Memorandum

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The magic of words

Professor Mervyn King

Isn't it extraordinary that a couple of decades ago the words which are the title of this colloquium – **impacts, outcomes, and integration** – didn't have the meanings which spring to mind today. I looked for the oldest dictionary in my library and I found a 1940 Webster which had been handed down to me by my father. The word 'outcomes' doesn't even appear in the dictionary. The word 'integration' means 'parts fitting together', and the word 'impact' means 'something colliding with another thing'. Yet today, when I mention those words it is a lexicon of intangibles rather than tangibles because the primacy of the shareholder has been replaced by a value creation model.

If these words could be animated, they would say:

"We were there all the time, but unknowingly we were subsidising the bottom line!
*Today, we have become **part** of the bottom line!*
Account is taken of us when considering the value of a company to society."

'**Inputs**', although not mentioned in the title of the Colloquium, were considered by the International Integrated reporting Council's (IIRC) International Integrated Reporting Framework. This framework considers six resources (capitals) used by any organisation – financial, manufactured, human, intellectual, natural, and social, and the relationship between the stakeholders and the organisation. These are considered as inputs, used by the company in making its money; they are further considered in how the company is impacting the three critical dimensions for sustainable development - the economy, society, and the environment.

Towards the end of the first decade of the 21st Century, we had the seismic event of the collapse of Lehman Brothers. From this, we saw an impact on a company's financial conditions (on its balance sheet), its operating performance (income statements and cash flows), and its risk profile (the cost of capital). Consequently, sustainability had an affect and an impact from the '**Outside in**' not only from the '**Inside out**'. Today when the word 'impacts' is mentioned, we think of both 'inside out' and 'outside in' impacts.

It is quite extraordinary how this changed emphasis in meaning has happened in such a short space of time. The magic of words, indeed.

How extraordinary it is that the IFRS now has the tools to create a suite of reports which would be a huge stepping-stone towards what I believe is the end game - **a global comprehensive corporate reporting system**, where one can have true comparability of companies from any country in the world.

Key considerations for aligning international sustainability standards

Sue Lloyd

Vice Chair of the International Sustainability Standards Board (ISSB)

The International Sustainability Standards Board (ISSB) aims to establish a set of standards to be used globally to provide high-quality information and transparency. This information will be about the effects of sustainability risks and opportunities on the value of companies, with a particular focus on investor needs.

*Often when we talk about sustainability risks and opportunities, people think that this is the same as **ESG** (Environment, Social, and Governance), but it is more than these three factors; we are also interested in the value of intangible things that sustains the value of a business.*

The ISSB focus is very much on meeting the information needs of investors because we believe that good capital allocation decisions will help us in many ways to affect the change we need, for example, on climate. However, we are also interested in making sure that the system that we develop is one that is an effective reporting system for companies to enable them to communicate with their stakeholders. In essence, it is the preparer perspective. That is what we're very interested in.

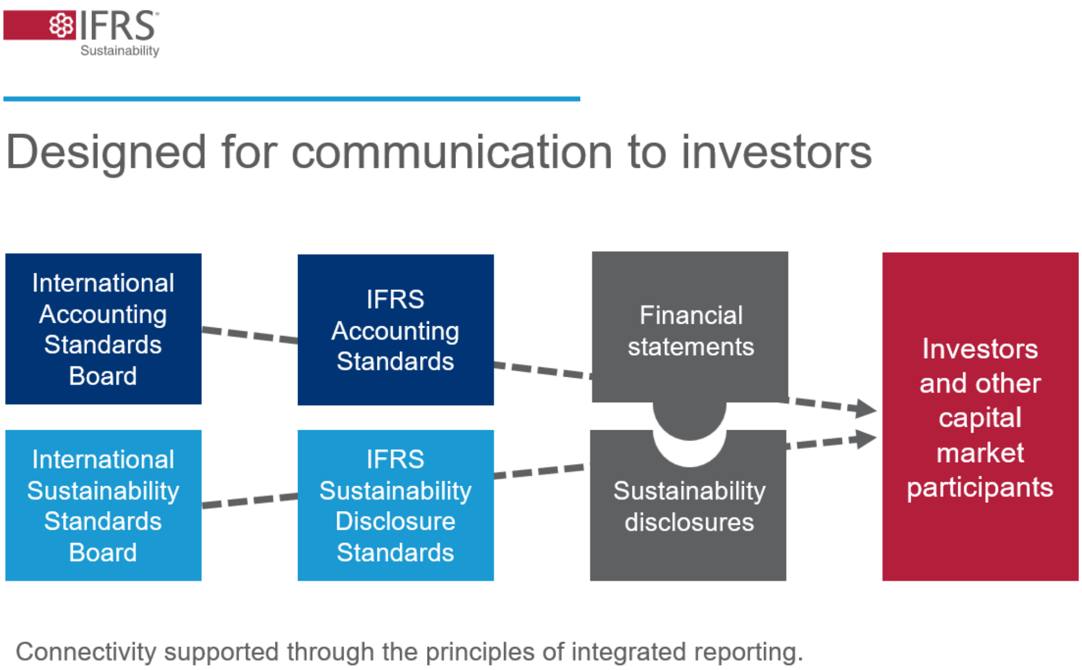
We are very aware that it's not only investors who are interested in information about sustainability risks and opportunities which is why we're developing a system which we are calling a Building Block Approach. We want to work closely with jurisdictions and others with broader information needs like the Global Reporting Initiative (GRI), to make sure that the reporting that we develop can work in conjunction with the reporting of others. This will enable comprehensive communication with stakeholders more generally, in an efficient way for companies.

Support for the ISSB

I thank those of you who responded to our proposals that we put out for comment this year. There is enormous support for the idea of the global baseline as there is for IFRS accounting standards - a system where comparable, high-quality information can be provided around the world. People agree that there is a need for this same robust, globally comparable information about sustainability risks and opportunities. They believe that the ISSB is well placed to fulfil this role. We have also received strong support from the G7 and G20. A statement in September this year from African ministers of finance also indicated the benefits, for Africa, of the adoption of the ISSB standards which included benefits for capital to be brought to the region to effect change.

Part of a bigger reporting system

The ISSB sees its standards as part of a broader reporting package to meet the information needs about sustainability risks and opportunities. We are fortunate to be the sister body of the International Accounting Standards Board (IASB). This gives us a unique opportunity to ensure that companies are able to get a complete picture from an information perspective. We are working to use the Integrated Reporting principles to pull this package of information together.



The ISSB Exposure Drafts

The ISSB has published two Exposure Drafts. The first (**S1**) being a **General Requirements Document**. This sets out the overarching requirements to provide information, not just about climate, but about all of a company's sustainability-related risks and opportunities. It is an overarching set of proposals which forms the basis for a global baseline of information. This Document also sets out concepts for this new type of reporting. It includes aspects such as the timing of the reporting, proposing that sustainability reports be provided at the same time as the financial statements, and in the same package of information as the financial statements. This should resonate with those familiar with the Integrated Reporting Framework as a package of information which works well together.

The second exposure draft (**S2**) is our specific **Climate Proposals**. For example, if a company uses **S1** and identifies climate risks or opportunities as an important set of matters for its investors to understand, it will then use S2 to develop the specific disclosure requirements. The S2 Climate Proposals are very aligned with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations and the Sustainability Accounting Standards Board (SASB) standards. S2 was built on the work of the TCFD, with the four pillars of information about Governance, Strategy, Risk management, Metrics, and Targets framing the main body of S2. We proposed a set of industry-specific disclosure requirements, which were based on the requirements of the SASB, which reflects our consolidation with the Value Reporting Foundation. As with TCFD, S2 asks for information about the physical risks of climate change, the transition risks, and how a company might need to change its business model. In addition, it also asks for information about opportunities because the ISSB standards also consider the upside.

Responses to ISSB Exposure Draft comments

Sustainability reporting is a new type of reporting from for many entities, so it stands to reason that we have received requests for clarity and better articulation of what is required of companies.

Enterprise Value

The term Enterprise Value was one such area requiring clarity. We are considering using the Integrated Reporting approach of the six capitals to better express this concept.

Materiality

We also have confirmed that when we talk about materiality in the formal sense that we're using the same filter as the International Accounting Standards Board (IASB). This doesn't mean we're limiting the focus of our disclosures to the things that only matter for financial statements. It means that when a company decides what particular disclosures to provide, and how to present them, they should be thinking about what could really be reasonably certain to influence an investor decision. In essence, the materiality used in the ISSB standards is focused on meeting information needs.

Climate

One of the important things in our proposals on climate is the proposal that companies provide information about their GHG (**g**reen**h**ouse **g**as) emissions: Scope 1, 2 and 3. In October 2022, the ISSB confirmed that we will require companies to provide Scope 3 GHG emissions information. This is a good example of where there has been some communication confusion. The ISSB is interested in **impacts**. We are interested in the many impacts of sustainability risks on the company because these are important pieces of information for investors. Increasingly, if a company needs to reduce their GHG emissions, for example, to meet requirements of a jurisdiction to address the Paris Agreement, they will have to change their business model. This is something that companies would need to explain to their investors - they would need to explain the company's path forward using this impact information. In addition, such impact information would be required to communicate to the market on how the company plans to affect transition, planning, and change the market, to enable it to attract capital for this purpose. So, Scope 1, 2, and 3 GHG emission information is a really important part of our proposals.

