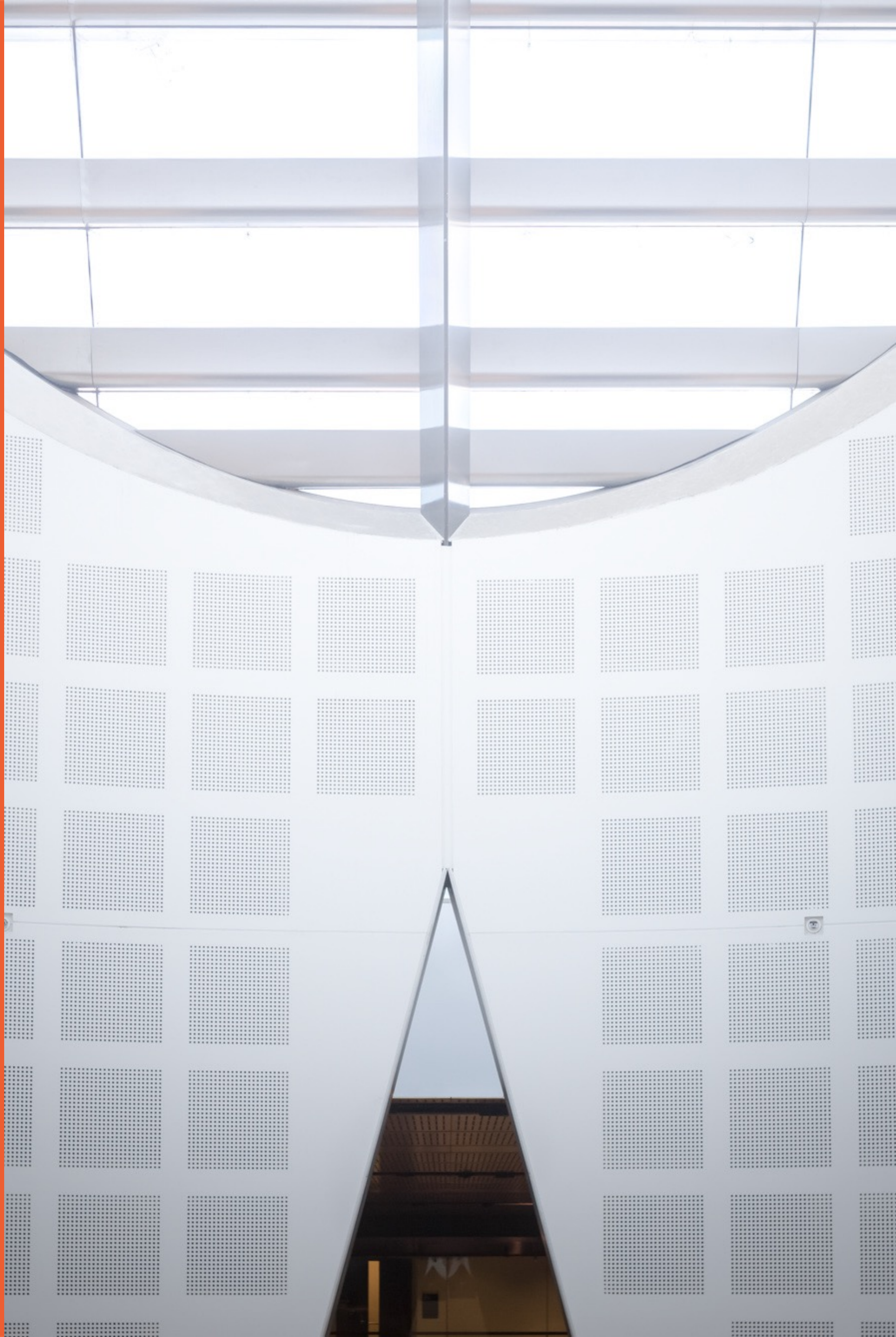
ACCT6002: International Accounting

Contemporary issues in international accounting



THE UNIVERSITY OF SYDNEY

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- Discuss how accounting has changed over time to respond to contemporary challenges such as climate change and the implications this might have for international accounting.
- Describe the following regulatory frameworks and their implications for sustainability reporting:
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What other kinds of information might stakeholders need?

- Other than financial information, stakeholders increasingly demand information about:
  - Occupation health and safety
  - Carbon emissions
  - Employment diversity
  - Environmental impacts
  - Supply chains
- Some governments require firms to disclose this information, but the legislation varies between jurisdictions, making it difficult to compare
- Some companies disclose this information voluntarily in stand alone sustainability reports or corporate social responsibility reports

What might these reports be called?

