Summary of the 6th colloquium of

The Good Governance Academy (GGA)

AGENDA

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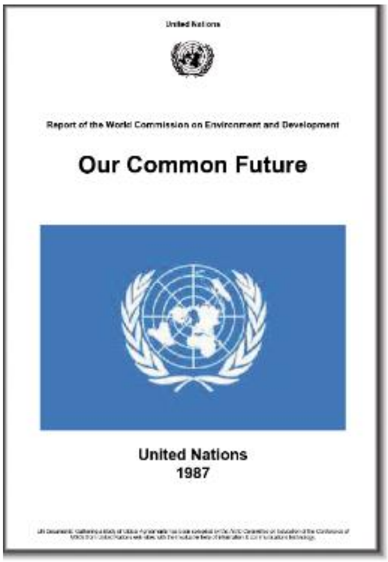
***All presentations can be accessed on the Good Governance Academy Community Portal.**

Professor Mervyn King's introduction

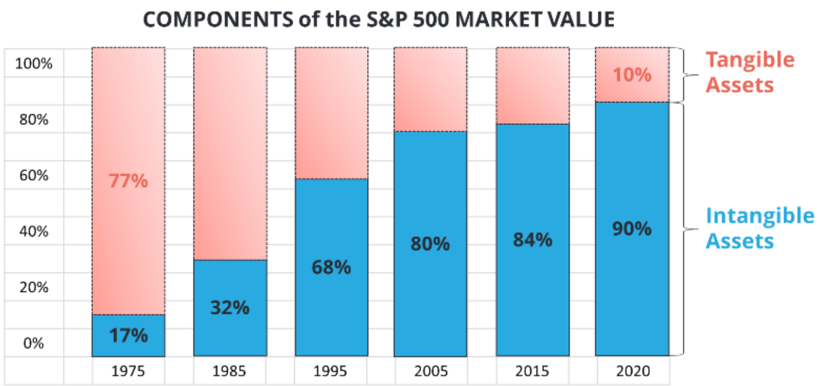
I am of an age when the board used to do annual reports consisting of the annual financial statements. There was a statement by me as chair and the board believed it was being accountable. Well, of course, it was not.



By 1983, the United Nations became aware that there was environmental degradation from the activities of companies. The Brundtland Commission was appointed to investigate the unanswered question, can we have infinite growth in a finite world?

Four years later, their report contended that there were three pillars, or dimensions for sustainable development, that is development that would leave planet earth in a state so that those who come after us would be able to sustain their development.

These pillars for sustainable development were the economy, society, and the environment or People, Planet and Prosperity as it was called. The Brundtland Commission reported that these pillars were integrated.



https://www.oceantomo.com/intangible-asset-market-value-study/

Towards the end of the 20th century the analysis of the make-up of the market cap of companies showed that only about 20% was reflected as additives in a balance sheet according to financial reporting standards.

I was chairman of the United Nations on Governance and Oversight and chair of the GRI, the Global Reporting Initiative. This initiative was started when there was no guidance on reporting this 80% of a company's value which was not reflected on the balance sheet.

The GRI looked at sustainability issues through an "inside-out" perspective. We asked these questions: "How does the company make its money? What are its activities in producing its product or rendering its service? What are its outputs? What are the impacts of these activities and outputs on the three critical pillars for sustainable development?"

IFAC, the International Federation of Accountants, called a meeting at the United Nations headquarters in Geneva, where it was said that with merely a financial report, directors were not discharging their duty of accountability. I noted in this discussion that boards were starting to report in two silos (a financial report and a sustainability report). This did not reflect reality where these matters are integrated.

ABOUT THE IIRC

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting.

The International <IR> Framework has been developed to meet this need and provide a foundation for the future.

Further information about the IIRC can be found on its website www.theiirc.org, including:

- The background to the IIRC's creation
- Its mission, vision and objectives
- Its structure and membership, and the membership of groups who have contributed to the development of this Framework
- Its due process.

Eventually this was agreed and A4S, HRH Prince of Wales' initiative Accounting for Sustainability, and the GRI met at St James's palace to launch the International Integrated Reporting Council (IIRC). It was launched as a global coalition of regulators, investors, companies, standard setters, the accounting profession, and NGOs. It took about two years working with iconic companies, academics, and practitioners around the world to put together the framework for doing an integrated report and driving integrated thinking.

A plethora of framework providers and standard setters sprung up to address the growing ESG (Environment, Social and Governance) or sustainability reporting need. This alarmed me and at the IIRC we initiated the Corporate Reporting Dialogue to try and get these framework providers and standard setters to collaborate because it was causing clutter and confusion for preparers and users.

During this time, two seminal events occurred, the collapse of Lehman Brothers and the GFC, the Global Financial Crisis. These events, and others, caused leaders in corporate reporting to start seeing sustainability from the "outside in", that is, how the three pillars were impacting on a company. These events showed that these pillars were impacting on the financial condition of companies (their balance sheets), their operating performance (income statements and cash flows), their risk profile (cost of capital).

Sustainability like a coin, took on two sides. SASB, the Sustainability Accounting Standards Board, arose at this time to develop standards which are generally from the "outside in" perspective but specifically directed towards 77 industries.

I called this plethora of standard setters and framework providers a "social outrage" because they were seeing themselves as competitors but were dealing with public interest issues.

Subsequently, a group of five such entities issued a statement of intent to collaborate. This group of five consisted of the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB). This collaboration led to talks of merger and with the audience of the IIRC being the providers of financial capital and other stakeholders and SASB's audience being the providers of financial capital, it seemed to be a fit.

For the first time we had a framework provider and a standard setter merging. Progress in the evolution of corporate reporting. The Value Reporting Foundation (VRF) was founded by SASB becoming the sole member of the IIRC, a company limited by guarantee in terms of United Kingdom law, which has members and not shareholders and changing their names to Value Reporting Foundation and Value Reporting Foundation UK respectively.

But it did not stop there because the evolution now was in full swing. The VRF started discussions with the IFRS Foundation which, years ago, had converged financial reporting standards.

Sir David Tweedie and I discussed in November that the converged IFRS Foundation financial standards had been adopted by major economies and others followed so that today they are adopted by 144 countries around the world. This discussion is available for viewing on ICAS website.

While on the VRF was being formed, the European Union (EU) through its European Financial Reporting Advisory Group (EFRAG) developed their corporate sustainability reporting directives, replacing their non-financial reporting directives. This created a parallel sustainability reporting development when there was a striving to get one comprehensive sustainability reporting standard.

The VRF said that there was need for an International Sustainability Standards Board (ISSB) to create global baseline standards and then on a "building blocks basis" the quality of sustainability reporting standards could be tested.

The IFRS Foundation made a "clumsy" announcement on 3 November, in the words of the VRF CEO, stating that the VRF would be consolidated into the ISSB. This was because the statement was also trying to accommodate the Climate Disclosure Standards Board (CDSB), an association of persons rather than a legal personality, which was "consolidating" into the ISSB.

The announcement caused a frenzy in the global Integrated Reporting community!

How could a sustainability standard setter have oversight and powers of revision over the IR framework? It will appear from the speakers that SASB and the CDSB will be consolidated into the ISSB, but the <IR> Framework (International Integrated Reporting Framework) will be acquired by the IFRS with conditional ownership.

It is with prescience that the board of the GGA chose the theme for this colloquium in May namely "Corporate Reporting is not what it used to be" And it is not, and it will never be the same again. It will be with an eye on the end game to have a global comprehensive corporate reporting system.

The Value Reporting Foundation was formed in June 2021 from the merger of the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB).

Currently the Value Reporting Foundation has three key resources:

1. Integrated thinking principles
2. The integrated report framework
3. The SASB standards

The IFRS Foundation announced that:

- It was forming an International Sustainability Standards Board as a sister board to the IASB, the International Accounting Standards Board.
- It was consolidating with the Climate Disclosure Standards Board and the value Reporting Foundation.
- It had released two prototype requirement documents, one on climate and one on general requirements for sustainability disclosure, both of which are to be used to inform the work of the ISSB to give the new board a running start.
- The speakers will give us insight into the global shifts in corporate reporting.

The Value Reporting Foundation (VRF) consolidation rationale, Janine Guillot, CEO of the VRF

The VRF is responding to very strong demand from companies, investors and regulators for simplification and rationalization. We feel very strongly that the only way to simplify the landscape is organizational consolidation. Through the years there have been numerous attempts to map different frameworks, and align frameworks, and we felt that, although this was helpful work, to simplify the landscape organizational consolidation was necessary.

We also felt that we had very strong resources, tools, frameworks, standards, and relationships to bring to the table and we felt that if we consolidated, we could achieve more scale and achieve more impact more rapidly.

The IFRS foundation is the parent of the International Accounting Standards Board (IASB) which sets accounting standards that are widely used in over 140 jurisdictions. Overseeing the IFRS Foundation is a monitoring board of public authorities that is chaired by IOSCO, The International Organization of Securities Commissions. This gives the IFRS Foundation an explicit public interest mandate and regulatory support.

