Let's Talk About IFRS

Coffee Chat

Brewing Over

Sustainability Reporting – a necessary tool in Corporate Reporting?

In September 2020, the trustees of the IFRS Foundation published a consultation paper to determine three matters:

- whether there is a need for global sustainability standards;
- whether the IFRS Foundation should play a role in the development of such standards; and,
- if so, what the scope of that role could be.

The feedback that was received was positively in favour of the IASB playing a role in this space and this has led to the issuance of papers to discuss various aspects of the work that is proposed and the convening of the Technical Readiness Working Group (TRWG), whose role is to prepare the way for the establishment of a sustainability standard setter, which is currently proposed as the International Sustainability Standards Board (ISSB) and will fall under the auspices of the IFRS Foundation, alongside the International Accounting Standards Board (IASB).

The TRWG brings together the various players in the sustainability reporting space, among them the Climate Disclosure Standards Board, the Task Force on Climate-Related Financial Disclosure, the Value Reporting Foundation and the World Economic Forum. Together with representation from the IASB, they have commenced on work that will enable the birth of the ISSB (International Sustainability Standards Board).

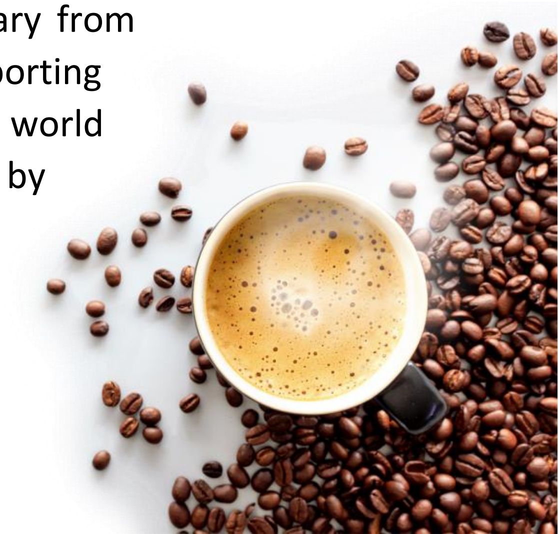
The pertinent question in all this is the necessity of such an organisation and if it won't simply add to the noise that already exists in the corporate reporting space. Sustainability reporting itself is not a new concept. It has been with us for many decades and has evolved in that time period from what was seen as a very rudimentary start in the 1960's and 1970's. The publication of the 1987 United Nations Report, Our Common Future, better known as the Brundtland Report, spurred the sustainability movement on to the more mature and sophisticated processes that some entities have instituted in the present day. Despite the progress, this evolution has not been without its problems. For those entities that have been able to develop their reporting to the point that it

is capable of garnering acclaim and winning awards, putting together a regular and credible report may be a walk in the park. For those entities that are starting out or whose systems of obtaining data have lagged behind, this may be a tall order indeed.

Part of the reason behind the difficulties faced by entities that are seeking to report on their sustainability efforts has been the myriad standards that are available. In some instances, reporting has been undertaken based on the preference of the person or team of people that is tasked with preparing the reports and the existence of a well-oiled machinery to support such an endeavour; in other instances, it has created a nightmare of mammoth proportions – from the mundane "How do we start the process" first steps to "What information should we include in the report and what standards are relevant to our organisation" through to "We are done but how do we compare our report to those of our peers". And there will be various other practical and often difficult questions that will, inevitably, arise along the journey. And it is a journey as the process will unfold as one progresses!

The Brundtland Report planted a seed amongst entities that that their responsibility as corporate citizens goes far beyond generating a profit, positive cash flow and an ability to pay a dividend to shareholders. It brought to the fore concepts of sustainable development which, as time progressed, were summarised as "People, Planet, Profit" and these have continued to develop further over the years with emphasis on the demonstration of linkages between how businesses are managed, their impact on their surroundings (no longer limited to just environmental impact but encompassing many other factors, among them, how they assist with the development of the community directly affected and at large, and provide opportunities for others (businesses and people) particularly small business and those that were previously marginalised) and their ability to continue to operate not only in the short term but in the medium and long term as well, for the benefit of all stakeholders, with that last term growing in respect of whom it encompasses far beyond the immediate realms of the initial definitions which seemed to focus on the immediate environs of the organisation. The basic premise behind it was whether entities were behaving well and ensuring that they kept one eye on the needs of their future selves and others. This is where sustainability reporting features as entities started to report on the results of their efforts of playing nicely in the proverbial communal sandpit and how they were also ensuring that there will continue to be an area in which and toys with which to play tomorrow.

