

A standard-setter for non-financial reporting, or: flattery and despair

John Hughes, 15 January 2020

Eumedion is a Dutch entity that promotes the interests of institutional investors in the field of corporate governance and sustainability. It recently issued for comment a green paper: Towards a global standard setter for non-financial reporting.

Here are some extracts:

- The attention of investors and other stakeholders for non-financial reporting has increased dramatically over the last decade. Stakeholders, such as customers, employees, pensioners and investors are increasingly becoming aware of and vocal on sustainability issues. Investors that include non-financial information in their investment, engagement and voting decisions have become mainstream. Many companies have become more committed to long term value creation for all stakeholders, including the wider society. This is increasingly reflected in their management reports.
- However, companies struggle to provide consistent, comparable and reliable non-financial information as hundreds of frameworks have emerged and none of them covers the full width of non-financial reporting. Many of the frameworks overlap and it remains unclear how meaningful the differences between the frameworks are. This poses a major challenge for companies that want to report nonfinancial information. It also poses a major challenge for investors that want to understand how the company creates long term value and how the company lives up to the valid needs of society where non-financial performance matters.
- In the interest of both stakeholders and companies there is a need for the creation of an independent, authoritative International Non-financial reporting Standards Board (INSB). The aim of the INSB is to set International Non-financial reporting Standards (INRS) on all material aspects of non-financial reporting for listed entities across the globe.
- The IFRS Foundation is the most suitable body to establish the INSB, as a second separate board next to the International Accounting Standards Board (IASB): the IFRS Foundation has a very strong and proven governance structure and is widely considered to be authoritative and independent. Its authority already benefits from the reputation that it and the IASB have built up over the past decades...

An accompanying blog article cites IASB Chair Hans Hoogervorst responding as follows at a recent symposium: ““The alphabet soup of organizations and standards that deal with sustainability reporting drives many people into despair. It is difficult for companies and investors to understand the multitude of organisations and standards. I therefore fully subscribe to Eumedion’s call for consolidation.”

At first reading, this might seem like a turnaround from his previously-stated opinion that “the IASB is (not) equipped to enter the field of sustainability reporting directly (because it) requires expertise that we simply do not have. Moreover, there are already more than enough standard-setters active in this field.” However, rather sneakily for such a high-minded organization, the article excludes what came after (available from the full text on the IFRS Foundation website):

- Your green paper also suggests that the IFRS Foundation plays an important role in the intended consolidation. I naturally feel flattered by your appreciation for our independence and governance, but you will understand that I will not be able to comment on this in very concrete terms at the moment. This is really primarily a matter for the Trustees of the IFRS Foundation.

It does seem possible that the notion of a second separate board under the same proven umbrella may constitute the breakthrough that starts to clear up the soup (or however you’d put it). But, for those cited individuals who are currently in despair, this course doesn’t seem like a quick way out of it. The next step is a revised Eumedion position paper, currently anticipated for April 2020. Even if the IFRS Foundation immediately agreed to get going on such a project (which of course it won’t), it would surely take years to hammer out the INSB’s mandate and funding and to get a Board and staff in place, and then years longer for the initial standards (adoption of which would be voluntary) to go through the development and exposure process and to be issued in final form. If such standards were in existence even by 2030, it would probably count as tremendously fast work. During that period, of course, an enormous amount of long-term value will continue to be destroyed, and the valid needs of society will continue to be trampled on. One much-noted source cites 2030 as the point where the Greenland ice sheet could already be doomed.

I previously said here that I agreed with Hoogervorst that “we should not have exaggerated expectations about sustainability reporting as an agent for change,” and with his observation that “full transparency did little to curb excess in corporate remuneration.” Even more pointedly, he observed: “It is good that the G20 is promoting climate-related disclosure; it would be a thousand times better if they could agree on the introduction of a kerosene tax.” Even if Eumedion’s vision of an INSB comes to pass, it’s not unlikely that the main benefit will be in allowing more consistent monitoring of (and profiteering from) a by-then irreversible collective decline. I suppose that will be a valid function of sorts, but any attempted proclamation of accomplishment may stick in our throats...

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