The IFRS Foundation assessed market demand in the form of a consultation paper. The response was overwhelming support for the IFRS Foundation to play a role in sustainability reporting. On this basis, the IFRS Foundation decided to establish an International Sustainability Standards Board (ISSB) and to develop a global baseline of sustainability disclosure standards, focused on meeting the information needs of investors.

The reason the trustees made the decision, to focus on the information needs of investors, is that this is consistent with the current remit of the IFRS Foundation which is broadly to provide information to support financial markets around the world. In this case, to provide a global baseline of comprehensive sustainability information for the global capital markets.

The IFRS Foundation decided to:

- Start with climate, with the future goal being broad sustainability information;
- Ensure that the standards are compatible and available for use for regulatory endorsement in jurisdictions around the world; and
- Provide jurisdictions with a foundation on which regional requirements can be added / incorporated as necessary.

It is intended that the International Accounting Standards Board (IASB) continues to issue accounting standards that are geared towards the financial statements and the International Sustainability Standards Board (ISSB) will issue sustainability disclosure standards focused on sustainability disclosures, where both are intended for financial market participants.

We envision that the <IR> Framework will provide a mechanism for connecting the information in the financial statements with the information in the sustainability disclosures.

The ISSB will

- Be constituted with 14 board members, the majority being full time members (executive).
- Represent a diversity of expertise and experience, acknowledging that sustainability standard setting requires a different or broader skillset than traditional financial accounting standard setting.

- Have a strong geographical balance with a global footprint and a multilocation presence (this is different from the IASB which is for the most part concentrated in London), where Frankfurt will serve as the seat of the board and the office of the chair, having offices in San Francisco and London (leveraging the existing VRF team).

The IFRS Foundation will prioritize developing and emerging economies and as such are evaluating appropriate locations for an Asia footprint.

The ISSB will be informed by multiple advisory committees, several of which already exist. We expect the ISSB could leverage the existing Value Reporting Foundation advisory groups, especially the IIRC Council, which has been a guardian of the <IR> Framework.

IOSCO will assess the standards developed by the ISSB with a view to recommending adoption by regulators in different jurisdictions.

The ISSB standards will be “assurable” in that they will be designed and developed at the necessary level of detail so that they can be assured.

This creates an ecosystem of high-quality disclosure, making sustainability information as important as financial information, embedding it in the market infrastructure and requiring the same kind of governance and internal control environment as for financial information.

The IFRS Foundation Technical Readiness Working Group (TRWG) was formed last year to lay the groundwork for technical deliverables to give the ISSB a running start. These are high-quality recommendations and subject to future ISSB due process. This due process includes that from both the IASB and the ISSB in the case of the connectivity between the two reporting standards.

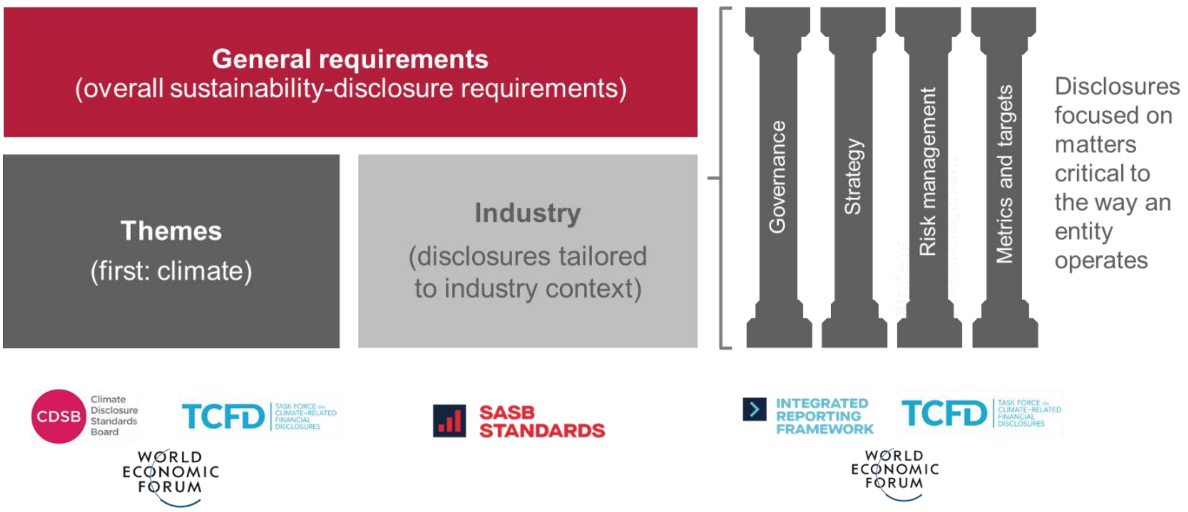
Two prototype standards have been published:

1. General requirements for disclosure of sustainability related information
2. The climate prototypes

A package of information is still in draft but will inform the ISSB and includes:

- The architecture of standards
- The connectivity between the IASB and the ISSB, with the Integrated Reporting Framework forming the basis.

The following is the recommended ISSB Standards Architecture

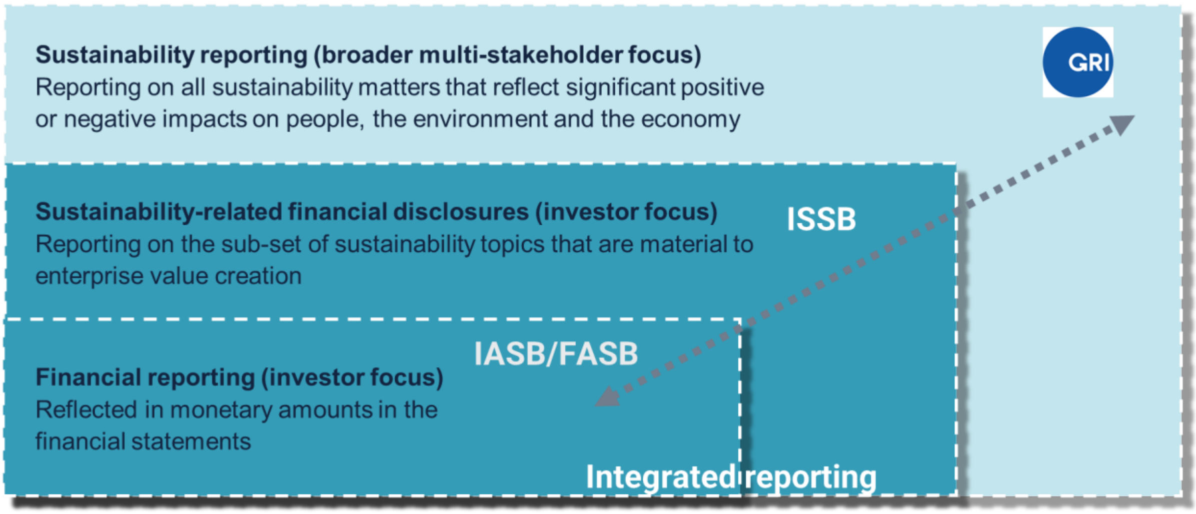


A standardized language is necessary

The many frameworks and standards use similar concepts, but they express them using different language. For example, the <IR> Framework has six capitals whereas SASB has five sustainability dimensions. So, the intention is to create a standardized language.

This includes general requirements. For example, requirements around themes, where climate is the most obvious, and industry specific requirements, these being those disclosures tailored to an industry context. All these disclosures will be framed through the lens of governance, strategy, risk management, metrics, and targets.

The following is intended approach to alignment



IFRS Sustainability Disclosure Standards will focus on investor needs but will be compatible with jurisdictional requirements to meet broader stakeholder-information needs.

This nested materiality graphic above lays out three layers of information:

- **The inner box**
  The smallest amount of information is traditional financial reporting including the balance sheet, income statement, and statement of cash flows. This is the purview, historically, of the financial accounting standard setters such as the IASB and the Financial Accounting Standards Board (FASB).
- **The middle box**
  A broader set of information provides information on how sustainability issues impact financial performance and enterprise value – the "outside in" perspective. This has historically been the purview of the SASB standards and in future, will be the purview of the ISSB.
- **The large box**
  Represents the start of governance and a broad multi-stakeholder focus which reports on all sustainability matters that have an impact on society and the achievement of the sustainable development goals. This is the purview of the GRI standards.