We recognise that it will not be easy for companies to capture Scope 3 GHG emissions information, so we are investigating ways in which to make this possible, especially for smaller companies and in emerging markets. We are proposing working with regulators to get safe harbour relief, to reduce the concerns around measurement uncertainty, and the risk of litigation. This is an important part of our deliberations and the guidance we develop here will be important. In addition, we are considering how companies can use our standards to explain their scenario planning, that include Paris-aligned scenarios.

Industry-based requirements

Industry-based requirements are an important part of our proposals to provide industry-specific information about climate risks and opportunities. These were attached as appendices to the documents and set out the required disclosures, by industry, across 66 different industry groups. The feedback we received on these was mixed but generally, there was a concern that the disclosures may not be relevant in all markets around the world. Many responses, though, emphasised that industry-specific information was important to explain how these risks manifest in particular settings given the specific activities of the companies involved in that industry. The ISSB has decided to continue to include the requirement for companies to provide industry-specific disclosures about climate risk.

The **Appendix B** which was circulated for comment will be used in the near term as illustrative examples, with the understanding that if these are not appropriate for the company concerned, alternative industry-specific disclosures can be used. However, we will continue to work on increasing the specificity and comparability between companies in this area given the risk of greenwashing. The ISSB has, as a result, indicated the intention to, ultimately, consult again in this area, but with the understanding that Appendix B will become mandatory. This will of course be subject to incorporating feedback as well as considerations on alignment with the work of the European standard setter, EFRAG (European Financial Reporting Advisory Group), and GRI, both of whom have sector-specific guidance as well.

Interoperability

We support Professor King's call for global collaboration between standard setters, remembering that he called it a "social and moral outrage" for there to be competition between sustainability standards setters. I think it is incumbent on us to find ways to work together to meet stakeholder information needs, to ensure that the system works collaboratively and that we don't have competition between standard setters. Much of my time is currently spent on exactly this question - how can we improve interoperability between different proposed disclosure requirements.

Comprehensive Global Baseline

The foundation of the ISSB standards is in support of a comprehensive global baseline and our approach is to use the Building Blocks approach already mentioned. Our proposed standards will be designed to meet the information needs of investors, to ensure they have the information they need to assess the effects of sustainability risks and opportunities on a company. These standards must allow investors to make informed decisions, both buy or sell decisions and also inform their voting decisions. We know that, increasingly, when investors make these decisions, they need to understand sustainability risks. This is because these risks impact on future cash flows and the business model and also, increasingly, because certain types of investors are developing investment preferences for the types of companies or activities in which they want to invest. In support of this, the ISSB standards will need to provide the visibility and the information necessary to inform those investment decisions.

ISSB Baseline

When we refer to a 'baseline', this is sometimes misinterpreted as the ISSB trying to set the minimum necessary disclosures, a sort of skeleton set of disclosures if you like. This is not our intention. We want to make sure that the disclosures we require are sufficient to enable investors to make their decision, so this cannot be at a minimum, it needs to be at the level required to meet the investment needs. Although we are focussed on investors, we understand that the audience of these reports will be more than investors only. In comparing the exposure drafts with the European climate proposals, you will see commonality. In meeting investor needs, the ISSB standards will also, we anticipate, also meet broader stakeholder information needs.

Broader reporting community

We recognise that we are not working in isolation and recognize that others have an active role in the space. Our intention is to facilitate interoperability between the differing requirements rather than creating conflict and competition. The ISSB is engaging with jurisdictions around the world, including the US, to make sure that our reporting requirements work well with those of others. We have already entered into a memorandum of understanding with the Global Reporting Initiative (GRI). We did this to make sure that, wherever possible, a **common language** is used for common information needs. The GRI, of course, builds on these common needs with incrementally increasing information needs, to the extent that they are required. Such interoperability and collaboration is something to which we are allocating significant time.

Jurisdictional Working Group

Earlier in 2022, we established a Jurisdictional Working Group of representatives from key jurisdictions including the international securities regulators as observers. The objective is to make sure that the ISSB global baseline is fit for purpose and able to be applied by companies around the world, including well-resourced companies in developed economies as well as smaller companies in emerging markets.

The global importance of interoperability

A key message in the feedback on the exposure drafts was the importance of the interoperability of the ISSB with the other proposed standards. Companies have no interest in multiple sets of requirements, which will be costly and inefficient, and it will be confusing for stakeholders using the information. For example, if both EFRAG and the ISSB standards require Scope 3 GHG emissions information, but we use different measurement criteria, there will be two different numbers for one company – this will create confusion. We can't let this happen which is why we are working hard towards interoperability.

The use of timing

One of the ways in which we are ensuring alignment is to make sure that the various organisations are aligning the timing of their decision-making. For example, the ISSB brought forward its October 2022 meeting and made visible a number of key decisions following the meeting to align with EFRAG's meetings in early November 2022. This gave us a chance to 'line up' our thinking. Some of the decisions, for example, included the ISSB commitment to use the TCFD structure, the definition of materiality used by the ISSB standards, and the requirement for scenario analysis.

Providing aligned guidance

Recently the ISSB confirmed that companies will be required to provide climate resilience information and to support this information with scenario analyses. We have also confirmed that we would provide guidance on how to choose a relevant scenario. In Europe, companies, we understand, will be required to do scenario analyses that use a Paris-aligned scenario, because of the importance of this for European public policy. The ISBB does not require that this is included but guide that this would be relevant for those companies operating in a jurisdiction that is subject to regulation reflecting Paris aligned commitments. For such companies, it would mean that a Paris-aligned scenario would be relevant for investors. As a result, a company in Europe could comply with both the ISSB-based disclosures and the European standards, using that same scenario analyses.

A practical approach for companies

The ISSB is currently working on a proposal on guidance for companies to align the ISSB standards and the European standards (ESRS) where corresponding standards exist. The ISSB is intending to provide guidance on how companies can map the two standards when they 'complete'. The ISSB would set out the relative disclosures and in a way that would enable companies to identify where there are disclosures that could be used to meet both disclosure requirements as follows:

Column A	Column B	Column C
Disclosures only for ISSB	Disclosures relevant to both ISSB & ESRS	Disclosures only for ESRS

The ISSB objective is to have as many disclosures as possible in Column B, being relevant to both the ISSB and ESRS. Importantly even though disclosures may be in Column B, the intended audience would need to be considered – in Europe, for example, double materiality will be important, and for the ISSB reporting, transparency for investors in any jurisdiction would be important. Some areas will remain in Column C because of the specific European requirements of the Corporate Sustainability Reporting Directive (CSRD) and also because there are some circumstances where information may not be necessary for investors, but it is useful for other information needs. There may also be disclosures in Column A. For example, the ISSB proposes to include information about the effects of climate on the current financial statements where it is unclear as to whether Europe will have these requirements. Another example is the ISSB industry-based disclosures (Appendix B).

Next steps

1. **Publication of S1 and S2**
   The ISSB is hoping to complete the deliberations on our two proposals S1 and S2 by the end of 2022 and to publish them as soon as possible in 2023.
2. **Build foundations**
   The ISSB is going to focus on foundation building:
   - Support adoption and application: Ensure that supporting materials provide support for those adopting and applying the initial standards.
   - Digital taxonomy: Develop a digital taxonomy to facilitate electronic reporting of sustainability information.
   - International applicability: Ensure that the SASB standards are more referable around the world.
   - IASB connectivity: Continue to work on connectivity with the IASB, for example in the area of climate-specific disclosures in financial statements.
   - Interoperability: Continue to consider interoperability with GRI and EFRAG, such as sector-specific standards and alignment with GRI and EFRAG on the industry classifications and metrics.
   - Climate Standard: Consider targeted extensions to the ISSB climate standards to consider, for example, effects on biodiversity, just transition, and water.
3. **Continued consultations**
   The ISSB will consult during the first half of 2023 on defining near-term priorities and look forward to everybody's feedback on that in the new year.

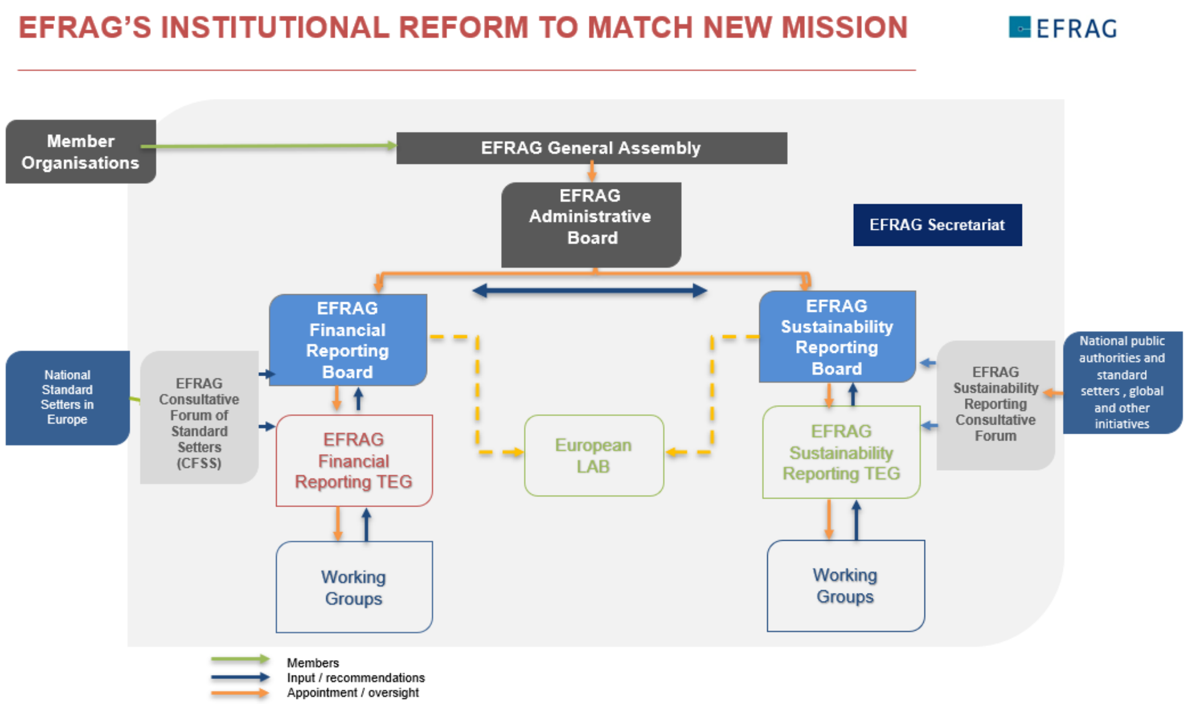
Current and expected future sustainability reporting imperatives in the EU

