Sustainability accounting and reporting: Technical summary

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Introduction

Sustainability accounting and reporting (SAR) enables business to address climate challenges. Government, public opinion and major institutional investors demand more environmental performance data in annual reports. The G7 Impact Taskforce (ITF) wants global economic systems that allocate capital using environmental and social considerations as well as financial ones. To date, many corporate boards have largely eschewed their wider environmental responsibilities because of outdated governance frameworks and a tendency to 'tick the box' rather than 'open the can of worms' inherent in true and fair override (TFO). Firms need to, urgently, update their accounting systems to reflect environmental impacts. Prerequisites for markets to trust self-reported environmental data include standardised methodologies and independent audits.

Single materiality

The thrust of the U.K. and U.S.-based accountancy institutions adopt a **single materiality** perspective where firms prepare financial reports for shareholders and focus on financial results. The interests of other stakeholders is a subsidiary concern. The Financial Reporting Council (FRC) noted systemic environmental deficiencies in company governance and reporting. It wants more Non-Financial Disclosures (NFD) and Greenhouse Gas (GHG) emissions disclosure. For implementation, the Financial Conduct Authority's (FCA) advocates the use of Task Force on Climate-Related Financial Disclosures (TCFD) and SASB frameworks. From 1 January 2021, FRC insists that UK premium listed companies must provide TCFD disclosures on a 'comply or explain' basis. However, following Carillion's collapse and the Patisserie Valerie imbroglio, the Audit Reporting and Governance Authority (ARGA) may replace the FRC.

In 2001, the IFRS Foundation launched a platform to provide global investors transparent and comparable information. Currently, around 140 jurisdictions accept the Accounting Standards promulgated by its International Accounting Standards Board (IASB). On 3 November 2021 at COP26 in Glasgow, the Foundation launched the International Sustainability Standards Board (ISSB) to develop Sustainability Disclosure Standards (SDS) and sustainability reporting ones. IFRS oversight facilitates connectivity between financial and non-financial reporting. The Foundation's Technical Readiness Working Group (TRWG) has developed a suite of standards for release by 2022. Task Force on Climate-Related Financial Disclosures (TCFD), Climate Disclosure Standards Board (CDSB). The ISSB intends to consolidate SASB and the International Integrated Reporting Framework (IIRC) into the Value Reporting Foundation (VRF).

Double Materiality

Three global institutions advocate **double materiality**: The United Nations (UN), the European Commission and the Global Reporting Initiative (GRI). The UN promulgates Sustainable Development Goals (SDGs) but also accounting system reforms. The System of Environmental Economic Accounting - Ecosystem Accounting (SEEA-EA) recognises social and environmental responsibilities. The SEEA-EA integrates economic, environmental and social data into a single, coherent framework for holistic decision-making. The United Nations Environment Programme Finance Initiative (UNEP FI) is a global partnership between UNEP and the financial sector. Over 190 institutions, including banks, insurers and fund managers, work with UNEP to understand the impacts of environmental and social considerations on financial performance. Through its Climate Change Working Group (CCWG), it promotes greener finance decisions by disseminating the use of non-financial scientific information to supplement market, credit or operational risk assessments. Although the UNEP FI has double materiality pretentions, its focus remains arguably a conventional, single materiality, financial one.

European Union Commission

Today, many organizations tend to prioritize financial materiality, which is detrimental for sustainable development although bottom line implications vary. Certainly, although attractive to free riders, irresponsible commercial practice undermines collective resilience. On the other hand, excessive regulatory oversight stifles innovation. To re-balance priorities, the EU promulgated the Corporate Sustainability Reporting Directive (CSRD), Non-Financial Reporting Directive (NFRD). Directive 2014/95/EU or Non-Financial Reporting Directive (NFRD) – lays down the rules on disclosure of non-financial and diversity information by certain large companies. These proposals significantly enhance the scope of existing NFRD rules. The European Financial Reporting Advisory Group (EFRAG) oversees the Task Force on Non-Financial Reporting Standards (TFNFRS).

Global Reporting Initiative (GRI)

Founded in 1997, the GRI (Global Reporting Initiative) is an independent, international non-profit institution, located in Amsterdam with branches in Brazil (2007), China (2009), India (2010), USA (2011), South Africa (2013), Colombia (2014) and Singapore (2019). It promulgates the oldest and most widely adopted sustainability reporting guidelines and standards that enables responsible companies to communicate their significant impacts. In 2000, GRI published its first Guidelines (G1) but regularly updated them (versions G2-G4 by 2013). In 2016, GRI promulgated its first set of standards, predicated on entities identifying (GRI 1) and prioritizing their impacts on the economy, environment, and people.