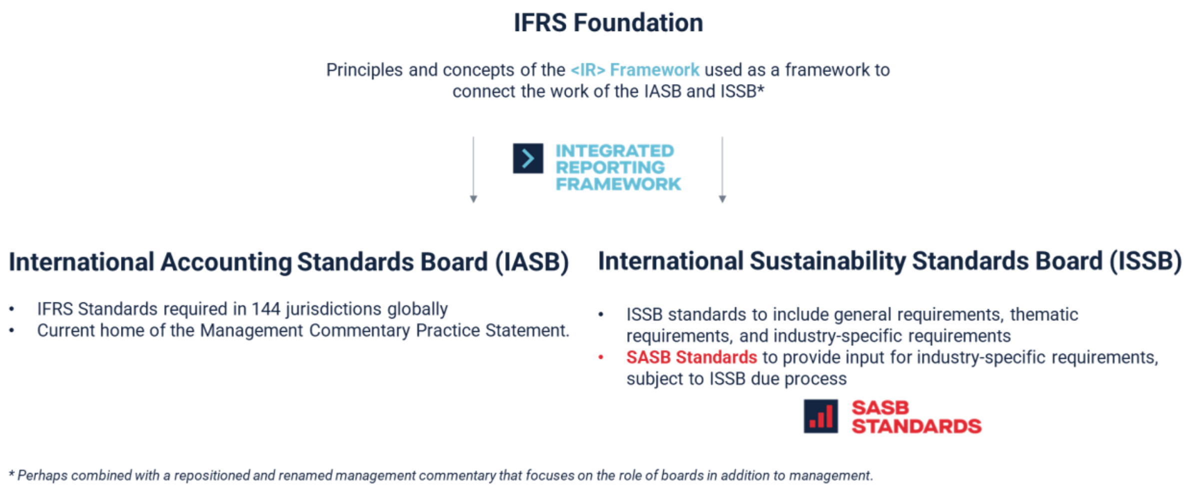
Finally, this nested materiality graphic explains the role of the Integrated Reporting Framework within IFRS, providing connectivity across the IASB and the ISSB.

The other key thing which isn't on this graphic is the role of integrated thinking. Integrated thinking impacts the entire picture, the achievement of the Sustainable Development Goal's and a company's value overtime.

One aspect which drove confusion in the early announcements was that the VRF was consolidating into the ISSB. I want to be clear that the Value Reporting Foundation is consolidating into the IFRS Foundation.

The Value Reporting Foundation’s tools belong in different places within the IFRS Foundation

- The SASB standards fitting under the ISSB, and
- The Integrated Reporting Framework positioned to connect the work of the IASB and the ISSB.



We spent a lot of time on end state vision, including ensuring that the end state vision would establish clear connectivity between the IASB and the ISSB, all the concepts of integrated reporting, and provide industry specific standards because we know there's strong investor support for that.

There was recognition that the composition of the IFRS Foundation will need to broaden the skill set overtime and that there would be a full acquisition of the VRF by the IFRS Foundation, including all the VRF activities.

Another critical success factor was making sure that adoption and use was driven through both regulatory mandates and market support. There is always a risk, for sustainability disclosure and integrated reporting when you transition to something that is more regulated, that somehow things become more compliance oriented. We wanted to maintain the focus on decision-useful information and tools that are a hallmark of both integrated reporting and SASB.

We are targeting to close the transaction by mid-2022. We also envisage that SASB and Integrated Reporting brands continue to live on while we transition into the ISSB and the IFRS Foundation environments.

There is commitment to using the principles and concepts of Integrated Reporting as a connecting framework across the IASB the ISSB, and the IFRS Foundation will use the International Integrated Reporting Council to provide advice on exactly how that connectivity is established.

We envision that a joint agenda setting process will be developed to determine what work should go to the IASB versus what should go to the ISSB.

Some myths and realities

Myth	Reality
ISSB diminishes GRI's important role in the sustainability reporting landscape.	• GRI is the leading global standard-setter for sustainability reporting focused on the information needs of multiple stakeholders • The ISSB and GRI will co-exist because they play different roles in the landscape • We aim for interoperability between the GRI and SASB Standards. We will continue to advocate as such for ISSB Standards.
The <IR> Framework is being consolidated into the ISSB and will therefore lose relevance as a connecting framework across financial and sustainability disclosure.	• The VRF is being consolidated into the IFRS Foundation, not the ISSB. • The SASB Standards map to the ISSB. • The <IR> Framework is best positioned as a connecting framework between the IASB and ISSB.
The ISSB standards will not be used in the US, because the US does not use IFRS standards for financial accounting.	• The ISSB has a strong base of investor support, including public support from the SASB Standards Investor Advisory Group • Investor support is likely to help drive use of ISSB standards in both the US and globally.

Myth	Reality
The IFRS Technical Readiness Working Group and the EFRAG Project Task Force on European Standards are not cooperating.	IFRS TRWG members have not signed **formal** statements of cooperation with EFRAG, but we have shared significant technical resources.
Integrated Thinking Principles don't "fit" within the IFRS Foundation.	• Integrated thinking is a key tool to demonstrate the strategic value of comprehensive reporting • The Integrated Thinking Principles are an important part of the VRF's market engagement efforts that will be acquired by the IFRS Foundation.
Consolidating the principles and concepts of the <IR> Framework with the IASB's Management Commentary Practice Statement will lose the <IR> Framework's focus on governance and connectivity.	We believe that, if the principles and concepts of the <IR> Framework are combined with the management commentary practice statement, the combined document would need to be repositioned as a connecting framework across the IASB and ISSB, and as commentary from those charged with governance.

Although response to the announcement has been overwhelmingly positive, we must remember this is a marathon not a sprint. This will require strong global support and commitment by both preparers and investors to meaningfully engage in the development processes. There will be a series of public consultations on the two prototypes and on the agenda and priorities. Our advice to report preparers is to continue using the SASB Standards and the Integrated Reporting Framework because they will ultimately inform the end positions.

One of the priorities is to finalize the advisory group structure for both the IFRS Foundation and the ISSB. We then need to complete the mergers and consolidations and implement the multi-location global footprint. The IFRS Foundation trustees through their nominating committee of their board are also currently in search and decision-making processes for the ISSB leadership and members.

I've been on all sides of these conversations for many, many years and this to me is the most exciting development in corporate reporting in decades. This is a once in a lifetime opportunity and I think the opportunity for all of us is now - to make this successful, to make this next step successful.

NB The panel discussion with Lee White on Janine Guillot's presentation can be accessed on the Good Governance Academy Community Portal.

Presentation by Mark Manning representing IOSCO.

I am participating today on behalf of International Organization of Securities (IOSCO) and, in particular, I am representing the workstream on sustainability-related disclosures with which my organization, the Financial Conduct Authority (FCA) in the UK, has been code sharing. In this role, I have had the pleasure of working with members of the IFRS Foundation's Technical Readiness Working Group (TRWG) as they've taken the ISSB from concept to delivery.

Unlike in other areas of international financial regulation, capital markets authorities, such as those that form the membership of IOSCO, have historically looked to private independent bodies such as the IFRS Foundation, and the IASB, to develop sound technical standards for corporate reporting. These bodies are subject to a governance and oversight structure that provides legitimacy - including that they're accountable to the public interest and that they are independent, inclusive, and free from undue influence.

In February 2021, IOSCO voiced its public support for the direction of travel towards the establishment of the ISSB and has deepened its engagement with the IFRS Foundation as this work has progressed. In a report published in June 2021, IOSCO elaborated its vision for the ISSB, emphasizing the crucial role that the ISSB could play in developing a common global baseline of investor focused sustainability standards.

The November 2021 IFRS Foundation announcement ushers in a new era for corporate reporting, setting the foundations for a comprehensive global corporate reporting system that brings financial reporting and sustainability reporting together in an integrated way.

There are several examples of the growing recognition of how environmental, social and governance (ESG) factors can drive sustainable long-term value creation. In recent years there has been a strong appreciation for the fact that corporate value is often closely tied to the value of intangible assets such as human capital, brand equity, trust, intellectual property, customer satisfaction and supplier relationships. It is clear, now, that investors, and other market participants, increasingly recognize that these intangibles can be directly impacted by ESG performance.

The World Business Council for Sustainable Development (WBCSD) has estimated that more than 80% of the company's value is now accounted for by intangible assets. Companies absolutely need to build ESG performance into their decision making and assess their natural, social, and human capital, as well as their financial capital.

The NYU Stern (Centre for Sustainable Business) study on ESG and Financial Performance found a consistent positive relationship between ESG and financial performance. The study also found that ESG disclosure alone did not drive financial performance but that corporate sustainability initiatives did. This underscores the fact that ESG disclosure shouldn't be seen as an end but the end points of a process of organizational change and evolving corporate strategy.

The recent PwC study on the Management of Non-Financial Information showed that 87% of senior executives across 50 countries say that they are paying closer attention to non-financial factors and that they're using non-financial information in their management decisions. Almost all of those surveyed say that integrating financial and non-financial information improves insights into the process of creating long term business value and leads to better management decisions. The survey respondents were also asked which natural, social, and human capital related issues are important to corporate value. For natural capital the most common responses were carbon, energy, biodiversity, and water. For social capital, community and employees were most important, with other factors including suppliers, human rights, health, and safety.

Surveys have found that almost 80% believe that ESG risks are an important factor in investment decision making and around 75% believe that companies should be taking action to address ESG issues in their investment decision making, even if this might result in short term negative impacts to profitability. The COVID-19 pandemic also seems to have impacted attitudes in this area – the EY 2021 survey indicates that almost 90% of institutional investors are more likely to hold an investment based on its ESG performance than prior to the pandemic – evidence of a clear shift in the way in which investment decisions are made.