- Sustainability reports
- Corporate Social Responsibility reports*
- Social reports
- Environmental reports
- Environmental, Social and Governance reports

* We will use this term

Less regulated

- Social and environmental information is less regulated than financial information, but this is beginning to change.
- It is important to recognize that social and environmental impacts of an organisation has the potential to affect many more stakeholders than financial information, including future generations.
- Why?
  - Financial reporting has a longer history
  - Recognition of an organisations social and environmental responsibilities is relatively new
  - These impacts can be hard to measure and disclosure is harder to make uniform
  - Businesses have lobbied against regulation of S and E matters
  - Stakeholders with an interest in S and E are often less powerful than those with a financial interest

What information might be reported?

- It might depend on the nature of the organisation and its strategic focus.
- For example, a bank might report:
  - investments made in education, and the impacts of that investment
  - workplace diversity
  - reconciliation action plans
  - training of staff
  - health and safety performance
  - support of local communities
  - disaster relief funding initiatives
  - assistance for small business
  - responsible lending practices, and how these have generated positive social and environmental outcomes.

Is it material?

- Disclosures are generally made if they are considered material to stakeholders. But how is this determined?
- The Global Reporting Initiative (GRI) says information is material if it is:
  - 'a topic that reflects the reporting organisations significant economic, environmental and social impacts; all that substantively influences the assessments and decisions of stakeholders'
- Lots of scope for variability
- Enormous amounts of judgement involved
  - Especially given much of this information is still voluntary.

How should the information be disclosed?

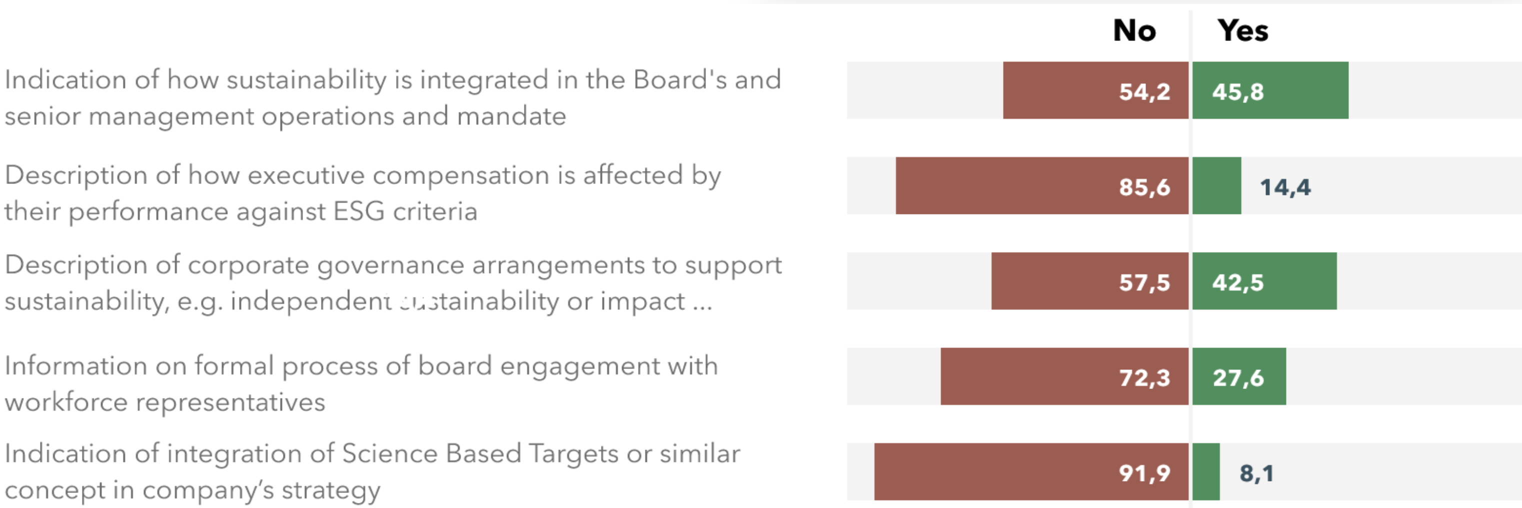
- This information is still largely voluntary, so lots of variation in practice
- Hundreds of frameworks currently in operation internationally:
  - The Global Reporting Initiative suggests there are at least 180 initiatives in 45 different countries
  - The Climate Disclosure Standards Board has identified 383 different provisions that affect the way a company discloses this information
- This can result in:
  - Variability in quality, quantity, timeliness and relevance of the information disclosed

How effective is EU regulation?