Patrick de Cambourg

Chair of the EFRAG Sustainability Reporting Board (EFRAG SRB)

The EFRAG Sustainability Reporting Pillar

The European Financial Reporting Advisory Group (EFRAG) has traditionally worked on financial reporting and was providing technical advice to the European Commission (Commission) in the endorsement process of IFRS standards. Following the work of an internal 'lab', EFRAG determined the need for sustainability reporting and possible standardization. As a result, a new Pillar was created within EFRAG, called the Sustainability Reporting Pillar. This Pillar duplicates some of the activities on the financial reporting side, but the Sustainability Reporting Pillar has a different goal. This goal is to devise standards and deliver technical advice to the Commission, which is a bit different, of course, from the goal of the Financial Reporting Pillar, which is to provide technical advice on the IFRS standards operated by the International Accounting Standards Board (IASB).



The EU approach to sustainability reporting

The EU has two levels of corporate reporting under EU law – the Corporate Sustainability Reporting Directive (CSRD), which is the legal text which has been negotiated by the legislators until June 2022, and the European Sustainability Reporting Standards (ESRS). They are provided to the Commission as technical advice and then are adopted by the Commission as delegated acts. It is important to note that delegated acts apply throughout the 27 member states of the European Union. The member states adopt these as is to create a normalized operating context across the European Union.

Double Materiality

The CSRD at the legal level require that account be taken of the reporting expectations of all key stakeholders – those involved in the company's value creation, not only investors. The standards, therefore, necessarily, need to take account of this intended corporate reporting audience. It is therefore recommended to companies that they approach corporate reporting by starting with an assessment of material impacts and, following this, consider how and when these translate into financial consequences. Although not a significant difference, but perhaps a little more comprehensive, one must take a pragmatic approach by identifying what could be the difference between an investor perspective on impacts and a more global perspective on impacts.

Application to companies

The ESRS apply to all companies of 250 or more employees operating within the European Union. It also applies to Small and Medium Enterprises (SMEs) that are listed on a stock exchange. In consideration of the economy as a whole, a voluntary regime is also in place for other SMEs.

Deadlines

The deadline is the financial reporting year 2024 for all entities already reporting under Non-Financial Reporting Directive (NFRD), the directive which was replaced by the CSRD, the financial year 2025 for the remaining large entities, and the financial year 2026 for the listed SMEs.

The European Sustainability Reporting Standards

The ESRS intend to provide reporting on a comprehensive coverage of environmental, social, and governance matters, starting from sector agnostic and then moving to sector-specific information. It is intended that the sustainability report be located in a separate section of the management report (this is not optional), which we propose to call the **Sustainability Statements**. These will act as a second leg of standardized corporate reporting alongside the Financial Statements. The directive also considered auditing and digitization. In respect of auditing, limited assurance is expected at first with a move to reasonable assurance over time.

In recognition of Professor King in this Colloquium, I would like to mention that we pay tribute to Integrated Reporting and we mention the key element of integrating information and creating the right cohesiveness between the various elements of corporate reporting.

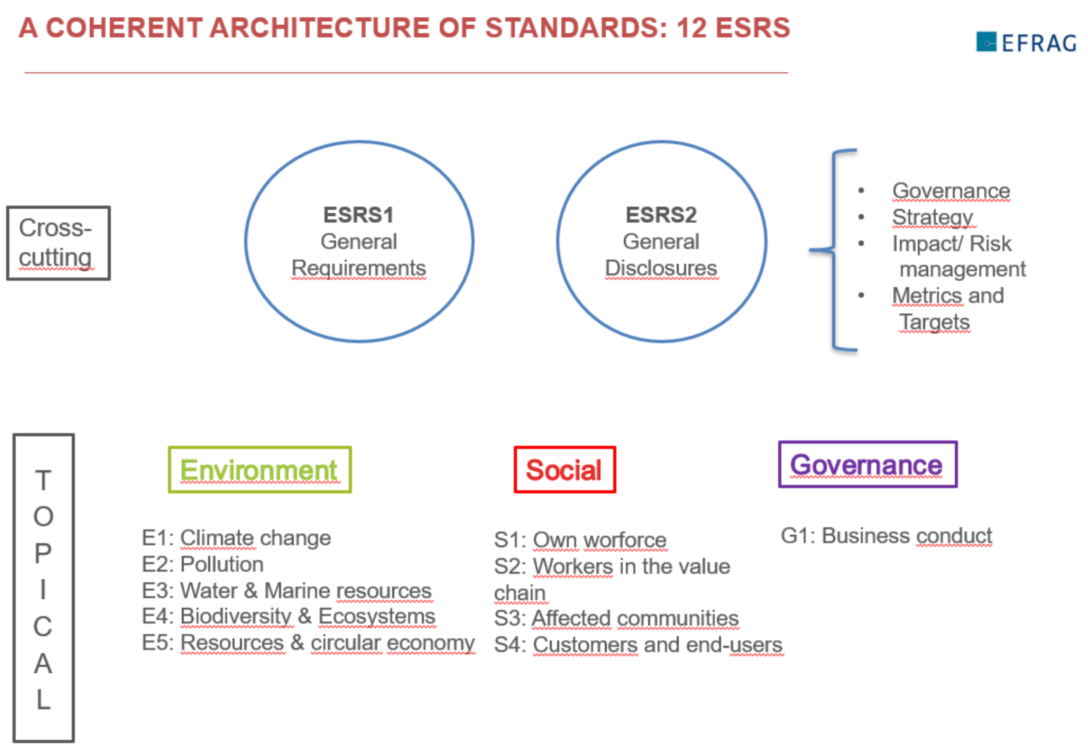
This structure is translated into a coherent architecture of standards with 12 ESRS.

The first two ESRS we define as Crosscutting:

- **ESRS 1** does not mandate disclosures per se but establishes the ESRS principles. ESRS 1 can be used when comparing with the ISSB S1 general requirements.
- **ESRS2** addresses general disclosures. Since the ESRS provide comprehensive coverage, it is multi-topical. Instead of repeating each topic, we take a global approach and address in these areas: governance, strategy, impact, and risk management. These key elements provide an understanding of how the company is taking on board sustainability matters at the governance, strategy, impact, and risk management levels.

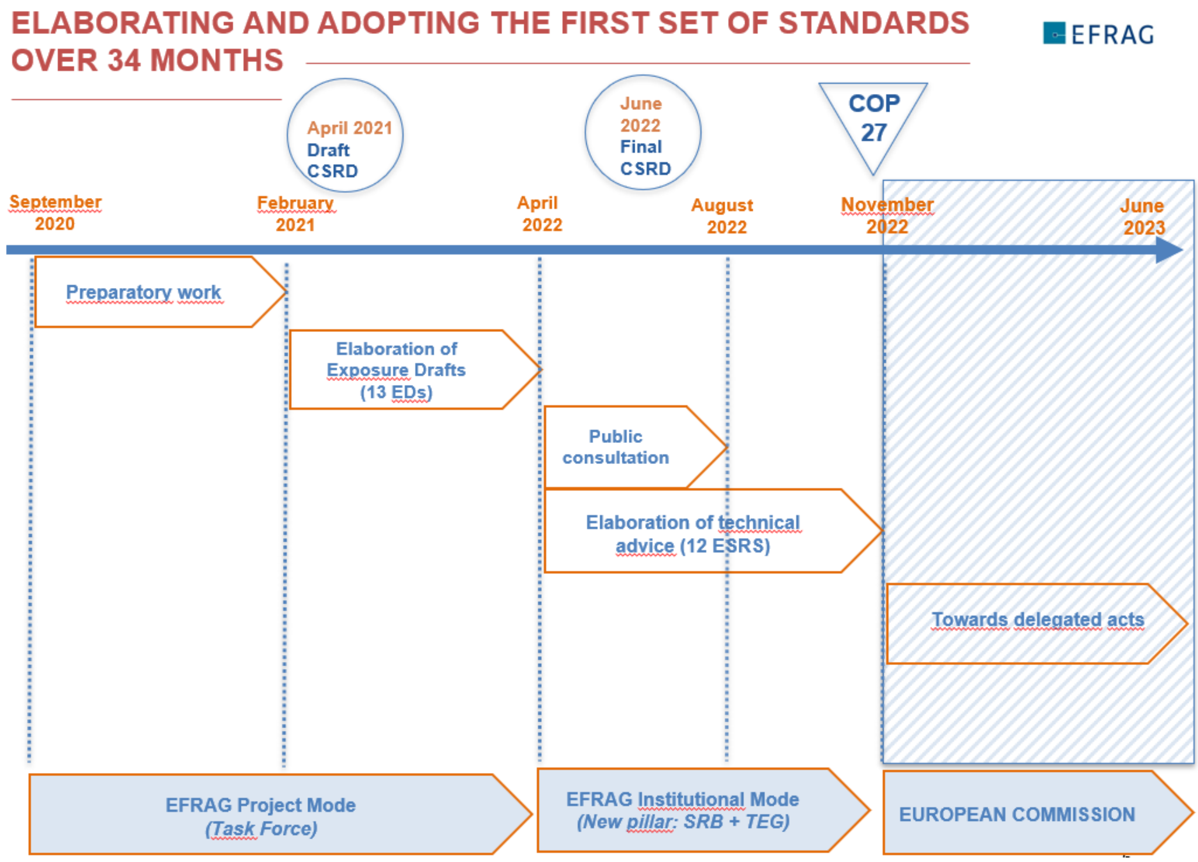
The remaining 10 topical standards cover the broad spectrum of issues that are required by the CSRD and that correspond to the ESG comprehensive approach.

