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31 januari 2020	NBA Respons op Eumedion GP	20/DB/04731			p.hurks@nba.nl 020 301 02 62

Dear Mr. Bos,

Subject: Discussion Document 'Towards a global standard setter for non-financial reporting, draft: an invitation to comment', published 30 October 2019

Koninklijke Nederlandse
Beroepsorganisatie
van Accountants

Introduction

1. *Welcoming the initiative:*

Thank you for the opportunity to respond to your ideas for enhancing standard setting and standards for non-financial information (NFI). NBA supports the initiative to structure standard setting for NFI with an open mind, thus safeguarding the principles of public interest, credibility and legitimacy of standards. Standards must respond to the need for harmonized global high quality professional practice for corporate reporting.

2. *The accountancy profession is relevant in the field:*

The Discussion Document touches upon issues that have been covered also in the NBA Public Management Letter (PML) 'Klimaat is financieel', published in January 2020, in which the NBA highlights the role of the accountancy profession in the global climate agenda. We have established the content of this PML with input of a large range of experts and stakeholders, including Eumedion. Accountants do play a role in the total context of modern business management: strategy, governance, reporting and assurance. Appropriate standards for NFI-reporting is a major condition for modern future-fit business management. The content of our PML has been taken into account to draft this response letter.

3. *Our process:*

We have considered and discussed the Discussion Document in relevant existing policy groups and working groups, including those of Accountancy Europe and RJ (Dutch Accounting Standards Board). NBA was involved in Accountancy Europe's Cogito-paper 'Interconnected Standard Setting for Corporate Reporting' (December 2019). We have ac-



cepted your invitation for a joint Eumedion/Accountancy Europe roundtable on 9 March 2020 for further in-depth discussion on the subject.

4. *Our comments:*

In this document you find our comments on the Discussion Document as input for further proceedings in this matter. We have chosen to respond to the main aspects of the Discussion Document and have categorized our response in major headings covering:

- current state of play
- principles and scope
- ambition and structure
- assurance

Current state of play

5. *Relevance of NFI is growing:*

We confirm that investors rely much more on NFI for their decision making because isolated financial information is not sufficient anymore for an appropriate consideration of the sustainability and resilience of businesses. Global risks and opportunities include environmental and social aspects and internally generated intangibles. These aspects are addressed by NFI. NFI-inclusive corporate reporting is an essential element in meeting global ambitions like the Paris Agreement and the Sustainable Development Goals.

6. *Urgent need for alignment and convergence:*

We confirm that organizations struggle to provide consistent, comparable and reliable NFI due to the multitude of reporting frameworks for NFI. New frameworks are emerging to date. There is an increasing need for alignment and convergence of these reporting frameworks. Initiatives for more alignment and convergence of the NFI-reporting frameworks do exist, but so far attempts are insufficiently successful by lack of leadership and lack of sense of urgency.

7. *NFI-reporting brings new features:*

Despite the large number of frameworks NFI-reporting is still immature; NFI concepts and metrics are in a developing stage. Characteristics of NFI-reporting show that there are commonalities and differences with financial reporting. NFI-related new features are: multi-capital focus, extended future outlook, connectivity of information, extended boundaries covering the organisation's supply chain and beyond, double materiality (impacts for the company, outside-in, and impacts for society, inside-out). Another specific NFI-feature that cannot be underestimated is the extended target audience: the multi-stakeholder approach. These new features require different players, expertise, skills and experience in the due process of standard setting for corporate reporting.

8. *Welcoming a global and connected solution:*

For the reasons mentioned under this heading the NBA is welcoming the Eumedion Green Paper to explore ways to improve current practices in setting standards for NFI-reporting through the creation of an independent, authoritative international standard setting board for NFI in the interest of both users and preparers, and in connection with standard setting for financial reporting on a global scale.

Principles and scope

9. *Need for a conceptual framework in a corporate context:*

We agree that new INSB should draft standards on narrative and measurement for key performance indicators (KPIs) that have universal relevance for (nearly) all companies. We wish to emphasize additionally that the world is also waiting for appropriate NFI-contextual measures, like we know solvency, profitability and liquidity for financial reporting. Long lists of indicators appear to be not useful for decision-making purposes. Current NFI-reporting frameworks lack a common conceptual framework for context. Contextual measures like 'impact' and 'long term value creation' seem to gain ground. The latter is included in the Dutch Code for Corporate Governance, based on Dutch company law. But we see also that organizations are struggling to translate these measures in a more corporate language. Narratives are inevitable to learn the context. Further development of these or other contextual measures for NFI-reporting or 'context-based inclusive reporting' - including general accepted ratio's or alternative performance indices - is essential for a future-fit corporate reporting standards.