2019 Research

The **largest study on companies sustainability** disclosures to date.

The project has assessed how **1000 European companies disclose information** on their **environmental and societal risks and impacts**, as required by the EU Non-financial Reporting Directive.



Source: https://www.allianceforcorporatetransparency.org/

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Trends in CSR reporting

- Prior to the 1990s there was very little reporting on social and environmental issues
- In the 1990s this began to change with organisations working in environmentally sensitive industries started to produce some environmental information for the public
- At the same time more people in the community were becoming concerned about the environmental impacts of organisations.
- Later, organisations begin to produce more social information.
- More recently organisations tend to produce reports that cover social and environmental issues and to some extent they said become a mainstream expectation.

Some of the pre-ISSB reporting frameworks around the world

GRI	**Global Reporting Initiative** Deloitte has been an organisational stakeholder since its inception in 2004, and two Deloitte partners are members of the governance structure.
IIRC	**International Integrated Reporting Council** Deloitte Global Advisor is a Council Member and Deloitte has provided secondments.
SASB	**Sustainability Accounting Standards Board** Deloitte has provided funding and a secondment, participated in industry working groups, and has a seat on the Assurance Task Force.
UNGC	**United Nations Global Compact** Deloitte was a founding signatory in 2000 with several high impact pro-bono projects and secondments.
WBCSD	**World Business Council for Sustainable Development** Deloitte was a founding member in 1995 and has been actively involved in many working groups and projects through the years.
CDP	**Formerly the Carbon Disclosure Project** Deloitte is a past global and U.S. sponsor of CDP Water Disclosure and has developed reports to Investor and Supplier questionnaires on CDP Climate Change.
GISR	**Global Initiative for Sustainability Ratings** Deloitte has provided funding and a secondment, participated in industry working groups, and has a seat on the Assurance Task Force.
AS4	**The Prince's Accounting for Sustainability Project** Deloitte has provided secondments.

KPMG's study of international CSR reporting

- In 2017 & 2020, KPMG released a report outlining international trends in CSR reporting:
  - It surveyed the reporting practices of a global Sample of 5200 companies, which is made up of the top 100 companies from 52 different countries (N100):
    - 80% (2017: 75%) of these companies produce CSR reports
  - It also survey to reporting practices of the worlds largest companies by revenue based on the Fortune 500 companies (G250):
    - 96% (2017: 93%) of these companies produce CSR reports
  - These were most prevalent in the Japan, Mexico, Malaysia, India, the United States, Sweden, Spain, France, South Africa and the United Kingdom.
  - This still means that some large companies are completely ignoring sustainability reports.

Other findings from KPMG

- Industries with high profile environmental impacts (mining) have higher rates of reporting than others.
- The assurance of reports by independent third parties has increased in recent years. 71% (2017: 67%) of G250 companies have their reports assured by independent third parties
- The most used reporting framework was the GRI Standards. 75% (2017: 73%) of the G250 companies
- 72% (2017: 43%) of G250 companies link their CSR activities to the UN Sustainable Development Goals
- 37% of G250 companies reports in line with the Task Force on Climate-related Financial Disclosure recommendations.
- 76% (2017: 67%) of G250 companies disclose targets to cut their carbon emissions

