

3 April 2020

Accountancy Europe
Avenue d'Auderghem 22-28
1040 Brussels
Belgium

Dear Sir/Madam

Cogito paper – Interconnected standard setting for corporate reporting

Deloitte Touche Tohmatsu Limited is pleased to respond to Accountancy Europe's Cogito paper – Interconnected standard setting for corporate reporting ('the Paper').

We welcome the Paper as a constructive contribution to the global debate of how non-financial reporting (NFI reporting) could be harmonised and connected with financial reporting. We agree that there is a need for a global solution in view of the global flow of capital and the urgent need to address issues such as climate change which have no borders. We urge capital market regulators and multi-lateral authorities to engage urgently in putting a robust global systemic solution in place.

Why – the need for harmonisation

The paper sets out the factors driving the need to act. We agree with the key drivers identified in the Paper, in particular as below.

- Business is facing increasingly complex and inter-connected risks and is relying on a world of limited resources. The key risks identified in the World Economic Forum's (WEF) Global Risks Report are once again related to climate change, natural capital and social concerns.
- Climate change is an urgent existential issue that is material to all companies in all sectors. Consistent and comparable information is vital to investors and other stakeholders, including how companies are managing the transition to a low-carbon economy.
- Much of the value of a business today is non-financial, represented by technology, intellectual capital and human capital. Investors and others need insight into these factors in order to understand how value is created and sustained.
- Recognising these trends, investors are now demanding information on how companies are addressing these issues. They want to understand the business impacts, broader risks and resilience of business models over the longer term. As a result, sustainable investment is rising fast (estimated at over US\$30 trillion by the Global Sustainable Investment Alliance). Indeed, moves by significant asset owners like GPIF and large investment houses such as BlackRock and State Street are making sustainability the new investment standard.
- There is an important connection between stakeholders and investors. The way our capital markets and eco-system operate means nearly everyone is either a direct or an indirect 'investor' through savings, pension funds and insurance policies; and equally everyone is a stakeholder through employment, supply chain etc. As a result companies are increasingly seeking to pursue a broader

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objective: to deliver sustainable long-term value. This is leading companies to set out their corporate purpose, in the context of how they create value for their stakeholders and as well as creating financial value, make a positive contribution to society and the planet – for example, as set out by the signatories to the Business Roundtable Statement on the Purpose of the Corporation. Companies may connect their purpose and stated impacts to the SDGs, seeking to strengthen their alignment to global policy outcomes that have been agreed for 2030.

What – achieving globally consistent, comparable metrics

We agree that these factors mean that the world needs a comprehensive, systemic solution based on the best of what has been developed, starting with the creation of a minimum, global, comparable base of data that all companies must report in mainstream filings. This should be based on a standard-setting process that ensures information is fit for purpose (relevant, faithfully representational, consistent, comparable and global).

This should be achieved through an interconnected approach to reporting so that we can understand how the risks and opportunities faced by business translate into long-term value creation and profitability and how, in turn, this relates to shorter-term financial performance. Such connectivity is necessary to help reduce the risk of 'greenwashing', a phenomenon that is dangerous for financial stability and stands in the way of the world achieving the UN Sustainable Development Goals. Connected reporting can only be achieved through a connected approach to standard setting. Because investors say that non-financial information is critical in their decision-making, this information should be of equal standing to financial information, and as such included in mainstream corporate reports and be of equal quality to the financial information.

There are increasing calls for harmonisation of the many standards and frameworks that are now available, and for a new international non-financial standard setter to be established. The paper references calls by IFAC and Eumedion for a global standard. Many influential international organisations have also noted the need for standardisation including ESMA, the IMF and most recently a report by the Asia Securities Industry and Financial Markets Association (ASIFMA) which calls for policy makers in Asia Pacific to align policies and frameworks to international standards and, where those standards are not yet developed, to 'encourage and catalyse' their development.

Recognising the need to move further and faster in this area, the European Commission has proposed that a regional standard be developed building on existing global, voluntary standards and frameworks. This is seen as an important component of wider European Union policy on sustainable finance and the European Green Deal. Europe is in a very good position to accelerate the global process and has the vision to make a real difference. We believe that this process needs to be consistent and aligned with other international initiatives, particularly in areas such as climate change where the world has committed to a global target.

Global solution

We recognise the huge market efforts and innovation to develop solutions in relation to reporting on broader aspects of value creation. There is now a large proliferation of voluntary standards, codes, tools and methodologies, developed with genuine intention to provide solutions as to how business works in the context of people and planet. However, the plethora of initiatives is arguably now standing in the way of progress. The number of competing offerings is hindering comparability between reporting organisations and leading to complexity in reporting and greenwashing in the system. It also acts as an excuse for those who prefer to remain opaque or not to report anything.

We support standard setting at a global level because global issues need global solutions. Businesses have global supply and value chains, face global risks and have global investors. Most importantly, issues such as climate change and achieving the UN Sustainable Development Goals are global. This underpins the implementation of the TCFD Recommendations, which are widely acknowledged politically and by society as an effective means for consistent climate-related financial risk disclosures in mainstream filings. We urge worldwide capital market regulators and multi-lateral authorities to act collectively for the benefit of investors and stakeholders and engage urgently in putting a robust global systemic solution in place. The recent initiative to develop common metrics by the International Business Council of WEF is another example of business readiness to report to a broader agenda and a demand for an internationally-agreed approach to disclosures on non-financial information, including its governance.

Global standards for NFI, developed through thorough due process, including dialogue with a broad range of stakeholders to ensure rigour and buy-in would respond to the public policy objective of directing funds into sustainable investments. Recognising that economies and jurisdictions are at different stages in their drive to sustainable development, a 'building block' approach should be followed, where core standards are adopted by everyone, but they can be supplemented by local requirements, reflecting public policy priorities where necessary.

The scale of the challenges and the increasing momentum from all stakeholders for a global solution for non-financial reporting standards make the undeniable case for action. There is an overwhelming need for urgency.

If you have any questions concerning our comments, please contact me on +44 (0)20 7303 2888.

Yours sincerely

A handwritten signature in dark ink, reading "David Barnes". The signature is written in a cursive, flowing style.

David Barnes

Global Risk, Regulatory & Public Policy Leader