- **Environment**
  Five issues are addressed in this topic: climate change; pollution; water and marine resources; biodiversity and ecosystems; and resources and circular economy.
- **Social**
  On social the ESRS make a clear distinction between own workforce and that of workers in the value chain, affected communities, and customers and end users.
- **Governance**
  Governance is addressed in the G1 Business Conduct ESRS.



Development timelines

The development process will take almost three years to complete, having started in September 2020. At the end of April, we launched the public consultation and transferred responsibility for these standards into the Sustainability Reporting Board (SRB) as a new institutional Pillar. The SRB and the Technical Expert Group (TEG) will run in parallel with public consultation on the published draft ESRS until 15 November 2022. Thereafter, it is planned for the European Commission to move to the adoption of the ESRS and delegated acts by the end of June 2023. In this regard, the draft act was prepared by the Commission and tabled in April 2021, with adoption in June 2022.



From April to November 2022

In this period, we re-aligned the ESRS with the final CSRD, because there were changes in the CSRD, following the dialogue between the co-legislators and the commission. We expect to streamline and reduce the number of disclosure requirements, and also the related data points, by about 40%, without impairing the core quality. In addition, we streamlined and harmonized the terminology and the structure as far as possible with the TCFD structure. The ESRS structure is slightly more comprehensive in the area of Risk Management as they elaborate on the associated company policies and targets. We are also working on action plans, including Transition Plans, and the resources that are allocated to the management of those impacts, risks, and opportunities.

Interoperability

EFRAG continues to grow its collaboration with the ISSB and GRI. As mentioned, the ISSB and EFRAG are working to align the timing as we do not want to be asking companies to report two or three times. It is a key success factor for us that when companies comply with ESRS, they will also be complying with the ISSB and also possibly with GRI. EFRAG participates in the meetings of the Jurisdictional Working Group, as previously mentioned, and also schedules bilateral meetings at management level and bilateral meetings with climate experts. EFRAG is committed to continued dialogue, exchange of literature, and cooperation.

Consultation results

As with the ISSB public consultations, EFRAG has noted a great desire for interoperability and that the conditions for multiple reporting is minimized. As I have noted, this is not the intended EU approach and would be the wrong approach at a global level. As a result, tentative decisions have been taken on aligning concepts on financial materiality and value chain in ESRS 1, for the content of disclosure objectives in ESRS 2, and confirmations of additions to both ESRS 1 and ESRS 2. We also try to make sure that the architecture structure is as aligned as possible.

Sector-specific standards

In accordance with the CSRD, we will be delivering sector-specific standards.
The first set of standards (SET 1) will address:

- **GRI sectors**. The ESRS will address the following five GRI sectors: Agriculture; Coal Mining; Mining; Oil and Gas (upstream); Oil and Gas (mid-to-downstream)
- **High-impact sectors**. In addition, the ESRS will address five high impact sectors: Energy Production; Road Transport; Motor Vehicle Production; Food/Beverages; Textiles

There will be a possibility to amend SET 1 to cater for, for example, a cap on the value chain information due to the practicalities of addressing the value chain. There are already provisions in SET 1 that will need to be improved over time. We will also prepare the standard for non-EU companies, the standard for listed SMEs, and the voluntary guidance for non-listed SMEs, as mentioned.

This provides a summary of the progress on sustainability reporting in the EU in full consciousness of what is happening at the international level while also describing the EU's willingness to contribute to that global view.

Guidance on integrating financial and sustainability information

Michael Bray

Professor of Practice (Integrated Reporting), Department of Accounting, Deakin University Business School

Integrated Reporting in 2023

The following is a prototype of what an Integrated Report could look like in 2023. This prototype describes a generic annual integrated report. It is not modelled on any particular company but reflects our experience and projections for the future of Integrated Reporting and integrated reports. The paper focuses on what is possible now in the light of the 25 May 2022 encouragement by the chairs of the IASB and ISSB to organisations to continue adopting integrated reporting, referencing case studies.

An integrated report can look like this in 2023 …

<table>
<tr><th colspan="4">The Annual Integrated Report</th></tr>
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<tr><td colspan="2">Independent Assurance Report</td></tr>
<tr><td>• Limited or reasonable, or private internal assurance for board on readiness (people, process, system)
• Basis of Preparation and Presentation
• Board Responsibility Statement</td><td>• Description of The Business
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• Selection and calculation of metrics
• Fair application of frameworks and standards</td><td colspan="2">Self-Determined – material business-critical metrics</td></tr>
<tr><td colspan="2">Description of The Business*</td><td colspan="2" rowspan="2">Intangibles and other business-critical metrics not contemplated by ISSB standards:
• Board performance (governance)
• Executive performance (strategic management)
• Materiality determination process
• Stakeholder management – including customer satisfaction, strategic alignment of talent (board, executive and teams), regulators
• Reporting process
• Core business processes – including innovation, intellectual property management, technology</td></tr>
<tr><td colspan="2">• What – Purpose, External Environment, Risks & Opportunities, Strategy
• With – Resources & Relationships
• How – Business Model (Key Business Processes including Governance, Strategic Management, Materiality Determination, Stakeholder Management, Reporting, Core), Risk Management
• Why – Investment Proposition – 'why our integrated thinking in using our with in our how to achieve our what is better than our competitors for (6) capital</td></tr>
<tr><td colspan="4">* Partial description of The Business achieved by applying ISSB General Requirements Standard (TCFD foundation – description of governance, strategy, risk management, and metrics and targets in relation to climate)</td></tr>
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'Front Half' of The Annual Integrated Report

The 'front half' of an annual integrated report can describe the business context and contain a comprehensive and insightful Basis of Preparation and Presentation as required by paragraph 4.41 of the Integrated Reporting Framework, supported by the rest of Section 4H. Companies often call the Basis of Preparation and Presentation "About This Report". It describes the frameworks, standards, and the metrics used in the report, how the report was prepared, and how the integrity of the information was ensured. The Integrated Reporting Framework requires the Board of Directors to sign off on their responsibility for the Integrated Report[1].

The *what*, the *with*, the *how* and the *why of The Business*

A good Integrated Reporting will describe the *what*, the *with*, the *how* and the *why* of The Business:

- The '*what'* is the purpose, external environment, risks and opportunities, and strategy.
- The '*with'* is the resources and relationships, or 'the capitals' in the Integrated Reporting Framework terms.
- The '*how*' being is business model, including the getting to the detail of key business processes – critical activities, KPIs, risks and controls within business processes such as the board's governance process and the CEO's strategic management process, and other key business processes such as the materiality determination, stakeholder management, information integrity management and reporting processes.
- The '*why*', is why an organisation thinks it has competitive advantage in better at using its '*with'* in its '*how'* to achieve its '*what'* – its investment proposition to its investors and other stakeholders.

'Back Half' of The Annual Integrated Report

The 'Back Half' is about the material metrics and supporting disclosures that measure the performance and prospects of that business. These may be IASB or ISSB metrics or they might be self-determined because are at this stage not required by a standard but are critical to the performance and prospects of The Business.

These self-determined metrics may relate to intangibles (including human and intellectual capitals under the Integrated Reporting Framework), including board performance in terms of its governance process, executive performance in terms of strategic management, as well as KPIs measuring the performance of the other key business processes mentioned above. Performance of the reporting process should be emphasised as this is the process which can underpin board responsibility statements under the Integrated Reporting Framework about the integrity about the integrated report and process disclosures under paragraph 1.24 (if the board follows the recommendation of that paragraph). Internal control reporting is in effect embedded in integrated reporting.

Assurance overlay

Although financial statement audit standards are in place, assurance standards for ISSB disclosures and metrics are still to be published. Assurance standards or guidance are also likely to be required in other areas, such as for assurance of the description of The Business in the front half of the Integrated Report[2].