10. *Need for a general NFI reporting format:*

In addition to our comment under 9. we wish to emphasize that there is a need for an appropriate interconnected format for corporate reporting, which includes NFI. The traditional format for financial reporting: Balance Sheet, Profit and Loss Account, Cash Flow Statement, Notes and Management Report, cannot easily be used or extended for NFI. An appropriate generally accepted format for NFI is not yet available. Initiatives such as Integrated Reporting are still highly conceptual. The Core and More concept is an example of a format for a multi-target audience. We see that the narrative-based Management Report is currently used for more NFI-inclusive reporting, both voluntarily or based on legislative requirements. Format-related aspects must be part of the interconnected standard setting process for corporate reporting. The proposed INSB under the Foundation might be good basis to deal with this issue.

11. *Need for principle based, topic related standards in a top down structure:*

The Discussion Document states that NFI-standards should contribute to better transparency but should not be normative. The focus should be on fostering consistency, comparability and reliability of information. We agree that standards must be principle-based for an appropriate level of professional judgement to avoid a compliance oriented approach. To some extent a normative character is inevitable to safeguard comparability. We would like to emphasize that the focus should be on a global generic approach with contextual measures, topics or subject matters, generic indicators and disclosures that may be the basis for more specific industry-based indicators in a logical top down structure.

12. *Measures should be applicable beyond reporting:*

Management of modern business entails a broader understanding of the resources and relationships they use in order to create value over the short, medium and long term. Rather than using a narrow focus on financial data, businesses need interconnected information across multiple capitals for better decision making in terms of mission, strategy, risk-management, corporate governance and performance monitoring. It is therefore necessary that standard setters for NFI-reporting are aware that the development of NFI-measures and indicators are suitable and applicable in the total set of functions within modern business management of which NFI-reporting is only one function out of many.

13. *NFI in silo has no future:*

The need to understand the total context of risks and opportunities is reason that the line between financial information and NFI is fading. This results in initiatives for integration of information in corporate reporting. We see examples like Integrated Reporting (IIRC),

Core and More reporting (Accountancy Europe) and reporting on climate related financial aspects (TCFD). NFI has become more relevant for the primary users of corporate reporting: the providers of financial capital. A major part of NFI may therefore be considered as pre-financial information or extra-financial information. This trend towards integration and more 'inclusive reporting' should be taken into account in designing structures and processes for future-fit standards for corporate reporting. The proposed INSB under the IFRS Foundation might be good basis to deal with this issue.

14. Safeguarding connectivity of multiple capital information:

In order to achieve connectivity of information we see that organizations are preparing corporate reports based on a multiple capital approach in the Integrated Reporting Framework or in the Core and More framework or the Management Report. Only the latter is part of the IFRS-framework. IASB is currently updating the Practice Statement for Management Commentary also including elements of relevant other capitals than financial capital only. How would two separate pillars for financial information and NFI safeguard connectivity of multiple capital information? Would the proposed structure be a barrier for the development of connectivity of information or for Integrated Reporting? Perhaps Management Commentary may become the executive level linking pin for multiple capital information, between providers of financial capital and the multi-stakeholder group.

15. Consider appropriateness of IFRS application in the context of sustainability:

Research initiatives exist (e.g. PRI) on the suitability of IFRSs or the application of IFRSs in the context of the Paris Agreement that are related to the governments' commitment to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. The attention so far with regard to corporate reporting in relation to climate change has all been on NFI rather than the numbers in the audited financial statements. However, financial decisions tend to be taken on the basis of the financial accounts including cash flow assumptions, that at present may not reflect the short and long term constraints and impacts of climate change. The IFRS Foundation overseeing both standard setting for financial reporting and NFI-reporting may offer a suitable structure for proper considerations on purposeful interconnected standard setting and guidance thus facilitating proper application of standards within the global sustainability agenda.

16. Use the materiality lens to avoid a reporting overload:

Materiality is a core element to consider in standard setting for corporate reporting to achieve relevant, balanced and decision-useful information, while avoiding a reporting overload. For an adequate materiality lens for all stakeholders from both the outside-in and inside-out perspective the question raises how to make it practical in terms of quantitative and qualitative cut-offs in an interconnected approach. Learning from financial reporting (IFRS) seems a proper approach but the new NFI-features (see under 7.) make it challenging.