The plethora of reporting guidelines and standards that have emerged during this era is testament to the need for guidance that exists. It is evident from the feedback and commentary from various sustainability reporting awards processes around the world that the approaches taken by those reporting vary from industry to industry and



from entity to entity. While it would be expected that there be differences in what is reported upon and this being dependent on the priorities that each entity has, one does not expect to see as much diversity in reporting as currently exists. It is also commonplace to find that one report is prepared based on one or several standards or guidelines for Company X but yet other sets of standards and guidelines are applied for Company Y - companies which operate in a similar space, thus making the comparison of their reports difficult if not impossible. The advent of social-impact-astute, climate-change-aware and long-term-focused business is upon us and with more and more investor funds chasing what they consider to be green and responsible investments, the ability to discern between which entity makes for a more worthwhile investment between Company X and Company Y is not going to be found in a set of IFRS-compliant financial statements or in a sustainability report that considers and places much emphasis on some factors, which factors another entity chooses to disregard altogether. We also live in a world where both information and misinformation are rife. One need only search for information on a particular topic, entity or person before one is confronted and confounded by such varied information that one needs to be endowed with some deft analysis techniques to be able to sift the wheat from the chaff.

The ability (or inability) to put together a coherent report on the business of an entity and its prospects may very easily relegate a perfectly promising business to the dustbin of history as investors shun it. The ability of an entity to capture the attention of potential investors has turned the investee entity into the suitor, a role that the investor has hitherto occupied. In its consultation paper on Sustainability Reporting, the IFRS Foundation noted that the Trustee Task Force that it had convened noted a growing and urgent demand for “a set of comparable and consistent standards [that] will allow businesses to build public trust through greater transparency of their sustainability initiatives, which will be helpful to investors and an even broader audience in a context in which society is demanding initiatives to combat climate change.”

Funding has been and will continue to be the grease that provides organisations the ability to continue to do business. More and more, the growing need by funders to ensure that such business is responsible business has seen the need for information that will allow such funders to make decisions about which organisations are worthy recipients of their investment and which organisations are to be avoided. Several of the world’s large investors have signed up to initiatives that promote sustainable investment and funding. We have seen calls by such organisations as BlackRock, the world’s biggest asset manager, calling for changes to corporate sustainability disclosures to be revisited lest they become “nothing more than window dressing” and for governments around the world to develop a stronger long-term climate finance

plan to unlock the private capital needed to fund the transition to a low-carbon economy.1 We have also seen many other financiers trumpeting the award of funding to companies that are embarking on green projects and greater withdrawal of funding from certain sectors that are seen to have a detrimental effect on the sustainability agenda in the years ahead. The last few months have also seen many companies report on their plans to pivot their business to more sustainable methods of operation, be this Hertz placing an order for 100,000 Tesla Model 3 vehicles to electrify its rental-car fleet, reports of energy companies decommissioning and repurposing their fleet of coal-fired power stations or more mainstream funding for investment into jobs of the future that will provide for less environmental footprint which many employers – large and small – are currently considering, the world having been brought to the point of accepting the possibility of hybrid and remote working by the COVID-19 pandemic a lot sooner than we imagined.

While I have focused on only some of the areas that affect sustainability in my examples, the reality in our world is that there is a shift in mindset. This shift requires that information that will allow for decision-making be made available in a manner that allows for effective decision-making. We have many solutions at the moment, but we do not have a solution that is coherent in its approach and that will allow for the rationale and efficient allocation of capital. The proposal by the IFRS Foundation is a step in the right direction in this respect and should provide us all with an answer that will ensure that our sustainability journey is not fraught with missteps.

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[1] Address by Larry Fink, Chief Executive of BlackRock (BLK.N) at the Venice International Conference on Climate of the G20 Finance Ministers on 11 July 2021 https://www.reuters.com/business/sustainable-business/blackrock-ceo-calls-stronger-climate-finance-plan-g20-meet-2021-07-11/