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[1] Refer to Instalment 2 in IFAC's integrated reporting assurance series, 'Executing the board's governance responsibility for integrated reporting.' Executing the Board's Governance Responsibility for Integrated Reporting | IFAC

[2] Refer to Instalment 1 of IFAC's integrated reporting assurance series, 'Accelerating Integrated Reporting Assurance in the Public Interest. Accelerating Integrated Reporting Assurance in the Public Interest | IFAC

… and there is a lot of assurance to be done

DEAKIN UNIVERSITY

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<tr><th colspan="4">The Annual Integrated Report</th></tr>
<tr><th colspan="2">Front Half – Business Context</th><th colspan="2">Back Half Performance and Prospects – Metrics</th></tr>
<tr><td colspan="2">Basis of Preparation and Presentation / About This Report</td><td colspan="2">Financial – material IASB metrics</td></tr>
<tr><td>• Frameworks and standards selected to describe The Business and select and calculate the metrics</td><td>• Selection of metrics
• Integrity of information</td><td>• Income
• Financial position</td><td>• Gearing
• Cash Flows</td></tr>
<tr><td colspan="2">Responsibility Statement by Board of Directors</td><td colspan="2">Sustainability – material ISSB metrics</td></tr>
<tr><td>• Acknowledgement of responsibility for integrity
• Opinion / conclusion on application of Integrated Reporting Framework</td><td>• Process disclosure – measures taken to ensure integrity of report (para 1.24)</td><td rowspan="2">• Climate
• Human rights</td><td rowspan="2">• Other ESG topics (ISSB, S1)</td></tr>
<tr><td colspan="2">Independent Assurance Report</td></tr>
<tr><td>• Limited or reasonable, or private internal assurance for board on readiness (people, process, system)
• Basis of Preparation and Presentation
• Board Responsibility Statement</td><td>• Description of The Business
• Application of frameworks
• Selection and calculation of metrics
• Fair application of frameworks and standards</td><td colspan="2">Self-Determined – material business-critical metrics</td></tr>
<tr><td colspan="2">Description of The Business*</td><td colspan="2" rowspan="2">Intangibles and other business-critical metrics not contemplated by ISSB standards:
• Board performance (governance)
• Executive performance (strategic management)
• Materiality determination process
• Stakeholder management – including customer satisfaction, strategic alignment of talent (board, executive and teams), regulators
• Reporting process
• Core business processes – including innovation, intellectual property management, technology</td></tr>
<tr><td colspan="2">• What – Purpose, External Environment, Risks & Opportunities, Strategy
• With – Resources & Relationships
• How – Business Model (Key Business Processes including Governance, Strategic Management, Materiality Determination, Stakeholder Management, Reporting, Core), Risk Management
• Why – Investment Proposition – ‘why our integrated thinking in using our with in our how to achieve our what is better than our competitors for (6) capital</td></tr>
<tr><td colspan="4">* Partial description of The Business achieved by applying ISSB General Requirements Standard (TCFD foundation – description of governance, strategy, risk management, and metrics and targets in relation to climate)</td></tr>
</table>

Case studies

Case studies demonstrate that it is already possible:

1. to achieve one Integrated Report comprising financial and sustainability information;
2. for a Board of Directors to sign off the report in terms of the Integrated Reporting Framework; and
3. to obtain assurance expressed in terms of adherence of the integrated report to the Integrated Reporting Framework, and also any other standards and frameworks that a company chooses to adopt as long as they are well described in its basis of preparation and presentation.

AGL is a major energy company in Australia

AGL has produced an integrated report within its Annual report. The AGL Integrated Report describes The Business along the lines of that shown in the above prototype. The report shows TCFD disclosures and ESG disclosures that predate the ISSB's standards. AGL, within this integrated report, included GRI metrics as well as SASB metrics. Alignment of all this is achieved within the ESG Data Centre. AGL's report demonstrates that it is possible to achieve one Integrated Report in accordance with the Integrated Reporting Framework that includes all material metrics.

'Possible Now' - AGL Example: One Integrated Report within the Annual Report – Importance to IR Assurance of Basis of Preparation and Presentation

AGL says the following about its annual report in *About This Report*: "The … operating and financial review as required by ASIC's Regulatory Guide 247 [is set out on] pages 8 to 50 and references information reported in the Financial Report." Under "Voluntary Reporting Frameworks", "This report has been prepared with reference to the … International Integrated Reporting Framework. This framework provides a useful basis to disclosing how sustainable value is created for our shareholders and other stakeholders over time. We have used the framework to demonstrate how consideration of risks and opportunities …, our purpose and our values drive our strategy. We have also considered how the execution of our strategy creates value, applying a lens that is broader then financial performance alone."

The report continues, "AGL follows the guidance provided by the Financial Stability Board's Task Force on Climate-Related Financial Disclosures voluntary disclosure framework (TCFD Framework). This year we have not provided a separate TCFD report. A TCFD Index is included in the ESG Data Centre on our website which describes where elements of the TCFD Framework are addressed in this report and other disclosures."

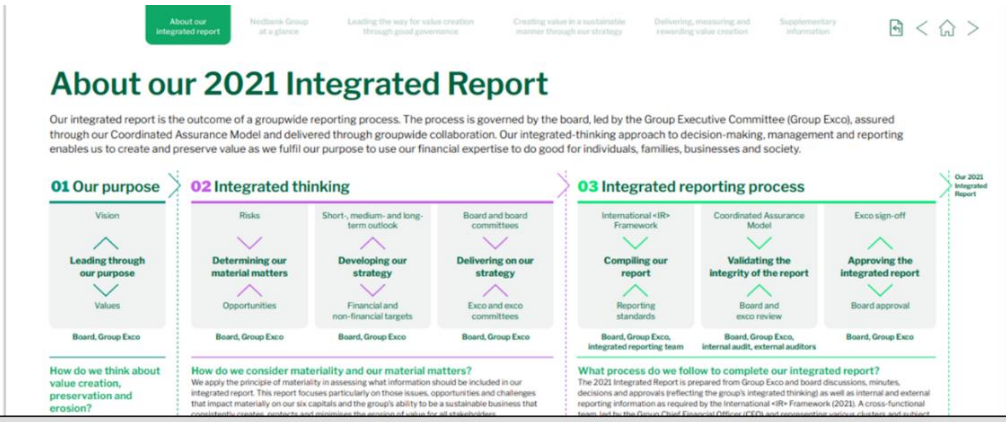
"The disclosures in this report and the accompanying **ESG Data Centre** are aligned to the Sustainability Accounting Standards Board (SASB) Standards for 'Electrical Utilities and Power Generators' and 'Gas Utilities'. A **SASB Index** is included in the ESG Data Centre which identifies the extent to which each SASB disclosure requirement has been applied. "

And finally, "In addition, we have referenced the GRI Standards in the preparation of this report. The ESG Data Centre includes a **GRI Index** that outlines which topic-specific GRI Standards have been referenced in our disclosures."

It is important to note that it is possible to see by linkages which TCFD, SASB and GRI disclosures are included in the operating and financial review.

Nedbank is a major bank in South Africa

The Nedbank Integrated Report is a good example of the sort of board responsibility statement that is required by the Integrated Reporting Framework. The board signs off on its responsibility for the integrated report and also the underlying integrated reporting process. The statement by the Nedbank Board of Directors describes how the Group Exco and the Board work, including relying on combined assurance. The Nedbank report shows what is possible in terms of the Board of Directors declaring responsibility for the integrity of the company's Integrated report.



Nedbank Example - Responsibility of Board of Directors for the Integrated Report and Underlying Reporting Process

The board of directors of Nedbank made the following statement in its integrated report, "The board ensures the integrity of the integrated report through our integrated reporting process, the various approvals and sign-offs by Group Exco and the board, and relies on our Coordinated Assurance Model, overseen by the Group Audit Committee, that assesses and assures various aspects of our business operation and reporting. These assurances are provided by management and the board through rigorous internal reporting governed by the group's enterprise-wide risk management framework, internal audit and independent external sources and service providers".

ABN AMRO, a major Dutch-listed bank

ABN AMRO is a pioneer in Integrated Reporting Assurance. ABN AMRO's assurance practitioner, Ernst & Young, provided the assurance opinion:

"Based on our review, nothing has come to our attention to cause us to believe that the non-financial information has not been prepared in accordance with the reporting criteria."

CPA Australia, the Australian Accounting Body

CPA Australia have also obtained assurance over its integrated report, which in this case, was provided by KPMG.

There are a number of instances of this sort of assurance and building blocks towards it around the world. For instance, in 2021 the Brazilian securities regulator mandated not only integrated reporting but also integrated reporting assurance in these terms for listed companies who opt-in to its Resolution 14 and reporting guideline CPC-09. Brazilian companies have started acting under this resolution in 2022; and in Spain and France[3], there are assurance requirements for integrated reporting-like aspects of required reports.

Integrated Reporting Assurance Is ...