Ambition and structure

17. Welcoming authoritative leadership:

The focus of the Discussion Document is on a widely accepted systemic solution. We agree that there is a need for this on a global scale in order to overcome the lack of leadership and lack of timely progress. We agree that the IFRS Foundation seems to be a suitable body to take up the leadership role by establishing an INSB, as a second separate board next to the International Accounting Standards Board (IASB). After all the IFRS

Foundation has a very strong reputation and is widely considered to be legitimate, credible, authoritative and independent.

18. Welcoming timely progress through the support of large players:

Timely progress is not easy, but we realize that this may be the case for any widely accepted global solution. For timely progress the support of current large bodies in standard setting is a precondition. The new INSB should use and should go further on what is already developed, avoiding to invent the wheel again. Current large players in and beyond the Corporate Reporting Dialogue have not shown sufficient willingness to provide their legacy for this purpose. To change this is a challenge.

19. The power of legislation and enforcement:

It is recognized that global standards generally be preferred, but what is expected to be achievable? Support of all key players, including regional and national politics and authorities, is a condition for success but is a major challenge. A US-inclusive basis seems to be not really feasible, like we have learned from attempts for convergence of IFRSs and US GAAP. In the absence of timely progress it is likely that European or national standards will further emerge. The European Commission recently pronounced intentions to assign EFRAG to develop a European set of NFI-corporate reporting standards while revising the NFR-Directive. It must be acknowledged that Europe shows leadership in this field and that Europe is a regional authoritative power for legislative requirements and enforcement measures. Legal requirements are a good basis for creating a proper level playing field for both linear and circular businesses. The INSB-based proposal builds on voluntary application anticipating political endorsement by regional and national authorities. The influence of the INSB in endorsement- and enforcement processes is limited to nil.

20. Multi-stakeholder engagement in the standard setting process:

We acknowledge that the IFRS Foundation has a proven governance structure and oversees a state-of-the-art due process for standard setting. The IASB is well-known for carefully balancing the interests of preparers and users of corporate reporting. We have addressed under 7. the multi-stakeholder feature as a major distinctive characteristic for NFI-reporting. Engaging a wider range of expertise, skills, experience in a transparent way is therefore a precondition for a high quality corporate reporting standard setting. The participation of larger and more diverse group of independent but experienced players at both standard-setting levels and oversight is necessary to safeguard that the interests of preparers and all stakeholders are properly balanced. A transparent nomination process must be part of the well-designed governance structure.

21. Technology as a facilitator:

Currently technology provides digitalisation of financial reporting based on a generic taxonomy. Likewise standards for NFI-reporting should enable the use of a taxonomy and digitalisation of NFI-reporting or interconnected reporting.

22. Beyond listed entities:

The proposal in the Discussion Document relates to NFI-reporting standards for listed entities. We consider that it may be a good approach to start with the listed entity environment with an open mind. Nevertheless it would be recommendable to design NFI-reporting standards in such a way that they become the leading edge for further development of NFI-reporting standards for SMEs (similar to IFRS for SMEs) and the public sector (similar to IPSASs).

23. A proper funding base:

The proposal for a separate INSB and its ambitions has implications for long term commitments for funding, The Discussion Document does not raise the funding aspect for the

INSB initiative. The precondition of a multi-stakeholder approach as referred to under 20. and also taking on the ambition to become the leading edge for NFI-reporting for SMEs, and even public sector, as referred to under 22. may create a pathway to a broad-based funding model.

Assurance

24. Added value of assurance being recognized:

The IFRS Foundation will not have the authority to prescribe assurance on NFI-reporting, but we acknowledge the recognition of a need for accurate, reliable and comparable data and the added value of assurance in the context of public interest.

25. Consider 'assurability' of NFI-reporting in the standard setting process:

As NFI-reporting is still immature, NFI-assurance is still immature. Currently we mostly see limited assurance on NFI-reports because of the challenges in terms of subject matter identification, suitable criteria for reporting and measurement, materiality issues and available evidence. With the design of NFI-reporting standards the 'assurability' of information should be taken into consideration in such a way that also reasonable assurance becomes the usual option for NFI-reporting. As the distinction between financial information and NFI is fading interconnected reporting may become mainstream in the future. Assurance providers are then expected to develop a way for more 'integrated assurance'. We already see innovative communication examples of this with Integrated Reporting.

Kind regards,

A handwritten signature in black ink, appearing to read 'B.J.G. Wammes', written over a horizontal line.

Berry J.G. Wammes