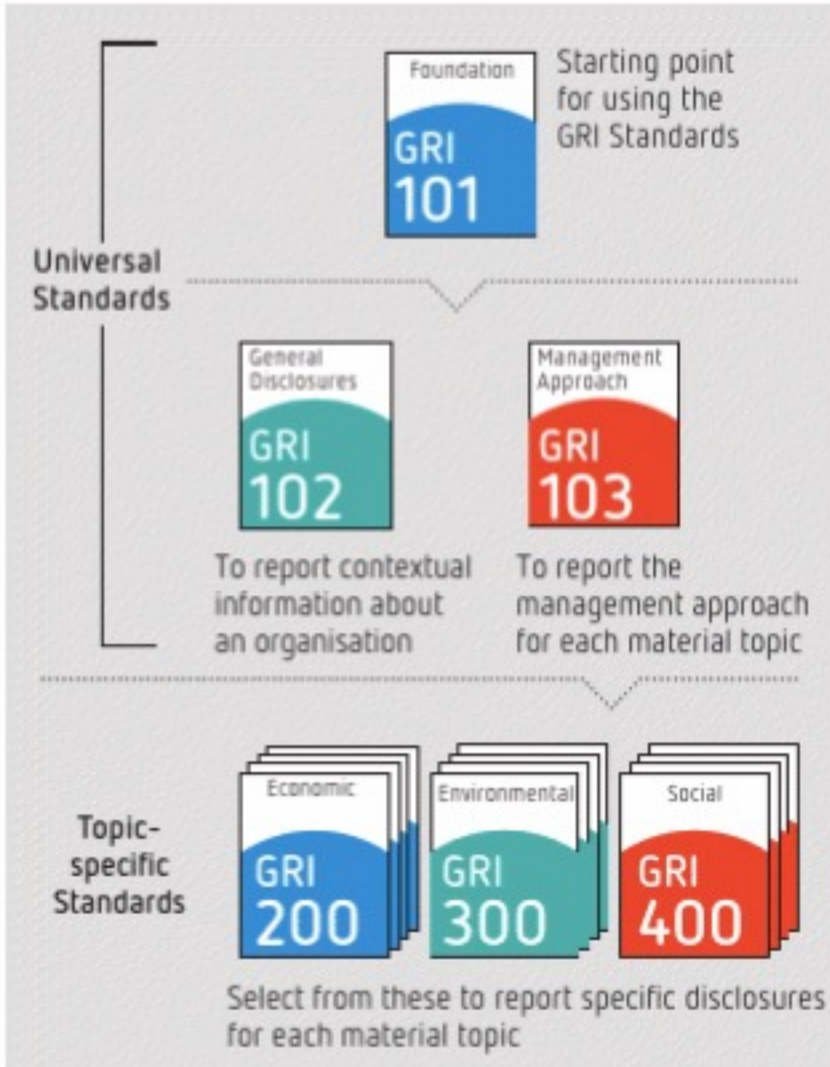
CSR Reporting Frameworks

- Global Reporting Initiative GRI
- Climate Disclosure Project CDP (Pre-ISSB)
- Integrated Reporting <IR> (Pre-ISSB)
- Sustainability Accounting Standards Board SASB (Pre-ISSB)

GRI

- “GRI is an independent International organisation, based in Amsterdam, and Addalynn. We serve a global audience through our regional hubs in Brazil China Columbia India South Africa in United States GRI reports are produced in more than 100 countries” GRI, 2018
- Most adopted globally

EXHIBIT 6.2 The structure of the GRI standards framework



Source: Global Reporting Initiative (2016), p. 3.

EXHIBIT 6.3 An overview of the GRI reporting principles

Reporting principles for defining report content	Reporting principles for defining report quality
Stakeholder inclusiveness	Accuracy
Sustainability context	Balance
Materiality	Clarity
Completeness	Comparability
	Reliability
	Timeliness

Source: Global Reporting Initiative (2016), p. 7.

Any problems?

- These are not mandatory, so firms can be selective about what they report
- Often seen as overly positive
- Important to assess what is said against what is done
- Reporting v Performance