There is an increasing investor demand for better sustainability related financial disclosures. There are various non-financial reporting requirements and expectations in legal and regulatory frameworks around the world and these are evolving rapidly especially in relation to climate change. There has also been an increasing take up of voluntary frameworks and in some cases, this has been in response to investor pressure for more complete and consistent reporting.

The Deloitte review of 2021 annual reports of 50 FTSE 350 companies showed evidence of improving disclosures on key social and environmental issues; however, these were still partial disclosures. For example, some of the results around people show that more than half of companies fail to disclose any actions to improve board level diversity and, while 84% of companies called out staff turnover as a principal risk, only 12% disclosed a relevant Key Performance Indicator.

With respect to findings on "planet", these show a marked improvement in disclosures around matters such as board level oversight of climate change with 84% of companies making such disclosure up from 62% to 82%. The study also observed more widespread adoption of the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

However, as set out in the TCFD status report, there are significant differences in the quantity and quality of disclosures across the various recommended disclosures. For instance, the TCFD found that over half the companies assessed, disclosed information on the climate-related risks and opportunities, while only 13% do so on the resilience of their strategies under different climate-related scenarios.

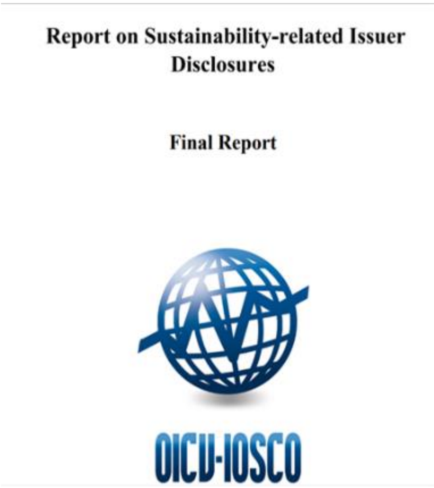
It is unlikely that preparers will achieve a complete, consistent, comparable, and reliable climate stainability related disclosure unless we have regulatory assistance.

Many jurisdictions are beginning to take steps to set new non-financial disclosure requirements in their legal and regulatory frameworks, generally beginning with climate change – for example, the EU's Corporate Sustainability Reporting Directive. The UK government has also issued plans for a new sustainability disclosure requirements regime which will extend disclosure requirements beyond climate change and link them with the planned UK green taxonomy.

These climate and sustainability related disclosures are being brought into the line of sight of securities regulators and that's why IOSCO has been taking a keen and growing interest.

IOSCO's objectives and principles of securities regulation note that there should be full, accurate and timely disclosure of financial results, risks, and other information which is material to investors decisions. In January 2019 IOSCO considered this principle in the context of ESG.

In practice, this requires that the adequacy, accuracy, and timeliness of both financial and sustainability related disclosures are considered. Importantly this hasn't been happening systematically to date.


Report on Sustainability-related Issuer Disclosures

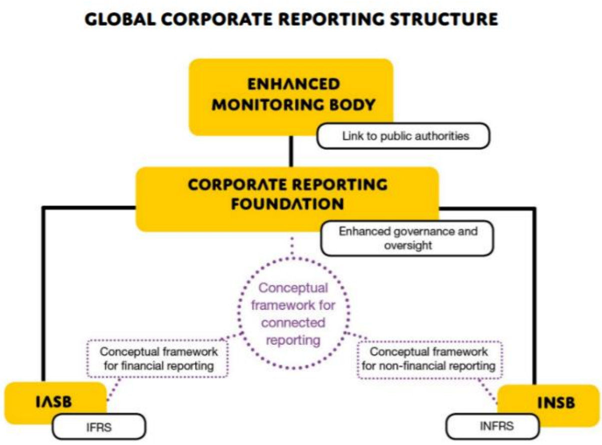
Final Report

OICU-IOSCO

IOSCO considered how it could influence the direction of ongoing industry initiatives in this area, building on existing principles, frameworks, and guidance. IOSCO engaged actively with investors and other stakeholders to identify what sustainability information investors need and assessed the gaps and shortcomings in the information they – and other stakeholders – are currently receiving. IOSCO has also collaborated closely with the IFRS Foundation as it developed its plans for the International Sustainability Standards Board.

When IOSCO embarked on this work in 2020, the seeds had already been sown for this direction of travel.

A paper published by Accountancy Europe on interconnected reporting in December 2019 noted the need for interconnected standard settings for corporate reporting and the need to coordinate, rationalize and consolidate the non-financial reporting initiatives to create a core set of global metrics and importantly, also make a connection to financial reporting. The paper included a draft for an interconnected corporate reporting system and was presented as falling under the architecture of the IFRS Foundation.

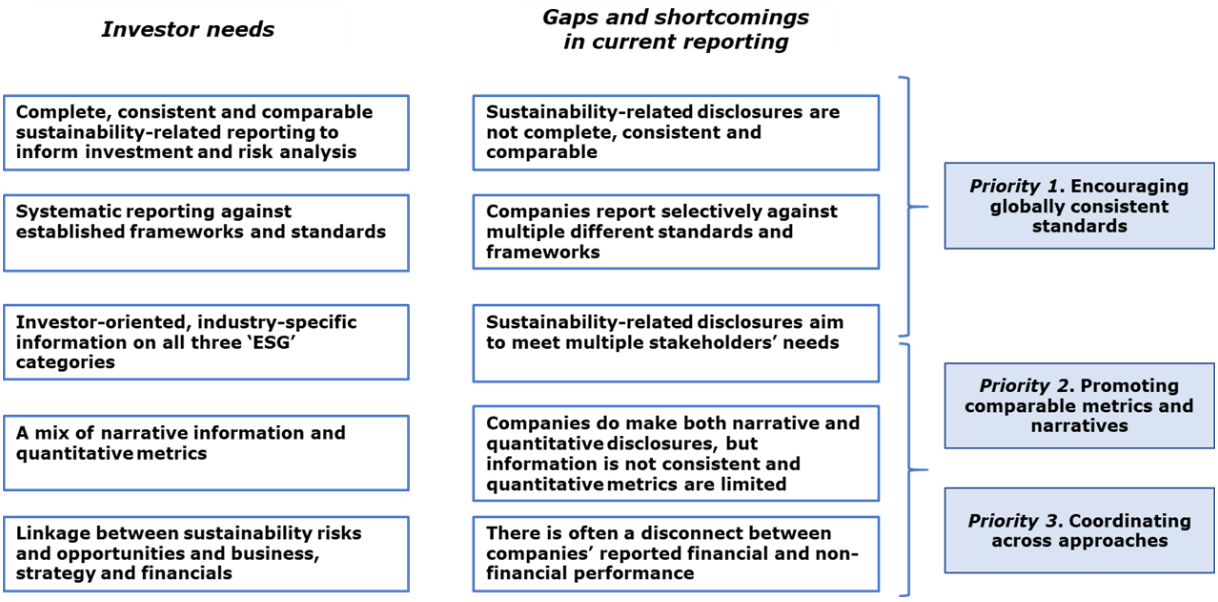


IOSCO performed a detailed fact gathering exercise to establish investor needs and identify where these were not currently being met and reviewed industry and official sector commentary on the state of sustainability reporting.

This fact-finding work was confirmation that investors needs were not being met with the most important gaps being

- incomplete inconsistent and incomparable disclosures,
- selective reporting against multiple different standards and frameworks,
- a lack of investor focus,
- limited and inconsistent quantitative information,
- a lack of standardized narrative discussion, and
- importantly, a disconnect between reported financial and non-financial performance.

IOSCO identified three core priorities and followed this up with a vision for a global comprehensive corporate reporting system that could deliver on these improvements:



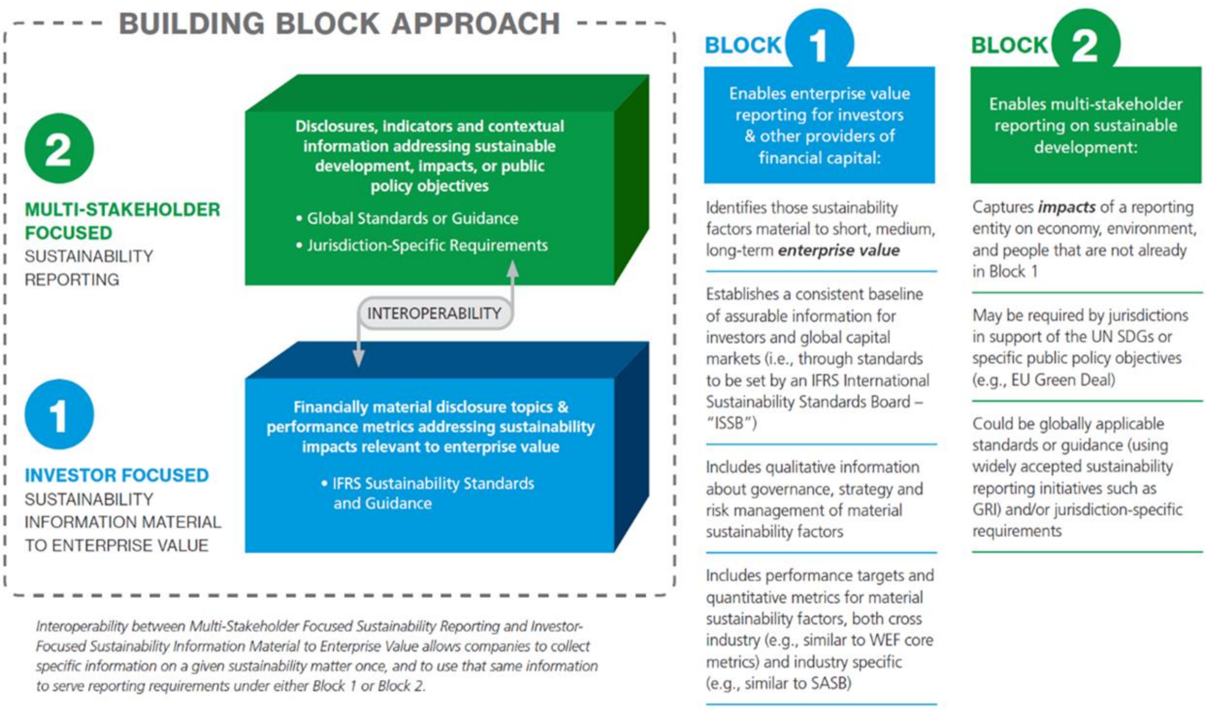
The topic of materiality has been a recurring theme.

