recognition of the stature of the GRI and its standards is clearly reflected in the encouraging announcement above about cooperation between the GRI and EFRAG for developing the EU's CSRD reporting standards.

But the degree of future liaison and collaboration established between the GRI, with its primarily “inside-out” looking standards, and the task forces and working groups set up by the IFRS foundation to design and establish the future ISSB and develop its “outside-in” looking sustainability reporting standards, initially seemed less clear. In theory (or the dictate of common sense), satisfaction of the needs of financial markets for standards that promote decision-useful, investor-focused information about enterprise value creation should proceed in alignment with satisfaction of the needs of broader stakeholders in society, including government and regulatory agencies, for reliable information about enterprise impacts on the environment, economies and people, and toward achievement of the UN SDGs.

On March 24, 2022, it was therefore encouraging to read that the GRI and IFRS Foundation just announced their new agreement to cooperate in their standard-setting activities and work programs, and take part in each other’s consultative bodies.[49] Clear, strong signals from the respective leaders on signing the MoU augur well for the future:

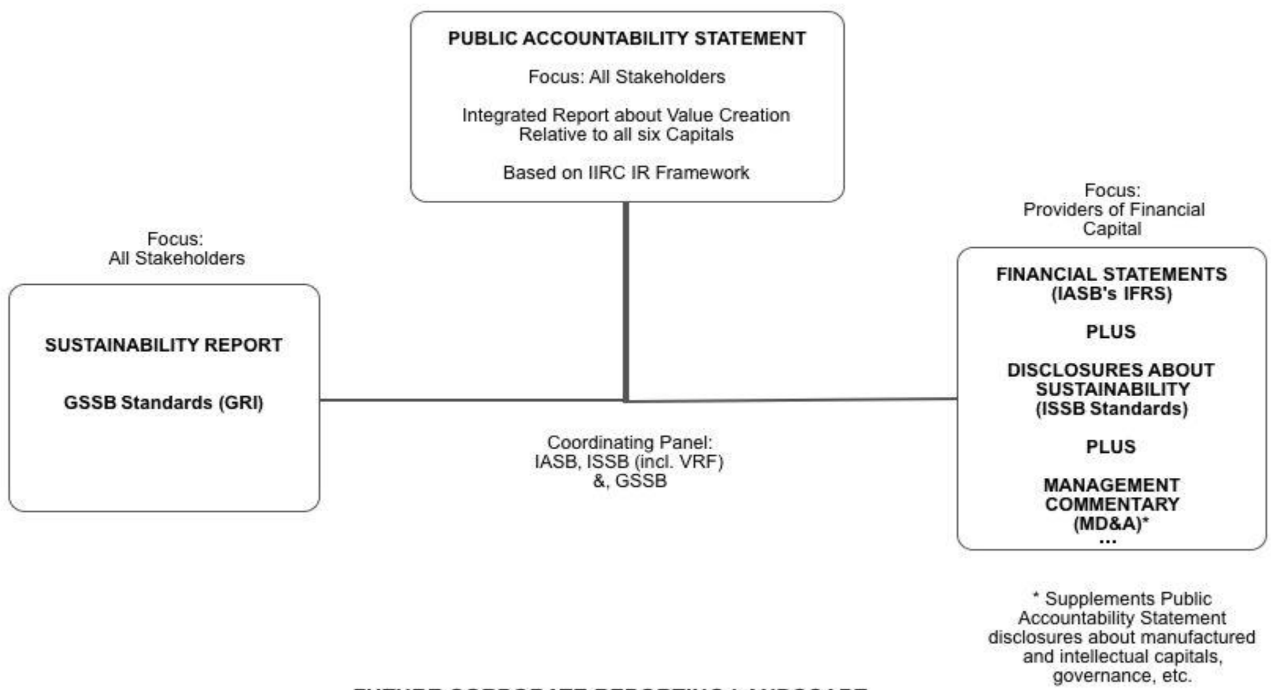
> “At COP26 we heard strong support for consolidation in the sustainability reporting landscape. The work of the ISSB and its global baseline concept will help deliver this objective for the capital markets, whilst this agreement with GRI will help ensure capital market standards are developed in a way that minimises reporting burden for those companies also using GRI Standards.” *Erkki Liikanen, Chair of the IFRS Foundation Trustees*
>
> “The MoU between GRI and the IFRS Foundation is a strong signal to capital markets and society that a comprehensive reporting system, which combines financial and impact materiality for sustainability reporting, is possible on a global scale. Aligning GRI’s established and widely adopted standards for sustainability impacts with the investor-focused standards being developed by the ISSB will benefit both companies and investors, as well as a wide range of stakeholders around the world.” *Eelco van der Enden, CEO of GRI*

Under a new paradigm of corporate purpose with multi-stakeholder accountability for enterprise value creation dependent on multiple capitals, “inside out” sustainability reporting to all stakeholders, in accordance with the global GRI standards, eventually needs to become mandatory, alongside the “outside-in” reporting in accordance with the ISSB standards – standards that are expected to become mandatory and of comparable standing to IASB’s IFRS accounting standards. Whether, when and how such a scenario could come to pass worldwide is presently unclear, but the EU’s Corporate Sustainability Reporting Directive (with GRI assistance) is certainly a step in that direction. Further, the Sustainable Stock Exchanges initiative,[50] G20 actions[51] and other global pressures to advance achievement of the UN SDGs may be influential in achieving global uptake of what at present is voluntary sustainable reporting in most jurisdictions.

