ARE THE REPORTING STARS FINALLY SET TO ALIGN?

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Jonathan Minter finds the reporting industry on the cusp of change, as the ever-tricky issue of framework alignment comes to the fore. Can a successful resolution really be achieved?

In 2017, the Norwegian sovereign wealth fund – the largest such fund in the world – proposed dropping its investments in oil and gas, two years after a number of other large funds, including the Rockefeller family, announced plans to divest from fossil fuels.

While there was, no doubt, a financial aspect to these decisions, they were also driven by a growing trend in looking beyond just the bottom line for investments.

Whether termed 'sustainable investing', 'ethical investing' or one of a number of names, recent years have seen a trend in investors looking at more than just pure finance when choosing where to put their money.

For companies, this has increased awareness in the role that non-financial factors, such as ethical, environmental or humanitarian, can have on their share price.

This has also coincided with a more general increased awareness in stakeholders beyond shareholders in some companies. Kris Peach, chair and CEO of the Australian Accounting Standards Board (AASB), notes: "Financial statements tell a piece of the story, but they don't tell everything. You need some explanation around that to give them context, and give the user a more balanced view of what happened."

All of which has placed greater importance on the various non-financial reporting framework providers in the world. These providers – with different aims and goals developed independently from one another – are largely independent from the financial boards: the International Accounting Standards Board (IASB) and the US-based Financial Accounting Standards Board (FASB).

In recent years, there has been a concerted effort to try and bring these various boards into greater alignment. Part of this has come from the work of the Corporate Reporting Dialogue (CRD), chaired by Ian Mackintosh.

Explaining the development in the field, Mackintosh says: "You have all these silos, all these different frameworks and standards, which is confusing to the preparers and to the investors and users.

"The International Integrated Reporting Council came along and tried to put together a framework to pull all these things together and say: 'We need one good report that draws on capitals –natural capital, human capital, intellectual capital, financial capital and soon.'

"In 2014 they convened the CRD. The aim was to get the various standard-setters together to at least start talking, to at least start thinking about how you could start to solve this problem."

As well as the IIRC, the CRD counts the IASB, the FASB as well as SASB, the GRI, the CCDP and the Climate Disclosure Standards Board (CDSB) among its number.

IIRC CEO Richard Howitt is proud of what the CRD has achieved so far, and tells TA: "We have a common landscape map. Each framework recognises what the other one does; this sends the message that this is not competition. Different frameworks have different strengths and different purposes.

"We have also got a common defining principle of materiality. The concept of materiality is crucial in reporting. Each of the frameworks has agreed in their next iteration to move towards that defining principle of materiality. The first to do that was the IASB last year."

Alignment between the various boards is a slow-going exercise. The challenge faced can be demonstrated by the drawn-out – and still incomplete – attempts the IASB and FASB have been making for years.

Bringing in additional non-financial frameworks adds an additional layer of challenge, as these are trying to achieve different things from one another.

For example, Mardi McBrien, managing director at the CDSB, says: "For the next four to five years I do not think we will see full convergence, for the very simple reason that the GRI is focussed on sustainability reporting, while SASB, CDSB and IIRC are focusing around mainstream financial reports and information for investors."

Even Howitt admits: "Some of the differences in the frameworks will never be totally bridged. They won't be exactly the same, because some of the frameworks say all stakeholders are equal and other frameworks say that stakeholder relationships are absolutely crucial. In the modern world – which is very interconnected, with more openness and transparency in many respects – reports recognise that stakeholders drive value for business, but ultimately the report is for the business, and its investors are the primary audience."

Despite these challenges for full convergence, those TA speaks to remain optimistic about the future. Peach, for example, points out that 15 years ago, people thought challenges around creating an international standards board would be difficult to achieve, but today the IASB is recognised across almost the entire globe.

Although the various boards are not trying to achieve exactly the same thing, they are often trying to collect similar, or sometimes the exact same, data. In these cases, it makes sense for boards to work together to align on these issues.

Peach proposes a “plug and play” concept, whereby there will be specialists, such as the GRI which focuses on information that will not necessarily be the focus of financial statements, but that everything will come under an overarching framework of: “Is this information actually useful? Does it represent what it is supposed to represent? Is it complete? Is it neutral?”

She adds: “You could think of it as a bit of a jigsaw. You are putting the border around it, and then people fill in their piece of what they are interested in.”

Howitt, while acknowledging the challenges present in achieving greater alignment, also remains optimistic.

He says: “It is obviously going to be hard work, but there is a sense of mission and purpose in what we are trying to do, which is to reform corporate reporting, and to support this shift in the world to a sustainable financial system, and to support the shift towards long-term investment and value creation.

“The sense of mission and purpose behind this is demonstrated day to day in the relationship between the different frameworks, and within the IIRC as a whole.”

Reflecting on the work the CRD has done so far, Mackintosh describes a landscape map that shows natural alignments and where standards are complimentary as a reasonable step in the right direction.

He says: “It depends on where you set your sites. If we can get our frameworks as aligned as we possibly can, and an understanding of where they are not aligned, why they are not aligned, and what the differences are, then I think we will get much better corporate reporting.

“I think that is attainable; it is at least attainable to have it much better than it is now. Whether it will ever be perfect, and whether we can have every country accept the same standards – that is a different question.”

CURRENT WORK

The CRD and its participants are planning to discuss a number of upcoming alignment projects at the World Congress of Accountants in Sydney, which will hopefully see “major alignment” between the frameworks.

Howitt notes: “For those in the market that are worried there is a proliferation of different initiatives and fragmentation and competition between them, this is going to be the biggest signal to the market this is not the case.”

Within a year, he says, he anticipates that the entities will be well under way with what he describes as technical work, and “not just talking at meetings and conference. We will see the results in black and white,” he adds.

In three years, he says: “We will hope to have the project completed and to have some concrete results where we can show frameworks have aligned.”

Beyond the work of the CRB and its upcoming project, the IASB is running a management commentary project which should help integrate non-financial reporting into mainstream financial reports.

Explaining the management commentary project, Peach says there is a voluntary practice guide, which she notes “basically says: ‘Here is how you do the discussion about what your financial results for the year were, and what are your future projects.’

“They are updating it partially because of all this other activity that is going on, and the developments that have happened in some other areas like integrated reporting and SASB, to make sure what they have is best practice. The key aspect is that it will have a conceptual framework that is consistent with the financial statements.”

Peach says: “The IASB needs to become prominent, and this management commentary project is really important. If they set that up properly, that gives them a framework that can sit across all this reporting.”

With the IASB’s management commentary project beginning to pick up steam, the various frameworks actively speaking to one another about how to bring the various reporting frameworks into greater alignment, and a new two-to-three-year project due to be launched imminently, it seems the next few years represent an opportunity for reporting standards.