CDP/CDSB

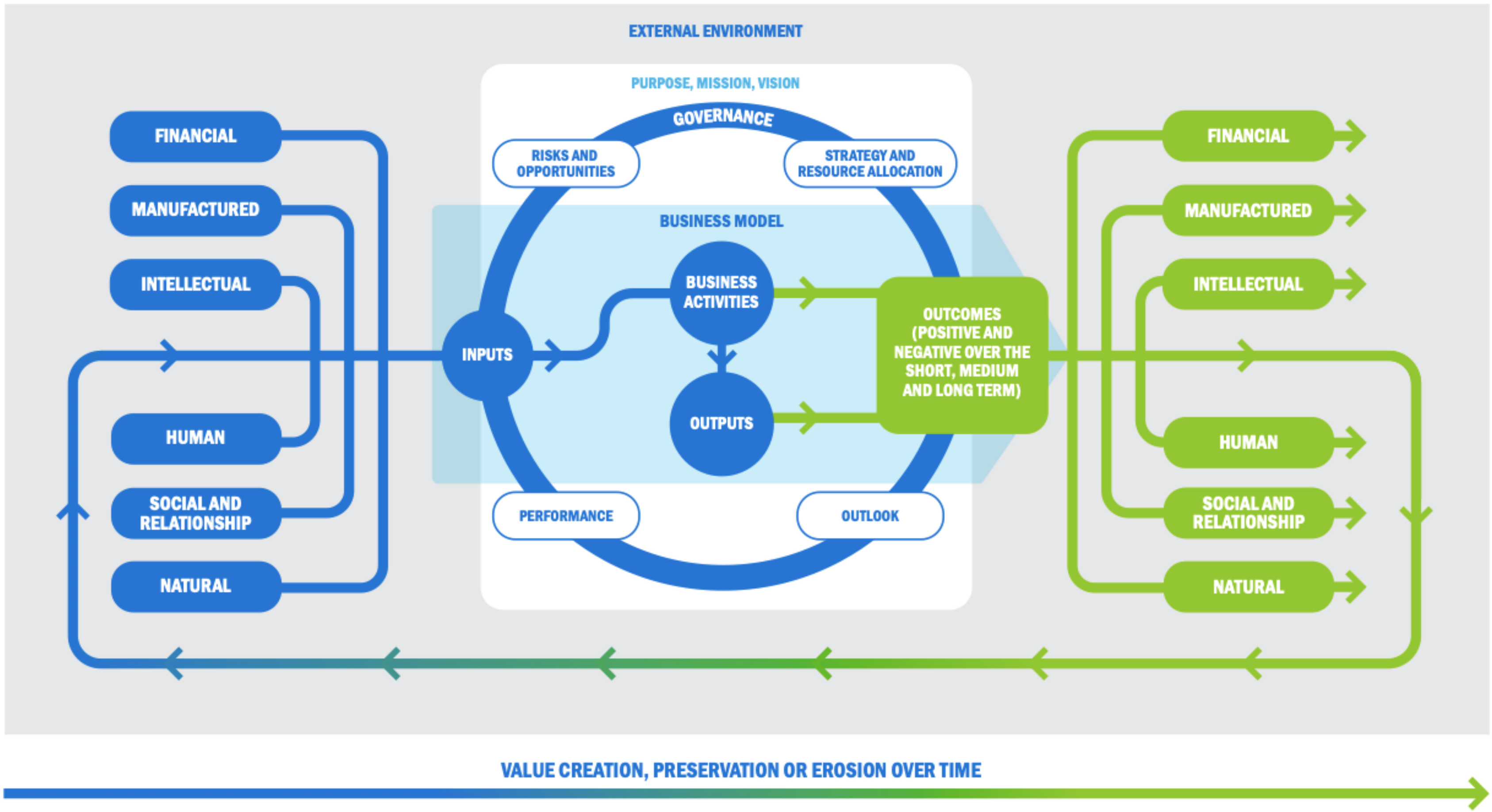
- Carbon production is one of the biggest challenges we face given the climate crisis.
- Much effort has going into producing some kind of standardized approach to disclosing carbon related information.
- The CDP was formed in 2000, and seeks information on the business risks and opportunities presented by climate change and greenhouse gas emissions in the largest companies.
- It is thought to report on about 1/3 of the anthropogenic carbon related emissions; making it a very significant source of information.
- Again, the information is voluntary, and organisations can choose which questions they answer in the CDP's survey
- On 31st January 2022, the CDSB was consolidated into the IFRS Foundation to support the work of the newly established International Sustainability Standards Board (ISSB).

Integrated reporting council

- The integrated reporting council was established in 2010
- Its aim is to create a global excepted framework that brings together financial, environmental, social, and governance information into a consistent concise and compatible format - known as "integrated"
- The council emerged out of concerns that a lot of information was being produced but wasn't integrated with each other making it difficult to assist in decisions.

- See https://www.youtube.com/watch?v=fJHP6QU_AyU

<IR> Process through which value is created, preserved or eroded (IIRC 2021)



<IR> guiding principles: Deegan Pg 282

EXHIBIT 6.5 Guiding principles and content elements

GUIDING PRINCIPLES

The following Guiding Principles underpin the preparation of an integrated report, informing the content of the report and how information is presented:

- **Strategic focus and future orientation**: An integrated report should provide insight into the organisation's strategy, and how it relates to the organisation's ability to create value in the short, medium and long term, and to its use of and effects on the capitals.
- **Connectivity of information**: An integrated report should show a holistic picture of the combination, inter-relatedness and dependencies between the factors that affect the organisation's ability to create value over time.
- **Stakeholder relationships**: An integrated report should provide insight into the nature and quality of the organisation's relationships with its key stakeholders, including how and to what extent the organisation understands, takes into account and responds to their legitimate needs and interests.
- **Materiality**: An integrated report should disclose information about matters that substantively affect the organisation's ability to create value over the short, medium and long term.
- **Conciseness**: An integrated report should be concise.
- **Reliability and completeness**: An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.
- **Consistency and comparability**: The information in an integrated report should be presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other organisations to the extent it is material to the organisation's own ability to create value over time.

