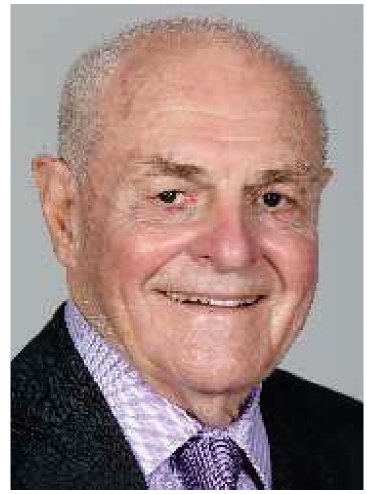
FROM THE
GUEST EDITOR'S DESK

Corporate Reporting
is not what it used to be



Hon'ble
Prof. (Judge) Mervyn E. King SC
Chairman, King Committee on Corporate Governance;
Patron, Good Governance Academy;
Chair Emeritus, IIRC & GRI, and;
former Judge,
Supreme Court of South Africa

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The days of doing an annual report made up of the financial statements plus comments from the Chair are gone forever. Financial reports today are connected to the Environmental, Social and Governance (ESG) reports or the so-called intangible assets.

This arose from it being established by the beginning of the 21st Century that limited liability companies were using natural assets faster than nature was regenerating them. At the same time, populations across countries were increasing.

Further, the makeup of the market capitalisation of companies showed that only about 20% of its value was expressed as additives in a balance sheet, according to financial reporting standards. The result was that many standard setters and framework providers sprung up in the ESG space.

This caused clutter and confusion for preparers and users, and diluted comparability.

The pandemic showed how scientists collaborated under Sustainable Development Goal 17 to perfect a vaccine in nine months rather than nine years. This caused the executives of the framework providers and standard setters in the ESG space to start collaborating. Five of the main ones issued a statement of intent to collaborate and the International Financial Reporting Standards (IFRS) Foundation issued a statement that it was increasing its mandate to include sustainability reporting. On November 03, 2021, they announced the establishment of the International Sustainability Standards Board (ISSB).

Sustainability, like a coin has two sides. There are the impacts of the company's activities in producing its product and other outputs such as waste which have an impact on the three critical pillars for sustainable development, namely people, planet and profit. Likewise, those three critical pillars have an impact on the company. Thus, when Lehman Brothers collapsed it impacted adversely on the company's financial condition (its balance sheet), its operating performance (its income statement and cash flow), as well as its risk profile (its cost of capital).

The ISSBs will be global baseline standards but with a focus on enterprise value creation while the European Union (EU) has developed it's Corporate Sustainability Reporting Directives (CSRDs) which are focused on both sides of the coin. Work is afoot by the various task teams to try and align these two standards.

At the same time the International Accounting and Auditing Standards Board (IAASB) is talking to these task teams to try and ensure that the language is assurance friendly and that there can be a reasonable assurance of sustainability and integrated reports.

One thing is common cause, both for the IFRS, the EU and the Securities Exchange Commission (SEC) in the United States, and that is that there must be connectivity between the financial and so-called non-financial reports.

Consequently, the integrated report has become more important because it is the one commonality between the IFRS standards, the EU standards and the standards still to be announced on sustainability issues in the US.

Preparers and users must be alert as to the evolution of corporate reporting which is now moving with great expedition. ■

Prof. (Judge) Mervyn E. King SC, Chairman, King Committee on Corporate Governance; Patron, Good Governance Academy, Chair Emeritus, IIRC & GRI and former Judge, Supreme Court of South Africa.

A committed South African, dedicated campaigner for justice and fairness, an accessible and selfless man, Prof. (Judge) King has changed the corporate governance landscape not only in South Africa but also internationally.

He was conferred with Golden Peacock Global Award for Lifetime Achievement in Corporate Governance few years back in London. Earlier Late Sir Adrian Cadbury was also conferred with Golden Peacock Global Award for Corporate Governance.