The "inside out" and the "outside in" lenses are often associated with the different information needs of investors relative to other stakeholders. IOSCO and the IFRS Foundation have focused on the information needs of investors and this is consistent with the IFRS Foundation's mission; it also supports the integration with financial reporting standards.

This is also a pragmatic approach when setting a global baseline given that different jurisdictions are at different stages in their sustainability journeys. Importantly, as set out in IOSCO's report, there can be a significant overlap in reporting under the two lenses – a company's external sustainability impacts can have a material impact on its enterprise value as well.

Recognizing that there are some information needs beyond that required by investors, interoperability, and supplementary reporting to meet the additional needs will be important.

The Building Blocks approach forms a key part of IOSCO's vision.



Source: IFAC (2021)

This building blocks approach from the International Federation of Accountants (IFAC) is accommodated in the approach that the IFRS foundation set out with the ISSB, providing that the global baseline standards form the first layer of the building blocks approach.

Inter-operability

This bottom layer is the reporting standards with a focus on enterprise value creation and is complemented by other blocks which could include jurisdictions specific standards that focus on sustainability impacts. It is therefore important that these standards are developed with inter-operability in mind.

Integrated conceptual framework

Another important implementation consideration is the interconnection between sustainability related disclosures and the financial statements. This is core to the IFRS Foundation's vision and core to delivering an integrated reporting framework. This is clearly going to be an important area of focus as an integrated conceptual framework is developed to link the work of the two standard setting bodies under the IFRS structure.

Audit assurance

An important benefit of establishing formal corporate reporting standards for sustainability will be to provide that more robust basis for the development of an audit and assurance framework that can give users of the information that confidence they need in the reliability and quality of the information. So, audit assurance will be a further critical step on the path to providing capital markets with complete consistent and high-quality disclosures.

Usability

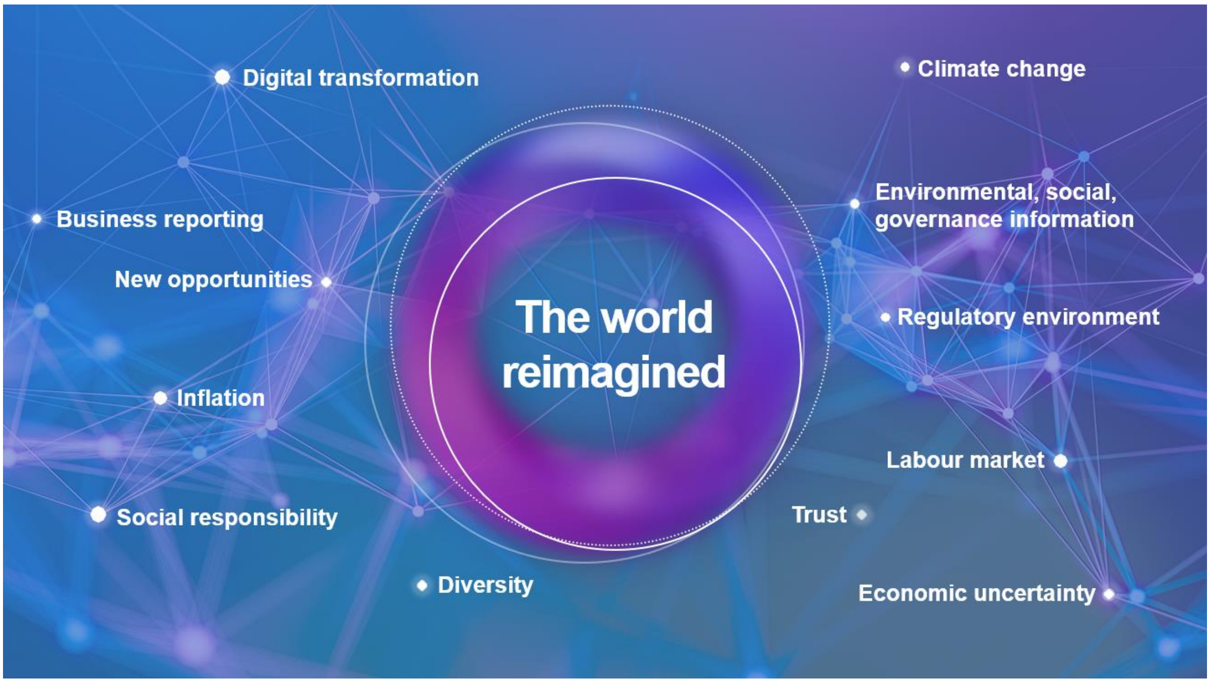
The final consideration is effective usability of reported information. IOSCO encouraged the IFRS Foundation to develop a digital financial reporting strategy including recommendations for a potential ISSB strategy on stakeholder digital experience and enabling technologies to support that strategy.

A common global baseline of investor-focused standards will set us on the path to a global, comprehensive, and integrated corporate reporting architecture. Sustainability and financial reporting have to be integrated and on an equal footing.

IOSCO looks forward, over the coming year, to working closely with the IFRS Foundation, and continuing collaborative efforts.

Presentation by Barry Melancon on the mindset of the accountant today

The concepts that are happening today in corporate reporting are reflective of massive change and change that is here to stay. The world of reporting is being reimagined, the world of expectations from a multi-stakeholder perspective is being reimagined and it is going to be, probably, a very constant change process in the future We must adjust as professionals to a world which is evolving very rapidly.



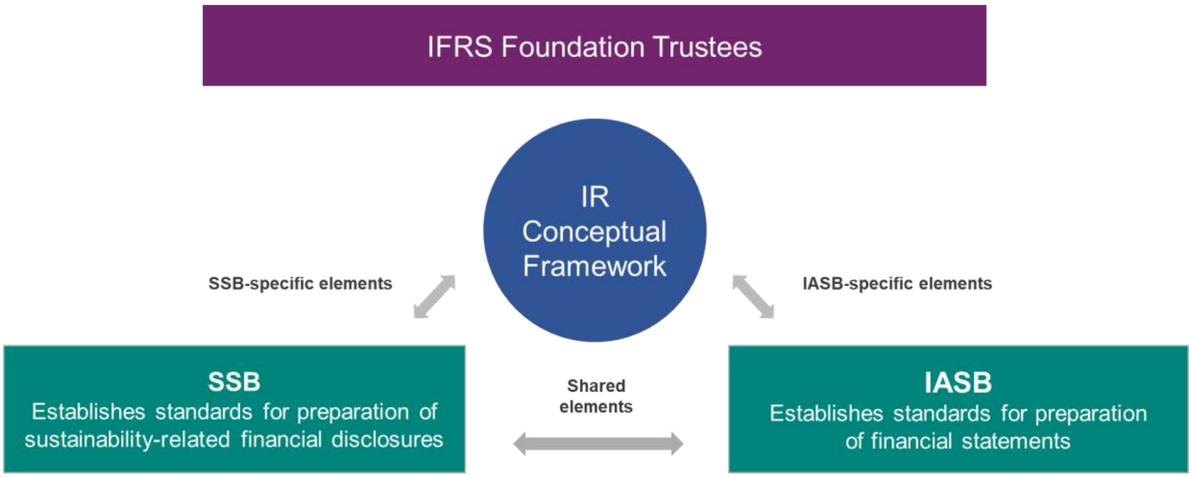
Every one of these points will have very significant fundamental changes to how capital markets work, how businesses operate, how multiple stakeholders see the world.