<IR> Content Elements

CONTENT ELEMENTS

An integrated report includes eight Content Elements that are fundamentally linked to each other and are not mutually exclusive:

- **Organisational overview and external environment:** What does the organisation do and what are the circumstances under which it operates?
- **Governance:** How does the organisation's governance structure support its ability to create value in the short, medium and long term?
- **Business model:** What is the organisation's business model?
- **Risks and opportunities:** What are the specific risks and opportunities that affect the organisation's ability to create value over the short, medium and long term, and how is the organisation dealing with them?
- **Strategy and resource allocation:** Where does the organisation want to go and how does it intend to get there?
- **Performance:** To what extent has the organisation achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
- **Outlook:** What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
- **Basis of presentation:** How does the organisation determine what matters to include in the integrated report and how are such matters quantified or evaluated?

ACCA Integrated Report 2022

Also see

http://examples.integratedreporting.org/home

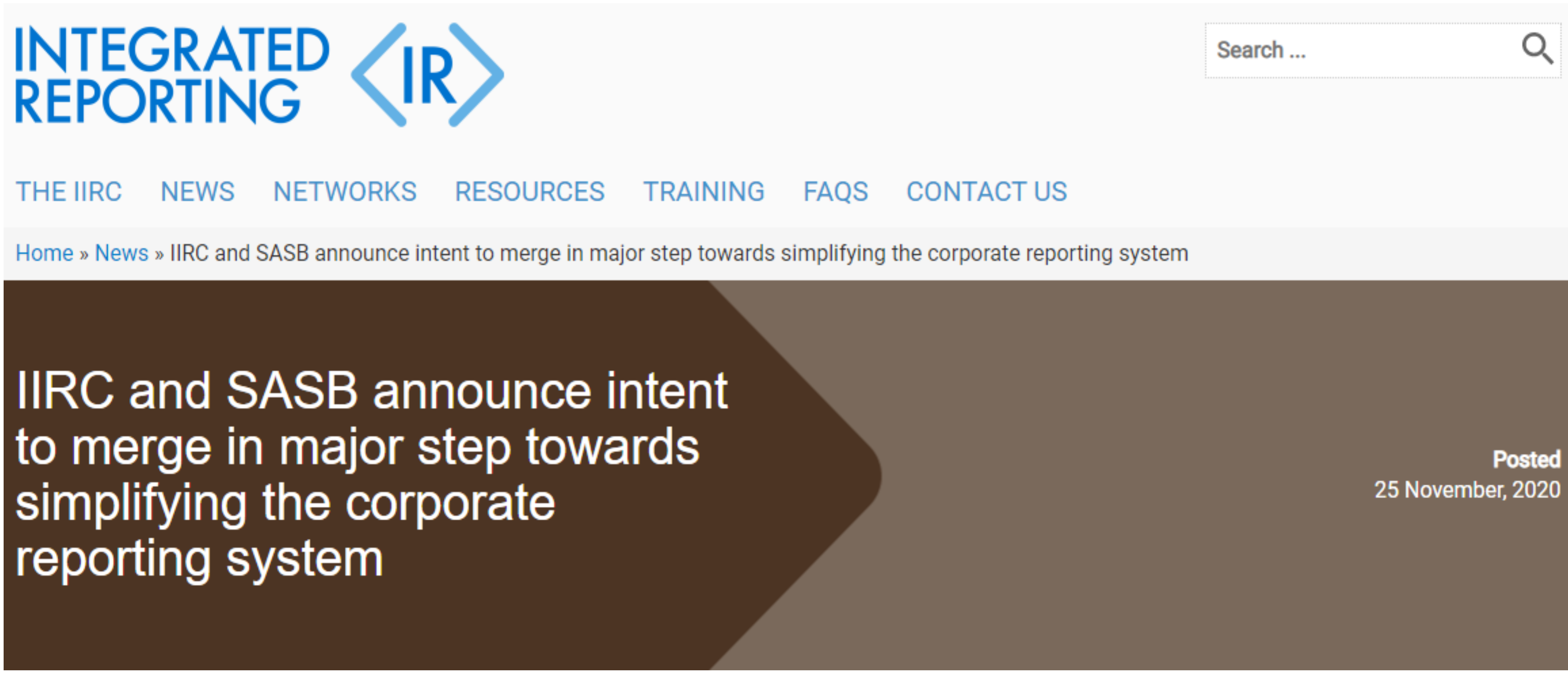
Some concerns

- Focus is on value creation and not on accountability for environmental and social impacts
- The <IR> definition of materiality is very constrained, prioritizing financial materiality
- Primarily focused on providing providers of financial capital information about how to grow value over time, and this means that the wider set of stakeholders are not really included

The Sustainability Accounting Standards Board

- This is a US non-profit organisation that was established in 2011 to develop and disseminate sustainability accounting standards primarily for US corporations
- Aim is to integrate this information into the information that has to be filed with the SEC
- Standards have been produced primarily with investors in mind to assist them to understand sustainability related risks and opportunities associated with the firm.
- They provide different guidance to different industries recognizing the fact that there are different levels of exposure to social and environmental impacts

Value Reporting Foundation



In June 2022, the Value Reporting Foundation – home to the Integrated Thinking Principles, Integrated Reporting Framework and the SASB Standards – will consolidate under the IFRS Foundation, which is establishing the new International Sustainability Standards Board (ISSB).

