

ACCOUNTING IS THE LANGUAGE OF SUSTAINABILITY

(Easton, P., Ruch, G., Taylor, G. 2024)

IAPF-ICAEW SEMINAR DISCUSSANT- VINCENT PAPA

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A SUSTAINABILITY REPORTING (SR) CONCEPTUAL FRAMEWORK & CLARIFYING BOUNDARIES

- EFRAG responses to IASB ED on Climate-related and other uncertainties in the financial statements in November 2024, and ISSB agenda consultation in August 2023
- EFRAG connectivity between financial and sustainability reporting project's initial paper published in June 2024 ['Connectivity considerations and boundaries of different Annual Report sections'](#)

INNOVATIVE REPORTING PRACTICE- CARBON ACCOUNTING

EFRAG's European Lab (active from 2018-2021) encouraged innovative reporting practices

SR complements the financial statements with distinctive and overlapping objectives

Clear boundaries of financial statements, management report, the sustainability statement/disclosures are necessary

An SR conceptual framework can help clarify the boundaries

PART 1: APPLICABILITY OF FASB CONCEPTUAL FRAMEWORK TO SUSTAINABILITY REPORTING (SR)

PAPER CONSIDERS SIX ASPECTS FOR SR CONCEPTUAL FRAMEWORK

1) the objective of sustainability reporting,

2) reporting entity,

3) qualitative characteristics of useful sustainability information,

4) elements of sustainability statements,

5) recognition and measurement concepts,

6) presentation

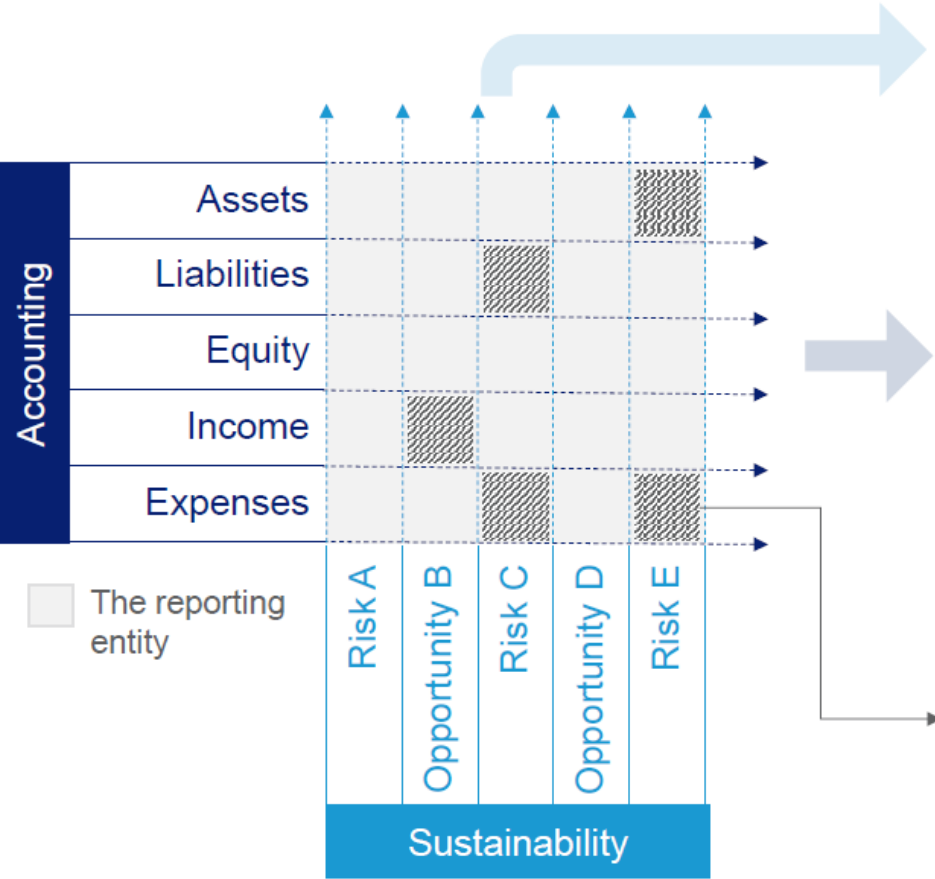
Question/Issue highlighted in paper

- who are the primary users of sustainability reporting?
- trade-offs among stakeholder needs and incongruent objectives.