ABN AMRO Example – Integrated Reporting Assurance

EY's opinion on the ABN Amro integrated annual report is expressed as follows: "Based on our review nothing has come to our attention that causes us to believe that the non-financial information is not prepared, in all material respects, in accordance with the reporting criteria as explained in the section "Reporting criteria" of our report. In our opinion the section "Our value-creating topics" is prepared, in all material respects, **in accordance with the reporting criteria** explained in the section "Reporting criteria" of our report". The Reporting Criteria section of the integrated report states, "The reporting criteria used for the preparation of the non-financial information are the **International Framework of the Value Reporting Foundation** and the supplemental reporting criteria applied as disclosed in the appendix "Our approach to reporting" in the Integrated Annual Report." [our emphasis]

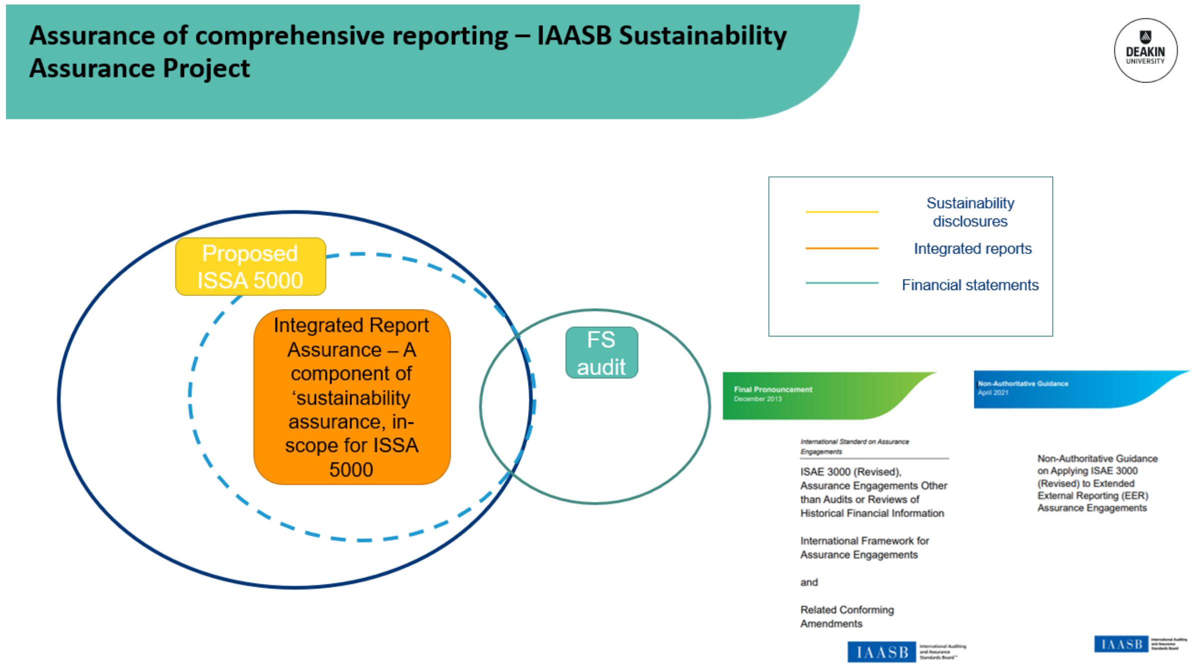
CPA Australia Example - Integrated Reporting Assurance

KPMG's opinion on the CPA Australia integrated report is expressed as follows: "Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes of to believe that the CPA Australia Integrated Report 2021 for the year ended 31 December 2021 is not prepared, in all material respects, in accordance with the ... International Integrated Reporting <IR> Framework."

[3] Itau Unibanco provides a useful Brazilian example. [Downloads - Relatório Anual Integrado 2021 - Itaú Unibanco Holding S.A. (itau.com.br)](). The PwC assurance report is on pages 99-100.

The International Auditing Assurance Standards Board (IAASB)

The IAASB launched the Sustainability Assurance Project to address the pressing demand for the assurance of sustainability information. Integrated Reporting Assurance should fall within the scope of this Project because that project, meaning that the proposed ISSA 5000 assurance standard should address Integrated Reporting Assurance as it is a component of sustainability assurance. The exposure draft is expected towards the end of 2023 and will build on the existing ISAE 3000 auditing standard which has already been used in Integrated Reporting Assurance.



Integrated Reporting Assurance

The main point of difference of integrated reporting assurance as a component of sustainability assurance, as defined by the International Auditing and Assurance Standards Board, is evaluating that description of The Business - the *what*, the *with*, the *how*, and the *why*. These aspects need to tie up with the Integrated Reporting Framework's fundamental concepts, guiding principles, and content elements. Assurance would also need to consider matters such as, the report format, report integrity, and the reporting process.

This has significant implications for the knowledge, skills, and experience of directors, executives, and assurance practitioners. Integrated reporting assurance has implications for the skills of auditors in terms of their ability to evaluate descriptions of The Business and the bases of preparation and presentation set out in integrated reports, their ability to exercise appropriate professional judgement and scepticism in these areas; and their business and reporting expertise and ability to integrate specialist expertise within the assurance team in terms of industry and ESG matters.

Most work on auditing and assurance standards and guidance to date has been on the right-hand side of the above report prototype (measurement assurance procedures in relation to metrics and associated disclosures, and possibly internal controls underlying such metrics and associated disclosures but not as subject matter information in the report), rather than on evaluation of description of The Business, including the integrated reporting process and controls therein as subject matter information in the integrated report.

THE POINT OF DIFFERENCE OF INTEGRATED REPORTING ASSURANCE*	BASIS OF PREPARATION AND PRESENTATION	
	THE BUSINESS	PERFORMANCE, PROSPECTS AND BUSINESS RESILIENCE
INTEGRATED THINKING	• What: Value Creation – *Purpose, Strategy, Risks & Opportunities* • With: The Capitals – *Resources & Relationships* • How: Value Creation Process – *Governance, Business Model (including integrated reporting process and controls therein), Risk Management* • Why: Competitive Edge - *Investment Proposition*	Select metrics: Report metrics: IFRS ISSB Standards ISSB Standards (will also have partial description of *The Business* – TCFD – climate governance, strategy and risk management*) Self-Determined
REPORTING FORMAT	Description	KPIs / Narrative
AUTOMATION	Delivers connectivity	
REPORT INTEGRITY	Integrated Reporting Process	Internal Controls
SUBJECT MATTER INFORMATION	**The Annual Integrated Report**	
COMPETENCIES	*Board and Management judgement, business and reporting acumen*	*Measurement*
SUITABLE CRITERIA	<IR> Framework as described in Basis of Preparation and Presentation	
AUDIT	**Integrated Reporting Assurance**	
AUDITOR SKILLS	*Evaluation, professional judgement and scepticism, business and reporting acumen, specialist expertise (industry, ESG)*	*Assessment*

The purpose of Integrated Reporting Assurance

In this context of assurance, what messages are we expecting Integrated Reporting Assurance to convey? Without perfecting the actual wording of the assurance report, perhaps the message could be characterised as something like:

"Dear investor, you have my assurance that the way that the Board has described its approach to Governance and its approach to strategic management, its business model and risk management, as well as the metrics in the Integrated Report reflect The Business as it operates in practice[4]. You have my assurance that this company is really telling you as it is in terms of governance, the strategy, the business model, and risk management."

[4] As distinct to The Business that the organisation would 'like to have'. A related point is that it is important to note that an integrated report assurance report is not a report on the quality of The Business. That is a matter for the Board of Directors and management. The assurance report is about the way that The Business is **described** in the integrated report.

This would present a powerful message to investors about how they might think about the organisation's business and its enterprise value. A qualified report would probably not be an option that a board of directors or management would care to contemplate, again in messaging terms rather than report wording:

"Dear investors, I don't think that company is telling you the truth about the way The Business is governed and managed"

An assurance provider would need to be able to 'call out' the Board of Directors if the approach to governance described in the integrated report does not reflect what is happening inside The Business; and the same with the Chief Executive Officer in terms of describing the strategy. Considering that an integrated report provides a window into the quality of the organisation's integrated thinking, an assurance practitioner needs to be considering these aspects carefully.

Integrated Report Audit Messages

Predominant Audit Technique	
PJ	Evaluation – professional judgement
PS	Evaluation – professional scepticism
÷	Measurement - metrics

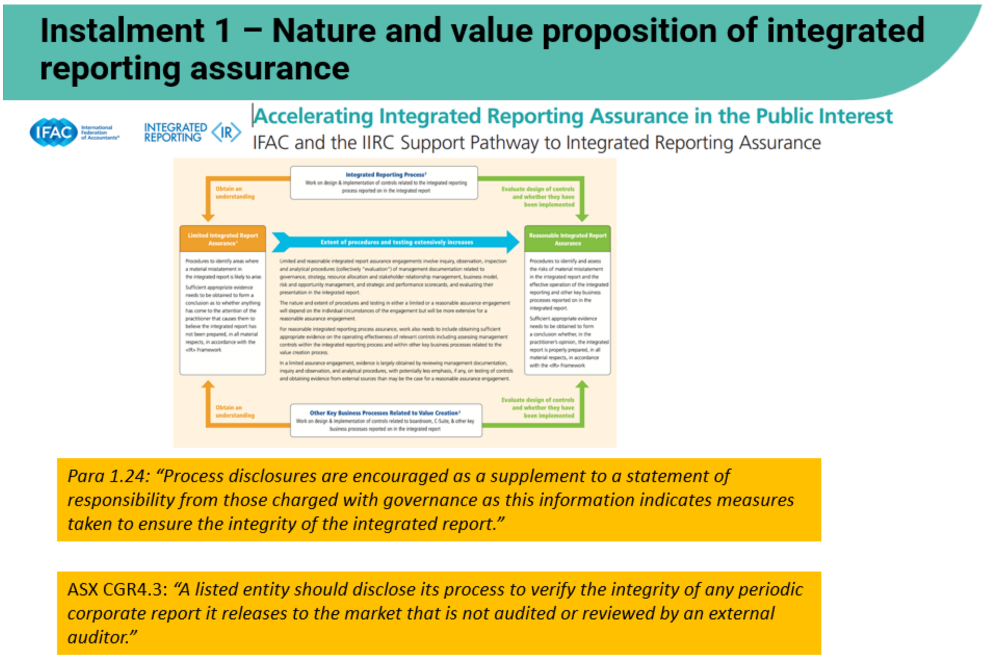
Integrated Report Component	Integrated Audit Report Messages	
Basis of Preparation and Presentation	PJ PS	*Example messages:* • 'This report will guide you on how to analyse and interpret the integrated report' • 'This report can assist you in evaluating whether you trust the information in the integrated report and be able to use it to improve your decision-making model'
The Business – Governance, Strategy, Resources & Relationships, Business Model, Risk Management	PJ PS	*Example messages:* • 'The strategy described is the real strategy' • 'The description of the governance arrangements is fair, and the description of the governance process and its performance fairly reflects the design of the process and its operation in the boardroom' • 'The description of the business model, including the integrated reporting process, fairly reflects its design and operation'
Performance and Prospects	PJ PS ÷	*Example messages :* • 'The metrics provide a sound basis for understanding the company's performance and prospects' • 'The metrics were in performance reports considered by the board and executive management' • 'The metrics have been fairly extracted from systems and the underlying systems work'
Value Created	PJ PS	*Example messages:* • 'The information about governance, the strategy, resources and relationship management, business model and performance provide a reasonable basis for understanding the resilience of the organisation'
Integrated Reporting Framework and ISSB Standards	PJ PS	*Example messages:* • 'The integrated report has been prepared, in all material respects, in accordance with the <IR> Framework and relevant ISSB Standards'