KPMG's 2020 report "The time has come" (available on Canvas)

UK	— In 2019, the UK committed Net Zero 2050 to law. The target will require the UK to bring all greenhouse gas emissions to net zero by 2050. Companies are expected to report on their own contribution (where they have committed) and progress to net zero. — The Energy Savings Opportunity Scheme (ESOS) until Dec, 2024 is mandatory energy assessment legislation in UK, to report energy consumption and identify energy efficiency measures for the purpose of reducing energy usage. — The TCFD recommendations will apply to UK listed companies in the financial and non-financial sectors from 2022. Large asset owners must also disclose in line with TCFD. — In 2019, streamlined energy and carbon reporting with mandatory requirements for greenhouse gas reporting were updated and extended to cover large unquoted companies (excluding subsidiaries). — In January 2019, the UK integrated the European NFRD into the Companies Act, Section 172. Companies must disclose non-financial information that is necessary for an understanding of the development, performance, and position and the impact of a company's activity. — In 2019, under 'engagement with employees and others', directors must issue a statement on engagement with employees and a statement on engagement with suppliers, customers and others in a business relationship with the company. — In 2018, the PRA Pension Disclosures stated that trustees of defined benefits and defined contribution pension schemes must disclose companies' policy on taking account of "financial material" considerations, including ESG factors, such as climate change. — In 2018, the UK Corporate Governance Code required premium listed companies with the aim is to help investors evaluate company practices, which should include those relating to climate risk. The Code also continues to require (since Oct 2014) disclosure of the company's longer-term viability statement. Climate risk is expected to form a part of this statement. — In 2020, the FRC Stewardship Code for asset managers and asset owners stated that signatories need to publish a Stewardship Report that sets out how they have applied the Code Principles (includes ESG) in the preceding 12 months. The stewardship code is expected to drive investor requests for more information from companies.
US	— There is investor pressure on the SEC to require ESG disclosure and to regulate the naming of ESG funds as 'sustainable' or 'green'. There have also been bills proposed in the US Congress on carbon reporting and human capital reporting.
China and Hong Kong (SAR), China	— December 2019: the Stock Exchange of Hong Kong Limited (HKEX) published new requirements in its 'Consultation Conclusions on Review of the Environmental, Social and Governance (ESG) Reporting Guide and Related Listing Rules'. The new requirements apply after the 1 July 2020 financial year. The amendments represent a shift away from reporting to management, with an emphasis on the board's role in the corporate governance structure for ESG matters.
Australia	— The revised ASXCGP 4.3 and 7.3 stated companies should, where a company report is not audited, disclose their process and report material climate risks in their annual report (RG247)
Germany	— From 2017, the "CSR-Richtlinie-Umsetzungsgesetz" (German implementation of the European NFRD) requires all listed companies and all financial companies with more than 500 employees to report on certain sustainability information.

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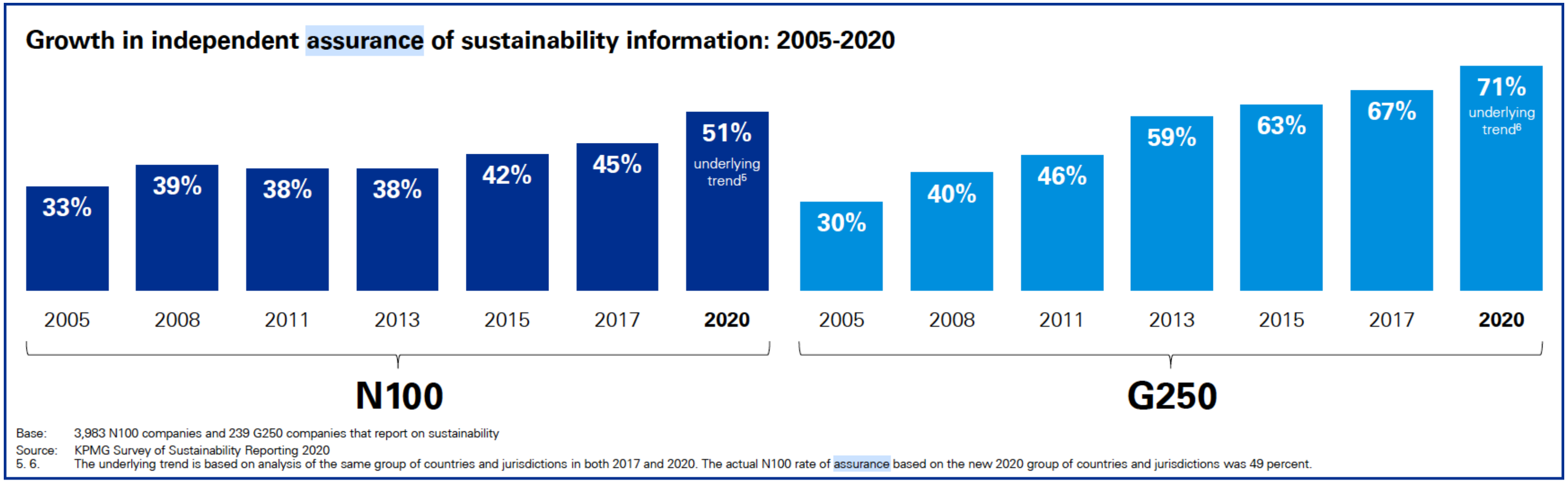
Assurance Services