This dilemma may be overstated. Notable trends

- *Assessment of companies impacts/externalities is integral to the capital allocation decisions of universal owners (i.e., institutional investors with multi-sector and global exposures)*
- *Ongoing evolution and heterogeneity of investors needs and preferences (e.g., influence of responsible investment strategies including active engagement)*
- *IASB Conceptual Framework objective of general purpose financial reporting encompasses assessment of amount, timing and uncertainty of future cash flows and assessment of stewardship of entity's economic resources*
- *Proliferation of indexing-based, passive investment strategies created a greater distance between owners and managers*
- *If how/will digitisation and AI transform the consumption of reporting information?*

ELEMENTS OF SUSTAINABILITY REPORTING vs FINANCIAL STATEMENTS



The objective of **sustainability-related financial disclosures** is to provide information about an entity's sustainability-related risks and opportunities that is material for investors' decision-making

The objective of **financial statements** is to provide information about an entity's assets, liabilities, equity, income and expenses that is material for investors' decision-making

Material information about the effects of an entity's sustainability-related risks and opportunities on its assets, liabilities, equity, income and expenses is provided **in the context of each report's objective** in accordance with the **applicable requirements** in the respective IFRS Standards

RISKS AND OPPORTUNITIES STEM FROM

- Resources and relationships
- Companies' dependencies and impacts on resources and relationships

Integrated Reporting Framework articulates six capital (intellectual, natural, social, manufacturing, human, financial) as sources of value creation

Source: IFRS Foundation

A STOCK AND FLOW REPRESENTATION OF RISKS AND OPPORTUNITIES IS CHALLENGING, CONCEPTUALISATION OF TRANSFORMATION OF CAPITALS INTO FINANCIAL EFFECTS WOULD BE HELPFUL

Paper identifies importance of unit of measurement, consideration of entry and exit values in the context of non-financial metrics.

Measurement challenge also arise for financial effects disclosed within sustainability reporting (anticipated financial effects)

- *Potential liabilities (commitments for future outflows that do not qualify as contingent liabilities, provisions)*
- *Stranded assets*
- *Potential revenue*

WOULD BE USEFUL TO EXPOUND ON

1) The applicability of *financial control and operational control in sustainability reporting in determining the scope of consolidation of metrics* vs the notions of *financial control and significant influence in consolidating financial statements information*

Norwegian Oil & Gas Company: Investment profile

	2023		2022	
	Mandatory Capex KPI	Voluntary Capex KPI including equity accounted investments	Mandatory Capex KPI	Voluntary Capex KPI including equity accounted investments ¹⁾
Proportion of taxonomy - eligible economic activities in total capex including equity accounted investments:				
Aligned Eligible Activity				
Electricity generation from wind power	0.4%	8.4%	1.0%	n/a
Electricity generation using solar photovoltaic technology	0.3%	0.3%	0.7%	n/a
Underground permanent geological storage of CO ₂	0.0%	0.4%	0.0%	n/a
Transport of CO ₂	0.0%	0.1%	0.0%	n/a
Total Aligned Eligible Activity	0.8%	9.2%	1.6%	n/a
Eligible and not Aligned activity				
Electricity generation from wind power	4.7%	5.2%	0.4%	10.9%
Electricity generation using solar photovoltaic technology	3.2%	3.7%	0.0%	0.8%
Underground permanent geological storage of CO ₂	0.0%	0.1%	0.0%	0.9%
Storage of electricity	0.3%	0.3%	0.5%	0.5%
Electricity generation from fossil gaseous fuels	0.0%	0.2%	0.0%	0.1%
Total Eligible and not Aligned activity	8.2%	9.5%	0.9%	13.2%
Total	9.0%	18.6%	2.5%	13.2%

1) Voluntary KPI not split by aligned and not aligned in 2022. All aligned capex from the mandatory KPI is therefore presented as "Eligible and not aligned" for the voluntary KPI.