Conclusion

This brief technical summary of the state of play in the sustainability accounting and reporting area highlights an unresolved tension between single and double materiality perspectives. Increasing environmental pressures and the true and fair view override, compromise the relevance of single materiality accounts but resistance to change invokes the fear of excessive red tape and autocratic regimentation, stifling innovation.

Glossary

ARGA: Audit Reporting and Governance Authority, slated to replace FRC.

AUM: Assets under management

CARE: centre for Accounting Research Education

CCWG: Climate Change Working Group (UNEP FI)

CDP: is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. https://www.cdp.net/en/companies-discloser

CDSB: Climate Disclosure Standards Board is an international consortium of nine business linked to SASB that promulgates integration of natural with financial capital.

COP26: UN Climate Change Conference (Glasgow, 2021)

CSR: Corporate Sustainable Responsibility

CSRD: Corporate Sustainability Reporting Directive (EU-C)

EFRAG: European Financial Reporting Advisory Group

ESG: Environmental, Social & Governance

EU-C: European Union Commission

FASB: Financial Accounting Standards Board. The U.S. Securities and Exchange Commission recognises it as the source of GAAP based FA and reporting standards.

FCA: Financial Conduct Authority's (London)

FRC: Financial Reporting Council (London) ostensibly promotes transparency and integrity in business. It regulates auditors, accountants and actuaries, and sets the UK's Corporate Governance and Stewardship Codes. Slated replacement by ARGA.

FSB: Financial Stability Board a global organization that seeks to promote global financial stability (Basel)

GAAP: Generally Accepted Accounting Principles developed in the US.

GFANZ Glasgow Financial Alliance for Net Zero

GHG: Greenhouse gases (mainly carbon dioxide C02 and methane CH4)

GRI: Global Reporting Initiative (Amsterdam)

IASB: International Accounting Standards Board (London)

IFRS: International Financial Reporting Standards Foundation (London)

IIRC: International Integrated Reporting Council – incorporated under IFRS with SASB

IOSCO: International Organisation of Securities Commissions (Madrid) is a worldwide association of national securities regulatory commissions, including the U.S. Securities and Exchange Commission and the U.K. Financial Services Authority (FSA).

ISSB: International Sustainability Standards Board – offshoot of IFRS

ITF: Impact Task Force (G7)

IVSC: International Valuation Standards Council

NFD: Non-Financial Disclosure

NFRD: Non-Financial Reporting Directive (EU-C, Brussels)

OECD: Organisation for Economic Cooperation and Development (Paris)

SAR: Sustainability accounting and reporting

SASB: Sustainability Accounting Standards Board (San Francisco) established in 2011. It sets standards independently to enhance capital markets efficiency by quality sustainability disclosure for investors. Now consolidated within the VRF

SDG: Sustainable Development Goals promulgated in the UN's (2015) *2030 Agenda for Sustainable Development*. UNEP identified seventeen SDGs

SDR: Sustainability Disclosure Requirements

SDS: Sustainability Disclosure Standards developed by the ISSB

SEEA-EA: UN System of Environmental-Economic Accounting – Ecosystem Accounting, developed and curated by the Statistics Division of the UN's Department of Economic and Social Affairs

SFDR: Sustainability Finance Disclosure Regulation (EU, Brussels)

TCFD: Taskforce on Climate-related Financial Disclosures TCFD, instigated in 2015 by the Basel-based Financial Stability Board (FSB)

TFO: True and Fair Override when accounts depart from accounting standards to disclose material information that reflects a principal based true and fair view.

TFNFRS: Task Force on Non-Financial Reporting Standards (EFRAG)

TRWG: Technical Readiness Working Group (IFRS)

UNEP: United Nations Environment Programme

UNEP FI: United Nations Environment Programme Finance Initiative (Geneva) is a global partnership between UNEP and the financial sector, involving 550 institutions that feed into its Climate Change Working Group (CCWG)

UNDESA: UN's Department of Economic and Social Affairs that promulgates the SEEA-EA

VRF: Value Reporting Foundation, incorporates SASB and under auspices of IFRS.