Further guidance

The International Federation of Accountant's (IFAC) Integrated Reporting Series Instalments 1 and 2 were referred to above. They are available here. This series is focussed on "Accelerating Integrated Reporting Assurance in the Public Interest" and characterises a 'Circle of Credibility and Trust' between preparers, assurance practitioners and investors relation to integrated reports.

Instalment 1: The Independent Auditor enhances credibility

Instalment 1 is about the nature and value proposition of Integrated Reporting Assurance. There is an Australian case study on the application of this on the Deakin University website.



Instalment 2: The Board of Directors asserts credibility

Instalment 2 in this series was released a few months ago. It provides guidance on a Board Responsibility for ensuring the integrity of the Integrated Report and the underlying Integrated Reporting process. This includes the importance of a reporting strategy and the Board involvement in this strategy. The Nedbank example is included in Instalment 2.

Instalment 3: Investors assess the decision-making credibility and trust

Instalment 3 is in development and should be published in the first half of next year. This Instalment will bring to light the value of Integrated Reporting for Investors. In preparing this Instalment, we want to understand real-life Investor perspectives.

Instalment 3 – Stimulating Market Demand

The Value of Integrated Reporting Assurance to Investors

- Matching prototype integrated report with prototype integrated report assurance report
- Assurance on description of *The Business* – enhanced confidence for investors
  - Governance, strategy and business model: assessments of enterprise value
  - Risk and opportunity management: selection of discount rate
  - Performance and prospects (metrics): projections of future cash flows
- Comparison of what integrated reporting assurance adds to sustainability assurance
- Case studies
  - Why have buyers acquired integrated reporting assurance?
  - What have users received and said?
- How can investors use assured integrated reports in NPV models?
- Integrated reporting framework
  - 'Possible now'
  - 25 May 2022 statement

We would like to hear from companies that have embarked on this sort of assurance and investors who have received on this kind of assurance.

We hope to include in this instalment a comparison of what Integrated Reporting Assurance adds to Sustainability Assurance and some case studies about why buyers acquire this kind of assurance.

Impacts, outcomes, and integration of financial and non-financial information

Paul Druckman

Chair of the World Benchmarking Alliance

The idea of creating value over time is absolutely critical and was embedded in everything that we did in the International Integrated Reporting Council (IIRC). The term 'value' is mentioned 126 times in the Integrated Reporting Framework, which shows the importance of it. 'Values', however, is very different, it is mentioned five times and 'Impact' is actually only mentioned in the current IR framework once. The European Sustainability Reporting Standards (ESRS) talk about stakeholders being better informed about the impact of the business on human rights and the environment without the caveat of how it creates value for the entity. But what neither the Integrated Reporting Framework, nor the ESRS, nor the ISSB standards do, is to point out that information and transparency in and of themselves, do not necessarily mean accountability.

Urgency

There are many, many new terms that we need to understand today - value creation, SDGs, outputs, outcomes, impacts, ESG versus sustainability, and the whole area of organisational purpose and of course, not to forget 'woke capitalism'. Underlying all these terms, however, is the stark reality of the state of the climate and we need to be reminded of this. The important point of this new language is that, given the reports and evidence available today, we have approximately 2,616 days which is about 60 board meetings available to us (assuming 6 meetings per annum) to halve global emissions and keep the global temperature rise within 1.5°c.

This is the urgency of what we are now facing, and I do urge us to really think about that. There is no credible pathway at the moment to achieving a below 1.5°c goal - we need a rapid transformation of societies. It is in this context within which we need to view our various individual contributions, the roles of the ISSB, EFRAG, Integrated Reporting, and business. Business, as we know, is one of the many areas that have an impact on how we are going to resolve our issues today and move ourselves forward.

Trust

The Edelman Trust Barometer is a report based on a survey of thousands of people. The report considers indicators of trust among business, media, government, and NGOs. Over the last two years, it is significant that business is the institution that society is trusting most to provide the necessary leadership in these times. Given that the feedback from the Report is that people want "more business leadership, not less", we need to look at the state of this leadership.

Leadership

The PwC 2022 Annual Corporate Directors Survey involved just over 700 directors in major listed companies in the US.

Of those surveyed, **45% saw a connection between ESG and the company's bottom line**. And so that idea of how some of these ESG factors impact a business is obviously not getting through to the majority of boards in the US and only 11% felt that it was necessary to have any ESG expertise on the board.

The key points on assurance and board accountability noted by Michael Bray in this Colloquium reminds me, as a Chartered Accountant who has been on many boards over the years, how the financial statements, the old annual report was always, as the saying goes "well you're an accountant, if you think that's right, that's fine by me". This is no way to address these issues!

Elon Musk was recently quoted as calling ESG a scam. In his statement, he was actually referring to the ESG Index being a scam. His point was that ExxonMobil had broken into the top 10 listing of the S&P 500 ESG Index, while Tesla had dropped out of the index altogether. This is troubling – one of the negatives resulting from ESG.

Chapter Zero is an example of a positive. Chapter Zero is a community of non-executive directors of listed companies. In the United Kingdom, it comprises around 2,000 members and "equips them to lead crucial boardroom discussions on the impacts of climate change".

Patagonia is another positive example. Patagonia announced that they have given their brand away to a charitable trust. In his open letter, the founder said:

"instead of extracting wealth from nature and transforming it into wealth for investors, we'll use the wealth Patagonia creates to protect the source of all wealth".

Impacts

The [World Benchmarking Alliance] (WBA) provides an accountability mechanism for the SDGs/Impacts. The WBA identifies 'Keystone Companies' - those 2,000 companies that have the most impact on the SDGs. The benchmarks are free and transparent and consider various Systems of Transformation. A couple of examples include:

Transport Benchmark

- Transport accounts for 37% of all GHG (greenhouse gas) emissions among all end-use sectors. The Benchmark shows:
- 66% do not engage with suppliers around environmental issues
- 0.3% of their total revenues are reinvested in low-carbon and R&D, on average
- 100% scored zero on just transition planning

The top performing companies, for positive impact, identified in the Transport System were the ComfortDelGro Corporation in Singapore, and La Poste in France. Neither of these companies scored over 50%, but nonetheless, they were the market leaders.

Digital Inclusion Benchmark

The second iteration of this benchmark measured and ranked 150 of the world's most influential technology companies on their responsibility to advance a more inclusive digital society. The Benchmark shows:

- 13% commit to publicly available principles for Ethical AI (ethical use of artificial intelligence)
- 8% published an impact assessment for one or more of their initiatives
- 23% of the tech workforce are female
- 10% indicate processes to identify, assess, and integrate human rights' risks and impacts in their business practices in their disclosures

The top performing companies, for positive impact, identified in the Digital Inclusion System were Telefonica of Spain, and Orange from France. Both companies scored extremely well, demonstrating an aspirational target for others.

Electric Utilities Benchmark

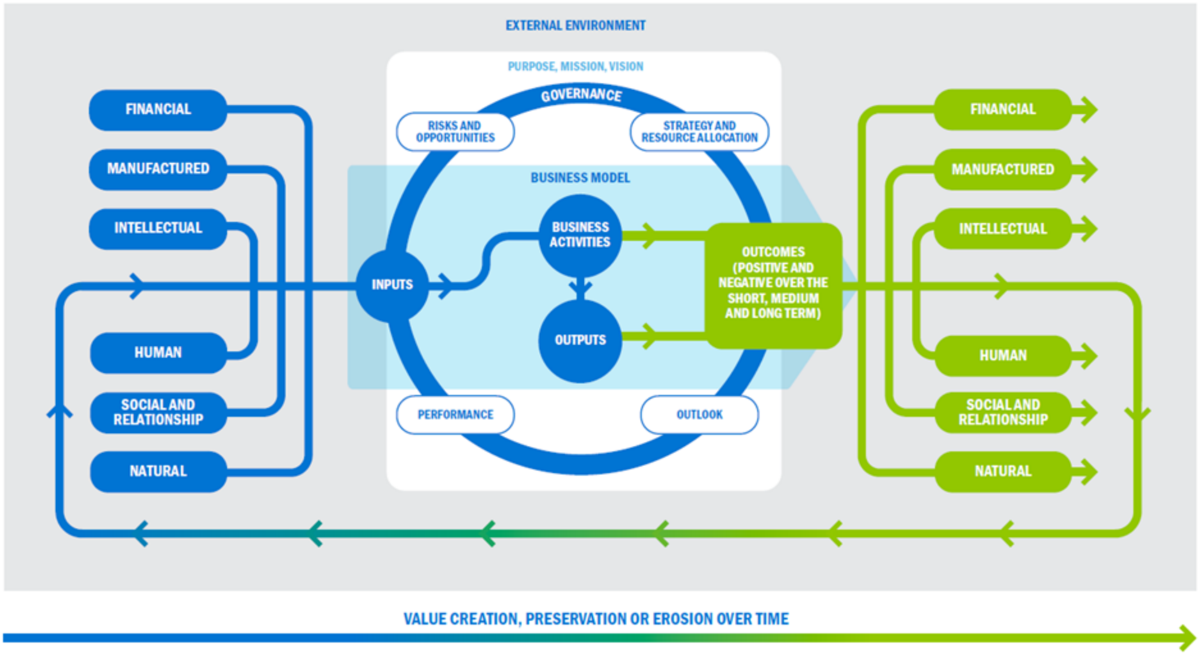
This benchmark measures 50 of the world's most influential companies on their progress to 1.5°C. The Benchmark shows:

- 70% scored worse in 2021 when compared with 2020
- 94% have not aligned their targets with their 1.5°c pathway

The top performing companies were Orsted from Denmark, and SSE from Scotland, which both scored really highly and should act as an exemplar, to the worryingly 60% of the companies which scored below 50.