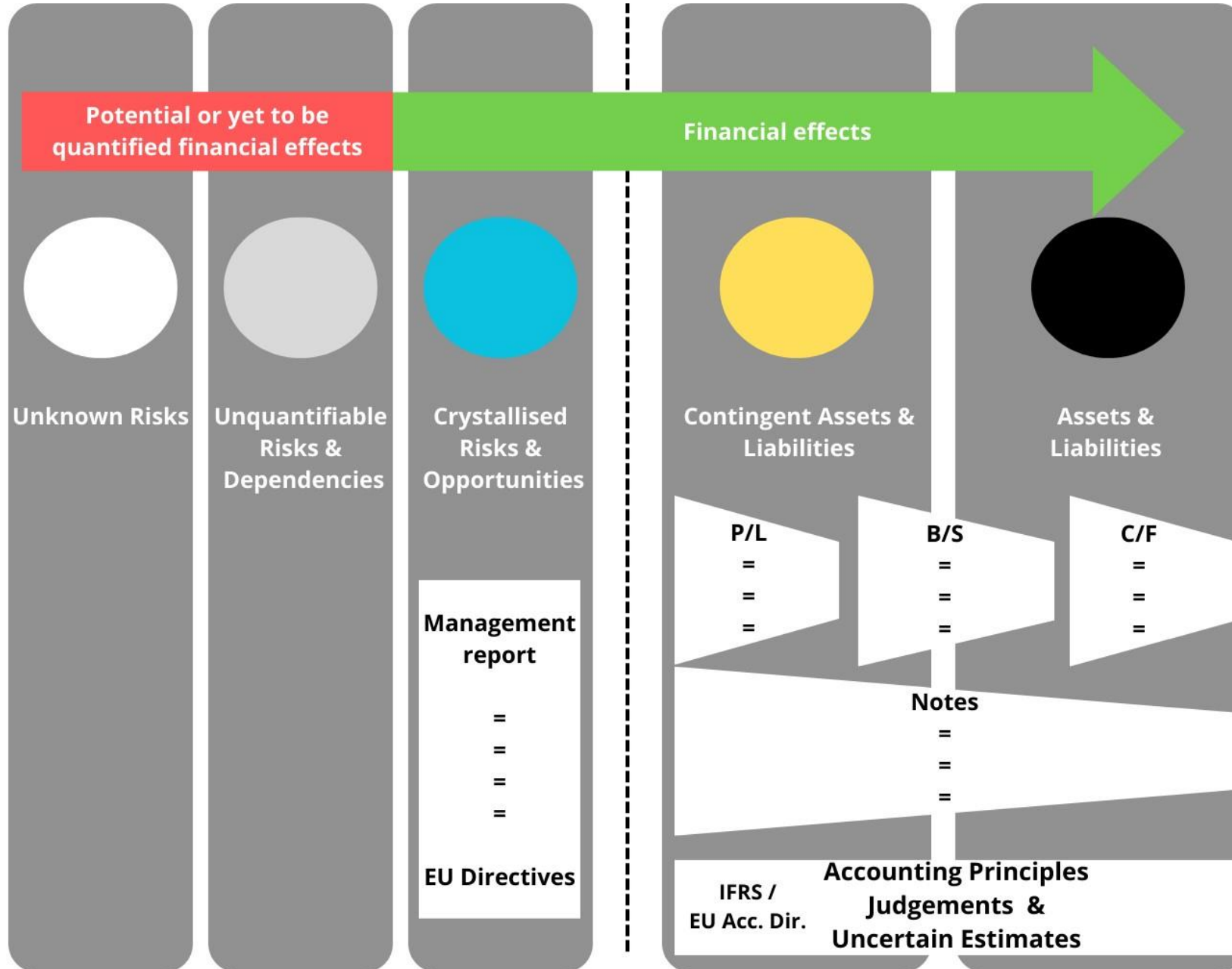
DIFFERENCE IN REPORTING BOUNDARY FOREST COMPANY: SCOPE OF CONSOLIDATION (SR METRICS)

Consolidated Human Resources (HR) figures exclude employees of the joint operations at Montes del Plata and Veracel. The HR figures cover permanent and temporary employees and are expressed as a year-end headcount.

Certain administrative functions and sales offices are not included in the Group's consolidated occupational health and safety (OHS) figures due to limited data availability related to a relatively small headcount and lower occupational safety risk compared to production units.

When financial figures are reported as part of the sustainability statements, the figures are retrieved from the audited financial reporting based on the International Financial Reporting Standards (IFRS) as applicable.

BOUNDARY: MIGRATION FROM SUSTAINABILITY REPORTING TO FINANCIAL STATEMENTS



- ### GREY AREAS
- Unrecognised intangibles
 - Synergies in business combinations
 - Climate-related information disclosures (e.g., information related to net-zero commitments)

Materiality (feedforward /rebound effects of impact materiality, financial materiality, quantitative versus qualitative materiality, dynamic materiality)

Implications of time horizon considered in sustainability reporting on measurement principles

PART 2: SUGGESTED CARBON ACCOUNTING APPROACH

Usefulness of model

- Incorporates forward-looking information, analogises stock and flow representation and lease accounting
- Could alleviate pressure to revise financial statements' recognition and measurement criteria to reflect externalities

Arising questions particular to the model that would be helpful to address

- Are scope 3 emissions encompassed within the measurement model? If not, why not? If so, how is estimation uncertainty addressed?
- To what extent would challenges and limitations of lease accounting (Topic 842 and IFRS 16) be also at play for the proposed model? What would be the appropriate discount rate applied in the measurement (time value of money vs time value of carbon)?
- Can the pledged assets and liabilities be translated to monetary units
- What normalisation would be suggested to facilitate comparability?

Implementation: An articulation of pathway to possible adoption, reference to and alignment with other similar initiatives IVFI