If, however, the emerging paradigm shift about corporate purpose and accountability were to result in re-writing of corporate governance laws and revision of corporate charters appropriate for the 21st, not 19th, century, or if Benefit Corporations were to become the norm, not the exception, to corporate chartering, then mandatory "inside-out" corporate sustainability reporting would need to become mandatory, accompanied of course by IFRS-based financial statements and a more "integrated reporting" form of Management Commentary or MD&A.

A Transformed Future Architecture for Corporate Reporting

Based on what we now see emerging as a new paradigm for corporate purpose, accountability and multi-capital concepts for value creation, with the possibility for a re-imagined social contract and charter for corporate enterprises resulting in the need for a new mandatory overarching Public Accountability Statement (see **Implications for Future Corporate Reporting** above), it is possible to envisage a new architecture for the corporate reporting landscape. The diagram below offers a visualization of what this might look like.



FUTURE CORPORATE REPORTING LANDSCAPE

It is anchored at the top by the Public Accountability Statement as the connecting cornerstone for the two broad reporting streams and building blocks to address, respectively, the needs of all stakeholders and of providers of financial capital (investors).

This Statement would focus on the interests of all stakeholders, not just providers of financial capital. It would provide high-level common context for both of the streams and building blocks. The Public Accountability Statement would be based largely on the International Integrated Reporting Framework, which is overseen by the Value Reporting Foundation, now a component of the ISSB. It would be mandatory by law or regulation in all jurisdictions where limited liability companies are chartered. The words of Mervyn King quoted earlier need to be repeated here:

"The IR framework has been tested over the last 10 years and its efficacy and resilience as an overarching framework connecting the financial and the non-financial has been proven."[52]

Unlike GRI-based sustainability reporting, integrated reporting has not yet achieved widespread global uptake, although it has been adopted to acclaim by several world-leading companies. Perhaps greater uptake will be achieved if major pension organizations follow the advice in a recent letter to them [53]about "The Future of Stakeholder Communications."

Global reporting standards for multi-stakeholder focused reporting on sustainability would be primarily the remit of the GRI's GSSB, but in collaboration with not only the Value Reporting Foundation (with its SASB expertise) but also with others, for example the Capitals Coalition[54] for measurement and reporting on natural, social and human capitals, the Future Fit Business Benchmark,[55] and the UNDP and WBCSD[56] for reporting according to the UN SDGs. In some jurisdictions, under the new Public Accountability Statement regime, sustainability reporting would also be made mandatory, at least for public companies and large private ones where the new Public Accountability Statement alone cannot provide the depth of information called for about impacts on capitals.

Global reporting standards for the three primary components of reporting to investors (and other providers of financial capital) on enterprise financial value creation would be those of the IASB and the ISSB. With continuing IOSCO encouragement, these standards would become mandatory in all jurisdictions, as well as mandatory in the USA under SEC rules.

Finally, reporting and disclosure standards setting within this architecture would need to be coordinated globally by a panel comprising the IASB, ISSB (which includes the Value Reporting Foundation's IIRC and SASB) and the GRI's GSSB.

Essential: Fundamental Shifts in Mindsets and Accounting Education

The future usefulness of corporate reporting beyond financial statements and the development of comprehensive, fit-for-purpose reporting standards beyond IFRS call for standard setters, legislators, regulators and accountants to recognize the paradigm shifts described in this article – shifts that forward-looking business enterprises, CEOs, investors and, as pointed out earlier, prominent, influential thought leaders are already recognizing and, indeed, supporting. Corporations and their stakeholders need to be viewed within a broader systems-thinking lens to recognize and understand who is accountable to whom and for what so that the planet may continue indefinitely to support human life and economies.

There must be universal recognition of the holistic concept that enterprise value creation over time for the benefit of all stakeholders depends on interactions between connected, interdependent systems of natural, social and man-made resources. Continuing to think only in terms of earning short-term returns for shareholders is like believing the Earth is flat or, pre-Copernicus, the centre of the universe.

And while IFAC is to be commended for exhorting the accounting profession worldwide, and its constituent national bodies, to support initiatives for convergence in global reporting standards related to climate-related and other sustainability issues – pressing calls for action in the public interest – IFAC and national accounting bodies must also urgently require mid-career professional accountants to educate themselves about the issues, trends and developments described in this article and, above all, to fundamentally redesign pre-qualification curricula, competency maps and education for future professional accountants.

Only then may it become reasonable to claim that accountants will save the world![57]

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[1] https://www.penguinrandomhouse.ca/books/669023/values-by-mark-carney/9780771051555, pp. 434-435.
[2] https://www.undp.org/sustainable-development-goals.
[3] https://www.globalreporting.org/about-gri/mission-history/.
[4] https://www.forbes.com/sites/betsyatkins/2020/06/08/demystifying-esgits-history--current-status/?sh=48f8acc02cdd.
[5] Principal initiatives in 2020 are summarized at https://thinktwenty20.com/index.php/561-%20the-pace-quickens-the-plot-thickens-unexpected-progress-toward.
[6] https://greattransition.org/gti-forum/csr-willis.
[7] Pacioli dramatically affected the practice of accounting by describing the double-entry accounting method used in parts of Italy. This revolutionized how businesses oversaw their operations, enabling improved efficiency and profitability. The *Summa*'s section on accounting was used internationally as an accounting textbook up to the mid-16th century. The essentials of double-entry accounting have for the most part, remained unchanged for mpre than 500 years. "Accounting practitioners in public accounting, industry, and not-for-profit organizations, as well as investors, lending institutions, business firms, and all other users for financial information, are indebted to Luca Pacioli for his monumental role in the development of accounting." Wikipedia.
[8] https://hbr.org/2002/12/whats-a-business-for.
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[40] Ibid. page 2 "It is anticipated that, over time, integrated reporting will become the corporate reporting norm."
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