International accounting standards as we know them today are only 20 years old, but they feel as though they have been here forever. Accounting standards started to really emerge back in the 1930s after the global economic crises of that day. Very divergent accounting standards and approaches evolved around the world as a result. In fact, the rationalization of the accounting space literally took about six decades, a long period of time. It was only in the early 2000s that it got to a point where we had close to a single

set of global accounting standards. Today we have US GAAP and then the rest of the world, so to speak, use the IFRS Foundation's standards.
Now we are seeing the harmonization of sustainability reporting standards. Something that has only been around in a meaningful way for about 10 years. So, one decade compared with six decades is remarkable progress!

To deal with these rapidly changing expectations and requirements, directors and professionals realized that frameworks and standards had to be harmonized. What was in place was a very confusing state.

What leaders in the corporate reporting sphere have created in these last several months is rationalizing a pathway to harmonize these standards When we began to consider how to make this happen, it became very clear that this needed to be achieved under the auspices of IOSCO and the IFRS Foundation. Although much work has been done in each sphere independently, what we needed to consider was what this new world, the world reimagined, needed. This led to the formation of the ISSB and the merger of the VRF with the IFRS Foundation and the role of Integrated Reporting.



It is important that this design is embedded in our minds. If you think about it from an integrated reporting perspective, the multi capital approach, beyond financial and manufacturing capital, the Integrated Reporting Conceptual Framework will be a driving force of integrated thinking and ultimately broader business reporting.

This Integrated Reporting Conceptual Framework will evolve over time as did the <IR> Framework. It is going to be important that, just like standards will change and just

like expectations of the share of multi stakeholders will change, we recognize that this change will happen.
We felt very strongly when we came together as SASB and the IIRC, that we were to be a catalyst - someone had to go first, someone had to make it happen, and that's what our first step was, in forming the Value Reporting Foundation. Now you see consolidation with the CDSB, the support of TCFD, the World Business Council, and IOSCO.

Sustainability and long-term value creation have become mainstream because of the work of IIRC, and others, and is becoming adopted by more and more investors and thinkers. This is not on the fringe; it is a significant element of what the world is expecting today. But we can't do all things in one day, and clearly today climate change is our priority.

Whether an accountant is in management accounting, or the public accounting world of assurance, technical skills are important but it's not the only thing that's important. If that is all that we're focused on we are missing the evolution that's occurring in society today and in what needs to be achieved. The other skills – leadership, business, digital and people skills, are critically important.

The need for us to be able to communicate these things in a digital way is critical. The American Institute of Certified Public Accountants (AICPA) created XBRL (eXtensible Business Reporting Language) to do this almost 20 years ago. We gave it to the world because we think it's critically important - it's critically important that we see our role of information flow in a digital way.

With information flow, we need consistency, and this gives us the need for standards. This information needs to be both external and internal. Information must be internally decision useful, and it may be a bigger data set then what is it is externally, but obviously stakeholders must make decisions and so the information must be prepared and reliable in such a way that it provides decision useful information for both internal and external uses.

Reliability of information means that we must be committed to control structures. Today we have to rely on systems and systems thinking. With controls, and commitments to reliability in the management accounting space, we can produce third party assurance. Without that internal commitment, without that drive for controls in reliability, third party assurance can't really be achieved in a meaningful way.

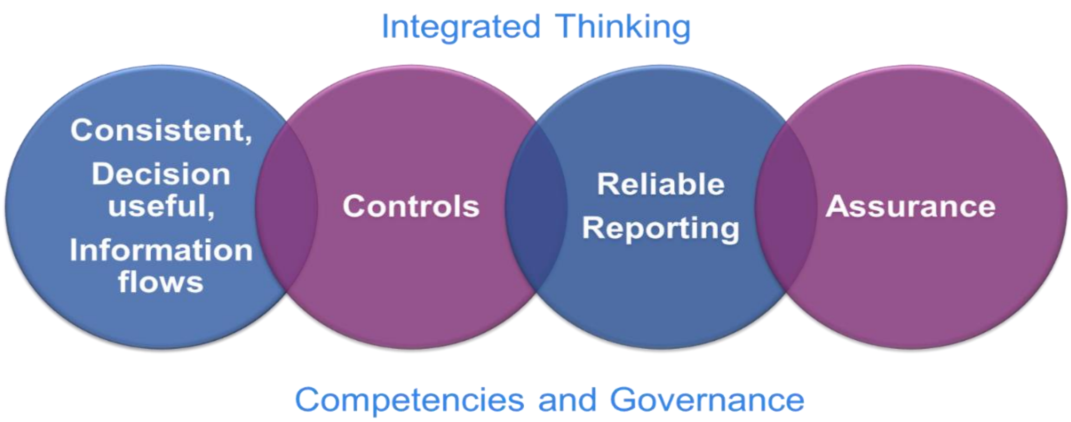
Accounting in the future is going to be structured differently. We call it the deep and the wide, the T shaped profession.

At the bottom one has ethics integrity and professionalism - that must drive the professional accountant. The broader skills are very agile and continue to change with the world. The ability to be storytellers about what we're trying to communicate, the ability to think in a systems way, and deep technical functional knowledge in some element is a significant fundamental change.

Fundamental change is even in the structure of what a management accounting function looks like, and even what a firm looks like. Traditionally, in our profession, we have been pyramid shaped with wide swaths of people at the bottom generating and accumulating information. This is narrowed down to, let's say, the CFO or the Chief Accounting Officer who reports up into the board or the CEO.

The reality is that we are going to change, and we are already seeing companies transforming their financial functions. I call it "fat middle organizations", and these will be critical in the profession in future. Ultimately those competencies that fit in the middle are going to be what's necessary to meet regulatory requirements, complex standards, and complex expectations of multi-stakeholders. Those skill sets in the middle are going to be people that are going to need to deliver what is required.

What should be top of mind for management accountants?



The concepts of integrated thinking and integrated reporting one applies into the entity's business information flow – this is what the accountant will be driving.

Information flows

We can think about this as the six capitals in the <IR> Framework, but we can also think about this inside our organizations. This starts with consistency of information – decision useful information flows. This needs multiple streams of information flows – not just accounting information but much broader sets of information.

Controls

Our responsibility as accountants is to build controls around this information so that it is repeatable and reliable.

Reliability

Stakeholders don't want to second guess this information; they want to know that this information is reliable. This is the mindset that we can't lose sight of.

Assurance

There are two types of assurance that are in play today – limited assurance and reasonable assurance. There is going to be evolution in this space. The notion of assurance is not only based on these financial and sustainability standards, but the notion of assurance falls into many broad areas, e.g., assurance over controls, supply chain and cybersecurity.

A renewed and important statement of purpose for professional accountants

This means that the accountant's skill set needs to evolve and include Technology, Decision-making, Risk management, Internal processes and controls, Professional skepticism, commitment to quality, Integrity and change management. We have a public interest purpose that is important, when we audit financial statements, to provide reliability to investors and regulators. As we think about multi-stakeholders, multi-uses, and multiple flows of information, it heightens the meaningful work that professional accountants are going to be required to deliver. The opportunity in the sustainability space, in this broader information flow, gives us a huge opportunity to reposition the importance of our profession in the world at large.

In conclusion, it is important that we understand 2 critical things:

1. That the VRF and the IFRS are coming together to rationalize and enhance the agility for the world to evolve in these spaces.
2. Professional accountants, need to be introspective and extrospective, to consider the future skills sets, structures and talents required, and to bring commitment to that purpose in that broader sense of a multi-stakeholder environment.

The journey of Integrated Reporting, Integrated Thinking and impact at ABN AMRO presented by Tjeerd Krumpelman

The purpose of ABN AMRO is "banking for better, for generations to come" with sustainability embedded into the core of our strategy (overarching goal).

The ABN AMRO strategy since around 2018 has been that ABN AMRO is a personal bank, which is relevant for the banking sector, aiming for long-term value creation for all our stakeholders.

The Journey

In 2011 when we came out of the financial crisis in Europe, we started with our first sustainability report – it wasn't well thought out and planned, but we started. ABN AMRO had published reports before, a lot of sustainability disclosures, but this was the first to coming out of the financial crisis as a different bank than the one we were before. I like to refer to this version as more of a "sustainability flyer" than an actual "sustainability report".

We tried to improve year-on-year. The year after, in 2012, we did our first GRI report, and in 2013 we got our first limited assurance on certain data elements in the sustainability report. In 2014 we included a materiality assessment for the first time, a GRI type materiality assessment and the G4 guidelines from GRI were used to set up the report.

2015 was a turning year – we decided to do things differently. We had already engaged in the business network of the IIRC, and we were talking to other companies on how they had approached Integrated Reporting. We decided to give it a go.

We used the integrated reporting help and guidelines as much as possible. Our motto was the guidance provided by the IIRC – "The primary purpose of an Integrated Report is to explain to providers of financial capital how an organization creates value over time." So, this "value creation" concept became core to our 2015 report.

In the 2015 report, we also used the Integrated Reporting 7 Guiding Principles and tailored them for ABN AMRO's purposes. We tried to embed all these principles into our first report but were unsuccessful in embedding all of them, specifically on the principle of conciseness – our report was 488 pages long!