- Unlike financial reporting, for social environmental reporting there is generally no specific regulation about assurance activities.
- Still there has been a growth in assurance related services because these offer a level of credibility to the information that's been provided.
- Not all CSR reports include an assurance report
- That said, assurance information provision in corporate reporting is now a majority business practice worldwide

In 2020, KPMG reports assurance of CSR is growing



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IFRS and Sustainability Reporting

- The IFRS foundation has been considering whether:
  - There is a need for global sustainability standards
  - The IFRS foundation should play a role in this
  - If they do, what that might be

- The IFRS foundation published a consultation paper in September 2020 that's out the possible ways that foundation might contribute to the development of global standards by broadening its current remote beyond the development of financial reporting standards and using its experiences and international standards to produce a globally acceptable set of reporting standards

Comment letters

- The IFRS foundation received several comment letters in response to this consultation including one that Prof. Jane Andrew led with a group of accounting academics in the Asia Pacific
- http://eifrs.ifrs.org/eifrs/comment_letters//570/570_27280_JaneAndrewAsiaPacificCriticalAccountingResearchNetwork_0_IFRSSubmissionFinalAPCARN.pdf
- Many participants argued that the IFRS Foundation was took focused on investors and creditors and needed a wider understanding of stakeholders
- There is also concern that they have not engaged sufficiently with other already existing standards such as the GRI
- Many said the current financial reporting standards needed to be revised to include social and environmental information, and that this would do more than having a new and separate set of standards.

Outcomes

- 3 Nov 2021 IFRS Foundation announced the formation of International Sustainability Standards Board (ISSB)

See https://www.youtube.com/watch?v=rr-lcLaxelY

- 31 March 2022 ISSB announced its first two draft standards
  - IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information
  - IFRS S2 Climate-related Disclosures

See https://www.youtube.com/watch?v=jf2D2OA6FAE

See https://www.ifrs.org/groups/international-sustainability-standards-board/

ISSB

IFRS Sustainability

March 2022

Exposure Draft—Snapshot

IFRS® Sustainability Disclosure Standards

[Draft] IFRS S1

General Requirements for Disclosure of Sustainability-related Financial Information

[Draft] IFRS S2

Climate-related Disclosures

Proposals

The International Sustainability Standards Board (ISSB) proposes issuing two IFRS Sustainability Disclosure Standards that would:

- require a company to disclose information that enables investors to assess the effect of significant sustainability-related risks and opportunities on its enterprise value; and
- establish disclosure requirements specific to climate-related risks and opportunities.

Project stage

The ISSB is seeking comments on the two proposed IFRS Sustainability Disclosure Standards (exposure drafts).

Next steps

The ISSB will consider comments it receives on the exposure drafts in developing its final requirements. It plans to consider the comments in the second half of 2022 and aims to finalise the requirements by the end of 2022.

Comment deadline

29 July 2022

The article: Vigneau, Humphreys and Moon (2015)

- Studies the impact of the GRI on the CSR management practices of multinationals.
- Compares the stated intention of the use of the GRI with it's actually use and the consequent affects.
- This examines, using a case study, how the GRI is integrated within the firm to produce the reports.
- The study finds that when the GRI is adopted, there can be a range of internal consequences for the organisation, including an influence on management structure and the creation of CSR committees, the choice of CSR activities and a greater attention paid to CSR performance