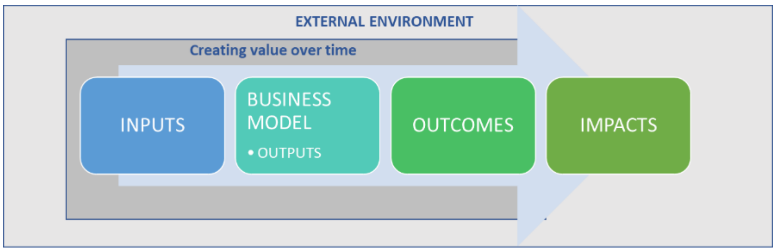
Integration

The key elements of the Integrated Reporting Framework involve: *Inputs* in the business model leading to *Outputs*, and then *Outcomes*. Consideration of *Impact*, although critical in today's thinking, was probably not so well thought about back in 2013 when the original Integrated Reporting Framework was released.



www.integratedreporting.org

The external environment at the top is where one needs to start when considering *Impacts*.

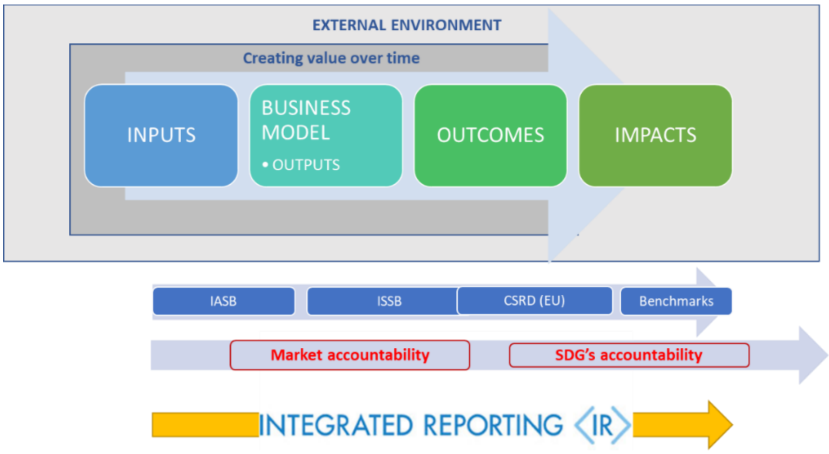


Aligning the reporting standards with the concepts of *Inputs*, *Outputs*, *Outcomes,* and *Impacts*:

- The Financial Reporting Standards address most of these aspects as well as addressing some of the elements of Outcomes.
- The new ISSB standards are driving forward the reporting on Outcomes and touch on Impacts.
- The European ESRS focus more on Impacts, but also, to some extent, on Outcomes.

Accountability

Finally, as suggested at the start, these terms and reports are not very useful without accountability and a sense of urgency.



The investment market does and will address accountability for *Inputs*, *Outputs,* and *Outcomes*. But accountability for the SDGs and *Impact* on society and the planet without any necessary *Impact* on the business is where another model is needed. This is where the need for the benchmarking and the work of the World Benchmarking Alliance is necessary for accountability.

In future, we need to think beyond Reporting, we need to think of the means to assess *Accountability* for the results of these reports, the *Impacts*. However, accountability requires a narrative to tell the full story of the company, this is where my vision for the evolution of the <IR> Framework means that it should be broader as in the illustration above.

We are progressing, fast

It is important to note that the world is, in some areas, answering the call for urgency. Examples include:

- The focus and use of 'ESG' today is an everyday occurrence, this was not the case a few years ago when Prof Mervyn King and I established the International Integrated Reporting Council. ESG and Sustainability, and how these impact markets, was not something that was well known or well used. Significant global organisations have turned their focus to ESG and more recently are moving forward into the further developments around considerations of *Impact*.
- The global reporting standards, GRI, ISSB, ESRS, and Integrated Reporting Framework are foundational for our progression.

Organisations such as the Good Governance Academy and this year The ESG Exchange are instrumental in advocating for and enabling this progression. Importantly, finally, it will be in our hands to hold ourselves accountable for the impacts that result.

There are really great things that are happening out there in the world today.

Summation of the 8th Colloquium

Professor Mervyn King

In the Colloquium, Sue Lloyd made some important points, namely that materiality on a sustainability report should be looked at through the same prism as materiality for financial reporting under the IASB. Importantly we heard that sustainability baseline standards are global standards, and these should be developed in collaboration and in these endeavours they should find alignment.

Patrick de Cambourg made it clear that sustainability reporting would be mandated in the EU. I believe that regulators throughout the world should, and will, mandate sustainability reporting. In addition, we also heard from Patrick, about the importance of an integrated report and I believe that this too should be mandated.

Michael Bray showed the evolution and the future of integrated reporting and the Integrated Reporting Framework. I recently met with the Chair of the IAASB, Tom Seidenstein, and he supports the call for reasonable assurance to be developed for integrated reporting.

Paul Druckman highlighted the importance of accountability. He highlighted the failure of companies to incorporate pertinent SDGs in their business model. Those who are not doing it; I think are failing in their duty of care to the company. I have said previously that the more informed a corporate report is, the more transparent is the accountability of the Board. An integrated report is one where the board can actually tell the story of what has happened during a fiscal period in a company. Reports, and in particular the integrated report, should be in clear, concise, and understandable language.

The IFRS has a golden opportunity to create a system of reporting, which could be the final stepping-stone to what we all are striving for, a global, comprehensive corporate reporting system. And the reason I say that is the IFRS is now equipped with all the necessary tools – the IASB, ISSB, and the Integrated Reporting Framework. Importantly, as things evolve the IASB's management commentary exposure draft, which has been paused, should be reconsidered within this context.

These standards must be aligned, and collaboration is progressing well. This will provide us with a clean suite of reporting, with what could be the most important suite of reporting in the world because, stakeholders would really then get the story of what's happening in the company. And not only investors, but also other stakeholders, too, can make business judgement calls about the longevity of a company, which is becoming critical in the very changing world we now live in.

Introduction to the 9th Colloquium

Gonzalo Ramos

Secretary General of the Public Interest Oversight Board

Introduction by Professor King

Gonzalo Ramos is the Secretary General of the Public Interest Oversight Board (PIOB) which, as you all know, is the oversight body of the IAASB. And they, like me, are concerned about the expectation gap, which I'm afraid is getting larger rather than being more informed. This induced me to write my book, “The Auditor: Quo Vadis” (meaning, “Where to?”), because the auditor was only auditing financial statements. Given that they were auditing only the financial statements, this meant that they were auditing on average no more than 30% of the actual market value of a company as expressed on stock exchanges around the world.

Social expectations of auditors are changing, not only with the future need of assurance over sustainability reporting but also with the existing demand for more to be done to highlight fraud. These expectations are not always well founded. In canine language, an auditor is not a bloodhound, but a watchdog. The role of the auditor is to make sure that the financial statements are drafted in accordance within the framework of the IAASB standards or the FASB standards. These expectations whether founded or unfounded have an *Impact* on the *Value* that auditors provide to their stakeholders. In this context, we are launching our 9th Colloquium in collaboration with the PIOB. I welcome Gonzalo to introduce you to the thesis of our 9th Colloquium.

Gonzalo Ramos

The PIOB oversees standard setting in audit assurance and ethics, and we do so in the public interest. The standards that we oversee must be of a high quality, fit for purpose, and implementable by the professional, whether accountants or auditors, but they must also stand up to the expectations of investors, users, and the general public. The expectation gap is at the core of our work - we need to understand exactly where the public interest lies on both sides of this equation.

We are launching a modest digital discussion which we will do through the coming year. This discussion will gather opinions and ideas about what the public interest is, what it means, and what the expectations gap is. We will use this to help us better understand our stakeholder’s expectations.

We hope that you join us in this discussion and follow us as we develop this discussion on social media and further at the 9th Colloquium. Find out more and register here.

Conclusion

Thank you to the speakers, the standard setters, and those who are supporting the drive for Impact Accountability. Thank you to those who worked to present the Colloquium and make this Memorandum publicly available.

Professor Mervyn King

Patron

November 2022

Carolynn Chalmers

Chief Executive Officer

November 2022