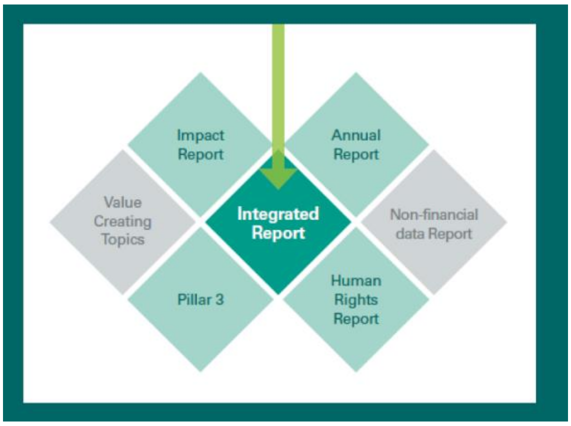
We were reluctant to make the title of the report “Integrated Report” and only referred to this on the inside cover. In today’s terms, this would probably be called a “Combined Report” – which combined the sustainability information into the financial statements. This was not the best Integrated Report, but we were extremely proud of it!

In 2016 we created an Integrated Report. We improved our website, we improved on connectivity, and we improved a little on our value creation model. We had separate disclosure, one on value creation and some concrete examples, and one on “non-financial” or sustainability related data. The report was still quite extensive, and we did a separate report on Human Rights. We won a Dutch transparency award for innovative reporting. Receiving an award helped in supporting the organization on its IR journey.

In our continual improvement, we found a paper by Accountancy Europe which mentioned a concept called “core and more”. This was very applicable for ABN AMRO too. We adopted this approach in 2017.

The challenges were to find a suitable framework and of course, assurance. Since we were already following Integrated Reporting, we used the <IR> Framework and asked EY to provide assurance on this framework. EY were able to provide “cover to cover” limited assurance on the 2017 Integrated Report. The EY limited assurance on the 2017 Integrated Report was a global first. There are a few companies doing it now and I hope that many more will in future do it.

We continued to improve our reporting and in 2020, we used the approach as indicated, where at the heart is the Integrated Report and surrounding this, we provided supplementary reports to address the various stakeholder requirements.



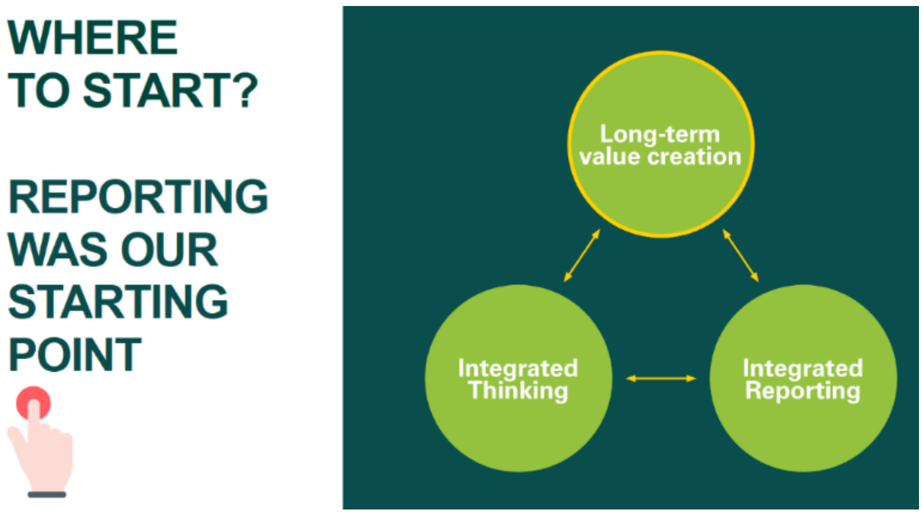
The core and more approach require more reporting, in terms of pages, work, design, connectivity – it is a lot of work - but it does lead to a relatively concise Integrated Review of about 80 pages. Of course, ABN AMRO is in the financial sector so there are also many mandatory disclosures required. Different assurance standards, different audit standards and various mandatory disclosures supplement the Integrated Review.

> **Integrated thinking** is the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision making and actions that consider the creation, preservation or erosion of value over the short, medium and long term.

[Source: IIRC.org]

Integrated Thinking is very much aligned with the <IR> Framework and the principles and disclosures. It is not very aligned with the way ABN AMRO ran its business. This is where we had some tension. We were reporting on an integrated basis, but the business was not necessarily being run in the same way.

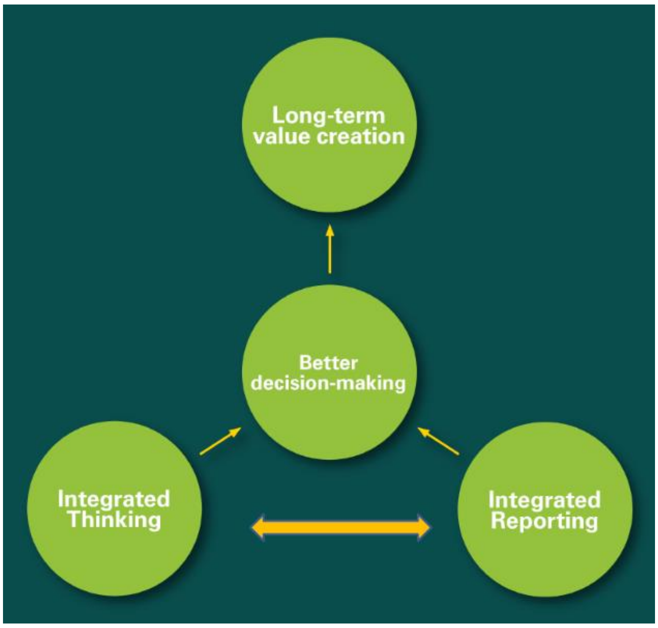
We had to think about what to do – our Integrated Report was not based on Integrated Thinking.



We started on the reporting side (from 2015) and presented an Integrated Report without much Integrated Thinking happening in the company. We had a separate Sustainability

Report, separate Materiality Analysis based on ESG topics, so it integrated thinking wasn't well embedded across the bank. Integrated Reporting gave us a good starting point.

These value creating topics were embedded in our strategic risk assessments, which is a very important part in banking, it is core to how we run the business. Consequently, we were able to steer these "non-financials" or value creating topics based on clear Key Performance Indicators (KPI), clear metrics increasingly throughout the years.
Integrated Thinking is a journey; it is an ever-evolving process. Still today, we are struggling with certain material and value creating topics – to find the right ownership, to find the right metrics and to find the right KPIs to use to steer these matters.
The result of this has been improved internal management reporting, risk reporting and consequently improvements in the integrated reporting. Integrated Reporting has improved because this is now happening throughout the year, and one doesn't have to "invest" connectivity for the sake of the report.



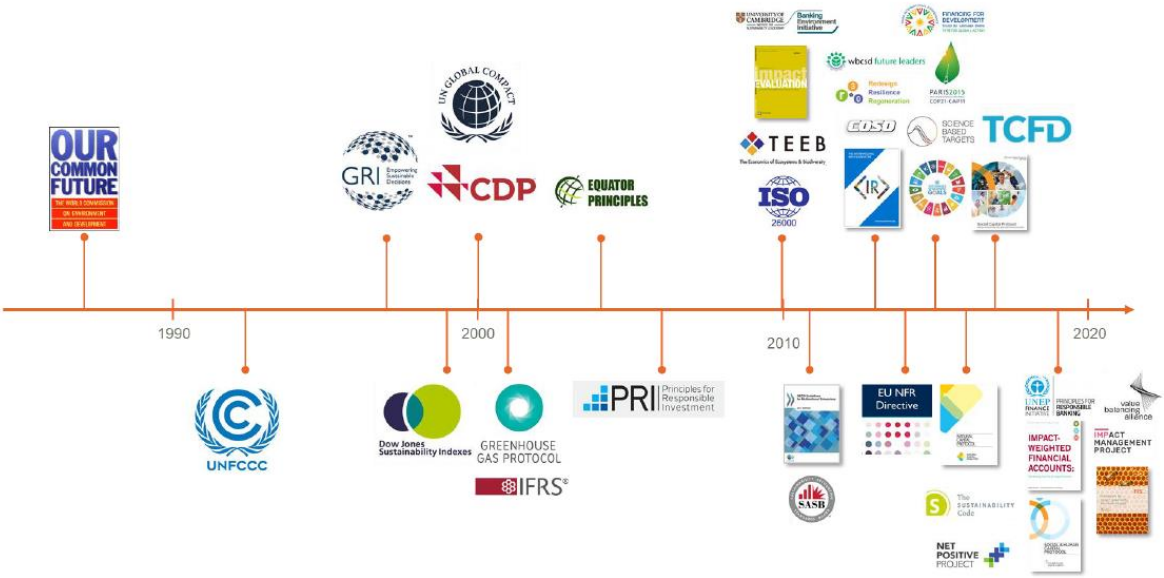
Integrated Reporting and subsequently the journey on Integrated Thinking has led to better decision making which will ultimately lead to long-term value creation.

Specifically at board level – improved decision making at the board level ultimately leads to long-term value creation because of better-informed decisions.

