

Accountancy Europe  
by mail

P.O. Box 7984  
1008 AD Amsterdam  
Antonio Vivaldistraat 2-8  
1083 HP Amsterdam  
T +31 20 301 03 01  
nba@nba.nl  
www.nba.nl

Date	Re	Our ref	Attachment
March, 31 2020	NBA response	20/DB/04750	

Direct dial nr  
020-3010302

**Subject: NBA response to the Cogito Paper ‘Interconnected Standard Setting for Corporate Reporting’**

Dear members of Accountancy Europe,

1. *Supporting the initiative:*

The NBA welcomes your initiative in the Cogito Paper ‘Interconnected Standard Setting for Corporate Reporting’ (the Paper) and appreciates the opportunity to respond to your ideas for enhancing standard setting and standards for non-financial information (NFI). NBA supports your exploration of ways to improve current practices in setting standards for NFI-reporting in the interest of both users and preparers, and in connection with standard setting for financial reporting on a global scale. The Paper touches upon issues that have been covered also in the NBA Public Management Letter (PML) ‘Climate is a financial concern’, published in January 2020, in which the NBA highlights the role of corporate reporting and the accountancy profession in the global climate agenda.

2. *Relevance and urgency:*

The need to understand the total context of risks and opportunities for businesses is reason that the line between financial information and NFI is fading. This results in initiatives for integration of information in corporate reporting. Interconnected, or NFI-inclusive, corporate reporting is an essential element in meeting global ambitions like the Paris Agreement and the Sustainable Development Goals. However, organizations struggle to provide consistent, comparable and reliable ‘inclusive’ information due to the multitude and the inappropriateness of reporting frameworks. Reporting standards for NFI are still immature and the application of reporting standards for financial information may not sufficiently reflect the short and long term constraints and impacts of the sustainability agenda. There is an increasing need for alignment and convergence on a global scale, but initiatives for this are insufficiently successful by lack of leadership and lack of sense of urgency.

3. *Common conceptual framework*

There is a need for interconnected standards for corporate reporting, including narratives and measurement for key performance indicators (KPIs) that have universal relevance for (nearly) all companies in a common context-based conceptual framework. The framework should take into account NFI-related new features such as: a multi-

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capital focus on long term value creation, 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) and last but not least a multi-stakeholder approach. Furthermore NFI-measures and indicators must be suitable beyond reporting only. It is necessary that the system is applicable for better decision making in terms of mission, strategy, risk-management, corporate governance and performance monitoring in an interconnected way.

4. *Common reporting format:*

Format-related aspects must be part of the interconnected standard setting process for corporate reporting. Long lists of indicators appear not to be very decision-useful (GRI). Initiatives such as Integrated Reporting (IIRC) are still highly conceptual. The Core and More concept (Accountancy Europe) is an example of a format for a multi-target audience. We see that the narrative-based Management Report (IASB) is currently used for more NFI-inclusive reporting, both voluntarily or based on legislative requirements. More direction is desired.

5. *Broadened scope:*

The proposal in the Paper relates to corporate reporting standards in general but may be applicable for larger companies only. We consider that it may be a good approach to start with the larger companies. Nevertheless it would be recommendable to design corporate reporting standard setting in such a way that standards become the leading edge for further development of corporate reporting standards for SMEs (similar to IFRS for SMEs) and the public sector (similar to IPSASs).

6. *Consider 'assurability' of measures in the standard setting process:*

More and more we see the recognition of a need for accurate, reliable and comparable data and the added value of assurance in the context of public interest. 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 corporate reporting standards for future mainstream interconnected reporting the 'assurability' of information should be taken into consideration in such a way that reasonable assurance becomes the usual option for interconnected corporate reporting.

7. *Authoritative leadership:*

For a widely accepted systemic solution it is necessary to overcome the lack of leadership. We agree that the IFRS Foundation (Approach 1.) 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. We acknowledge that the IFRS Foundation has a proven governance structure and oversees a state-of-the-art due process for standard setting.

8. *Support of large players:*

For any systemic solution the support of current large players in NFI-standard setting may be a precondition and also a challenge. In any solution we must use what has been developed already, avoiding inventing the wheel again. NFI reporting standards are still immature, but it must be acknowledged that the large players in the field have gained experience with the new NFI-features for two decades or more. These bodies are also aware of the need for harmonization and convergence which may lead to more substantial collaborative steps to provide their legacy in the existing initiative of the Corporate Reporting Dialogue.



9. *Multi-stakeholder engagement in the standard setting process:*

The multi-stakeholder feature is 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. The IASB is well-known for carefully balancing the interests of preparers and users of corporate reporting. This element may be covered properly in Approach 1. and probably also in Approach 4. This may be not sufficiently covered in Approach 3. with a separation of governance structures between financial and NFI-reporting standards.

10. *The power of legislation and enforcement:*

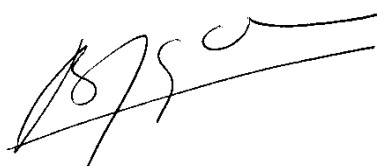
It is recognized that global standards generally be preferred, but for this the support of all key players, including regional and national politics and authorities, is a condition for success. This is a major challenge. A US-inclusive basis seems to be not really feasible, like we have learned from attempts for convergence of IFRSs and US GAAP. The European Commission (EC) does show leadership as a regional authoritative power for legislative requirements and enforcement. The Commission recently pronounced intentions to develop a European set of NFI-corporate reporting standards. Legal requirements are a good basis for creating a proper level playing field for both linear and circular businesses. Approach 2. in the Paper reflects this properly. Although this approach is a regional and not a global solution; we must acknowledge that other proposals build on voluntary application anticipating political endorsement by regional and national authorities, which is time consuming if ever completely successful. On the other hand the EC initiative must not hinder initiatives for a more global solution.

11. *Reflections and conclusion*

NBA believes that a system change for design, adoption and implementation of global, high quality, interconnected, corporate reporting standards takes considerable time. Critical success factors are (1) authoritative leadership, (2) support of current large players, (3) a multi-stakeholder engagement, and (4) legislation and enforcement. However, this seems to be at odds with the urgent need for timely progress. A more pragmatic solution for the short term maybe necessary, promoting application of what already exists, and at the same time continue a proactive search for ways for the more enhanced systemic global approach for the longer term.

For this longer term solution the NBA believes that either Approach 1. or Approach 4., mentioned in the Paper, would probably be most appropriate. Approach 2, mentioned in the Paper, being the regional consolidation would seem to be useful for the short term under the condition that in the standard setting process current large players are involved.

Yours sincerely,



B.J.G. Wammes