We are still on this journey and one of the next steps we would like to take is measuring of long-term value creation and impact. There also needs to be a step up on truly integrated decision-making through for example a format or process which ensures that significant decisions are based on a multi-stakeholder and multi-capital approach.
The governance around materiality and integrated thinking is also a challenge – who should be the owner and could this be spread across the bank; the same can be said for the governance of sustainability.

We have set out a process for long-term value creation and impact:

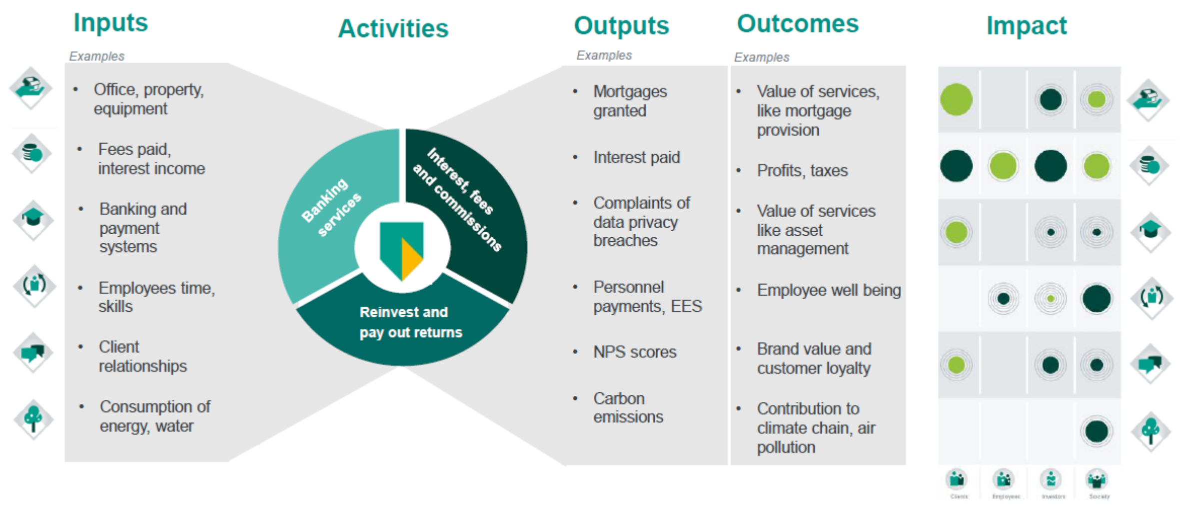
We have set some firm steps on at least the first two steps. This is not limited to ABN AMRO, there is a growing trend to measuring long-term value creation.



We have taken significant steps at the bank in this regard, inviting stakeholders to engage in the process. This culminated in 2018 when we published our first impact report, measuring and disclosing all the impacts we had had on our stakeholders.

We won an A4S award on the embedding of Integrated Thinking throughout the bank.

For impact, we have used a similar approach of year-on-year improvements and embed some of these disclosures into the Integrated Report. This we call the Integrated Profit and Loss. This relates directly to value creation



Through its activities, ABN AMRO converts inputs to outputs.
Both inputs and outputs have consequences. These consequences for stakeholders which lead to impact.

You will see from the graphic above, the <IR> Framework context, using the six capitals, having inputs, business activities, outcomes and ultimately impacts.

These impacts are based on the six capitals and the four stakeholder groups. We have monetized these impacts indicating negative impacts in dark green and positive impacts in light green.

Finally, I want to emphasis the relevance of the Integrated Thinking principles that are going to be launched at the Value Reporting Foundation Symposium in December 2021. These will be published online as well.

Useful links:

- https://www.abnamro.com/en/about-abn-amro/product/download-centre
- https://www.valuereportingfoundation.org/resources/resources-overview/#integrated-thinking-principles
- https://www.integratedreporting.org/integrated-thinking/
- https://www.valuereportingfoundation.org/symposium/

Professor King’s concluding remarks

Each of the presentations has been extremely important and educational.

Janine Guillot has moved from chief executive of SASB to chief executive of the Value Reporting Foundation (VRF) and now is special adviser to the IFRS on this merger between the VRF and the IFRS Foundation.

One of the things Janine spoke about is that the SASB and the IIRC (as they were known) skills and their subordinate boards - such as the IIRC’s Oversight Board and the Framework Board - will be absorbed into the IFRS Foundation. This means that this expertise on Integrated Reporting and Enterprise Value Creation (EVC) standards, will be added to the IFRS Foundation, which it did not have before the merger / consolidation.

The other important point made by Janine is that the European Financial Reporting Advisory Group (EFRAG) has developed the Corporate Sustainability Reporting Directive (CSRD) to fit in with the legal framework of the EU. These CSRD’s embrace the double materiality principle, they embrace the “inside out” (the activities and outputs and impacts on the three critical dimensions for sustainable development) and also the “outside in” the impacts of these critical dimensions on the company itself – the financial condition, its operating performance and its risk profile.

It is important that the Integrated Reporting and EVC skills are inside the IFRS Foundation and the ISSB respectively. ; It is important that Janine is acting as special adviser, on behalf of all of us, to the IFRS Foundation in the development of the ISSB and the connection between the IASB financial reporting and the ISSB sustainability reporting. Janine has a great understanding that this integration between the financial and the non-financial is critical for financial sustainability and stability in our world.

In respect to Mark Manning’s presentation, it was important to hear of IOSCO’s support for the establishment of the ISSB and for the integration of the financial information and the “ESG” information., and those investors were needing this information. It was good to hear that IOSCO see the importance of global base-line sustainability standards which can be used as a qualitative measure for any country with existing sustainability reporting standards.

The concept of interoperability is difficult for people to understand. In speaking to the GRI, of which I am chair emeritus, it accepts that there is double materiality, but it also contends that the impact of the activities of a company, its outputs including waste and its products, have impacts on the three critical dimensions for sustainable development. One of the critical things is that EFRAG (which have developed the CSRDs for the EU to fit in with its “legal straight jacket”) is talking with the IFRS Foundation’s Technical Readiness Working Group (TRWG) to try and align these standards. If not aligned, we would have a parallel development on sustainability reporting which would be detrimental to the harmonization of these standards.

Barry Melancon is a great example of today’s accountant with a changed mindset. From being a poster of information, the professional accountant of today becomes the reviewer of and adviser on information and is the change maker in the C-suite. As a result of the accountant’s public interest training, they immediately grasp the importance of this interconnectedness between financial and the so-called non-financial information so that the user can make more informed decisions. Barry pointed out the expedition with which we have tried to rid, in the ESG space, the clutter and confusion which resulted from the plethora of frameworks and standard setters, we see that ESG factors have become the greater part of the make-up of the market cap of companies. Hence in those nested boxes, the financial report is the smallest box, but the biggest box is the impact of the activities of the company and its outputs on the three critical dimensions for sustainable development. The middle box is where the ISSB will lie with global based-line standards of enterprise value creation.

What came to mind in Barry’s presentation was that we, as leaders in this evolution of corporate reporting, realized that these critical dimensions were having an impact on companies on their financial condition, operating performance, and risk profile.

ABN AMRO was one of the pioneers to adopt Integrated Reporting. In the evolution of its reporting, connecting the financial with the non-financial, it points to what should come first “the chicken or the egg” Is it Integrated Thinking that seamlessly leads to Integrated Reporting or was it the board deciding to do an Integrated Report which drives Integrated Thinking? It has turned out to be the latter.

Approximately 2,500 companies in over 70 countries now do Integrated Reports, connecting financial and the so called non-financial information. I have never heard any complaint that they haven’t had any benefit from doing an Integrated Report and as a result are thinking on an integrated basis.

Five months ago, after the last Colloquium, when I thought of the theme for this colloquium, little did I know how apt and timely it would be – namely "corporate reporting is not what it used to be". In the last 5 months we have seen the merger of SASB and the IIRC to create the Value Reporting Foundation, the Value Reporting Foundation's merger with the IFRS Foundation, the consolidation of the SASB and the CDSB into the ISSB; and the transfer of conditional ownership of the IR Framework into the IFRS Foundation. I say conditional because the skills of the IIRC will be in the IFRS, such as the Oversight Committee and the Framework Board, as was discussed at a recent IIRC Council Meeting to ensure that any revision or changes to the IR Framework do not harm the valuable IR Intellectual Capital which is now entrusted to the stewardship of the IFRS Foundation.

How this will evolve I can speculate, but one thing is certain that there is a change of mindset of the accountant. As I wrote in the Chief Value Officer, that title has become more appropriate than that of Chief Financial Officer as accountants today are dealing with the value creation process which has replaced the primacy of the shareholder dictate. The profession is being refreshed. Accountants are the true change makers in the C-suite, and they will play a huge role in these changes in corporate reporting.

Corporate reporting is how we, as directors, account; it is the life blood of accountability. The more informed a board's corporate reporting is the more transparent its accountability will be.

The evolution of a comprehensive corporate reporting system has started, and the world will not be what it used to be.

Professor Mervyn King

Patron

9 December 2021

Carolynn Chalmers

Chief Executive Officer

9 December 2021