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PROFESSIONAL ACCOUNTANTS CHANGING BUSINESS FOR THE PLANET

A simple guide to natural capital management for **corporate reporters**

REPORT SERIES: **3** of 4

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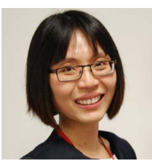
PROFESSIONAL ACCOUNTANTS CHANGING BUSINESS FOR THE PLANET:

A SIMPLE GUIDE TO NATURAL CAPITAL MANAGEMENT FOR CORPORATE REPORTERS

This guide is derived from ACCA's desk-based research. We have provided many examples and links to other organisations with natural capital management expertise to support readers further in connecting to more detail. In providing such links, ACCA does not endorse any commercial activities associated with these organisations.



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Executive **summary**

The corporate reporting function plays an important part in the dialogue between a business and its external stakeholders: corporate reporters give these stakeholders the information that they need, in a form that they can understand and trust.

This communication also helps to keep business leaders honest. Knowing that the strategies, objectives and performance metrics that are published must conform with legal requirements, and will be scrutinised by investors, lenders, regulators and the media provides a powerful motivation for business leaders to achieve the strategic objectives to which they have thus committed themselves.

Increasingly, these strategic objectives now cover natural capital. Natural capital risks around the world are ever more frequently affecting businesses' ability to create value. In some places, the effects of climate change have interrupted business operations. In others, the natural capital impacts of business activities have harmed local communities to such an extent that it has affected the reputation of the brands concerned, and even led to costly litigations. Investors now see natural capital risks and opportunities as key factors that affect companies' value. Demand is also growing from society at large on companies to publish their natural capital impacts in a transparent and understandable way.

Natural capital reporting is a fast-evolving area. The growing public interest in natural capital issues has pushed it to the top of the regulatory agenda in many jurisdictions around the world. As a result, more mandatory reporting requirements can be expected, and it's to be hoped that global harmonisation will result – leading to greater comparability of disclosures and metrics.

It's time to prepare for the changes ahead by familiarising yourself with the existing voluntary initiatives on which future mandatory requirements are likely to be built. These voluntary initiatives share common principles for how good reporting should be conducted. Furthermore, the Recommendations of the Financial Stability Board's Task Force for Climate-Related Financial Disclosures ('TCFD Recommendations') are emerging as a focal point for both regulators and voluntary initiatives, so it's worth starting to implement the TCFD Recommendations early. We have listed helpful sources of guidance at Appendix 2 to help you on this journey.

Finally, let us remember that the corporate reporting process and output should create value for the business: by meeting stakeholders' information needs in the most efficient and effective way, and by providing strategic insights to business leadership itself.

NATURAL CAPITAL RISKS AROUND THE WORLD ARE EVER MORE FREQUENTLY AFFECTING BUSINESSES' ABILITY TO CREATE VALUE.

DEMAND IS ALSO GROWING FROM SOCIETY AT LARGE ON COMPANIES TO PUBLISH THEIR NATURAL CAPITAL IMPACTS IN A TRANSPARENT AND UNDERSTANDABLE WAY.

1. Introduction

Key messages

- Corporate reporting is about communicating in an accountable way with external parties who have a stake in the business – these external parties include providers of finance as well as business partners, local communities and governments.
- Corporate reporting may be driven by the Finance team, but it could also be led by the Investor Relations, Sustainability and Strategy teams, sometimes with the involvement of external advisers.
- The corporate reporter needs a strong understanding of the business's overarching strategy. Regular dialogues with business leaders and performance managers are important to ensure that the corporate reporting process and output meet the business's needs.

Corporate reporting is, essentially, about accountability and communication. Financial reporting emerged initially to meet the information needs of investors and lenders. Having limited visibility over the operations of the business in which they had placed their money, they needed to know whether the management was using their money responsibly. The financial statements, and the annual report as a whole, have been an important form of communication with those external parties who have a stake in the business. This act of communication makes it possible for external stakeholders to hold a business's management to account.

As corporate reporting has evolved, however, wide recognition has developed that external parties other than investors and lenders may also have different stakes in a business. These parties include customers, suppliers, business partners, local communities and governments. The forms that corporate reports can take have also diversified to include interim reports, sustainability reports and corporate responsibility reports. Some such reports may be paper-based, some are published online: indeed, some corporate reporting content has started to move outside the bounds of reports, to become dynamic content on corporate websites.

Nonetheless, the purpose of corporate reporting remains the same: to communicate a comprehensive picture of a company's performance and position in an accountable way to external stakeholders. The Financial Reporting Council (FRC 2020) defines corporate reporting as follows.

Corporate reporting comprises information publicly communicated by a company, about the company, for the purposes of enabling its stakeholders to:

- understand the company's performance and how it generates and sustains value;
- make decisions; and
- hold the company to account.

Most corporate reporters work in the Finance team. As corporate reporting continues to evolve, however, responsibilities for the preparation of corporate reports have broadened and the career paths of professional accountants have diversified, so this guide could also be relevant for professional accountants in business working in Investor Relations, Sustainability or Strategy teams, or indeed those in practice advising companies on corporate reporting. There is also often an overlap between corporate reporting roles and management accounting roles: a financial controller, for example, may be responsible for both external reporting and internal performance management – see our report *Professional Accountants Changing Business for the Planet: A Simple Guide to Natural Capital Management for Performance Managers* (ACCA 2021).

Whichever team you're working in, the role of a corporate reporter requires communication and problem-solving skills, up-to-date technical knowledge and a strong sense of professional ethics. In order to create complete and reliable corporate reports that are accountable and decision-useful, you will need to:

- engage with business leaders through the reporting cycle to:
  - understand the company's strategy
  - identify key stakeholders who could affect, or be affected by, the company's strategy
  - develop a corporate reporting strategy that meets the key stakeholders' information needs
- comply with the mandatory reporting requirements
- work with business leaders and performance managers to align information needed by management internally for making decisions with information reported externally
- collaborate with colleagues across the company to collect the information required
- develop an understanding of potentially omplex dependencies and impacts, and ways of measuring them
- identify information gaps and find ways of overcoming them
- communicate information to external stakeholders in a way that meets both mandatory reporting requirements and the principles of good corporate reporting.

Natural capital is increasingly becoming the focus of mandatory reporting requirements around the world. Research has found that there are currently over 700 mandatory reporting requirements related to the environment in 70 jurisdictions (Reporting Exchange n.d.[1]), and given the global focus on climate change mitigation, this number is expected to grow. At the same time, demand for natural capital reporting is also surging from investors, customers and the public at large.

In the sections below, we will set out recommendations for the tools and processes that will help you, as a professional accountant in this crucial and fast-evolving role, not only to do your job, but also to bring about positive changes for our planet.

1 At the time of writing, the Reporting Exchange database documents 2,091 environmental, social, governance and economic reporting provisions in 70 jurisdictions around the world. Filtering for the subject and obligation status of these provisions presents 701 mandatory reporting provisions relating to the environment.

THE CORPORATE REPORTER NEEDS A STRONG UNDERSTANDING OF THE BUSINESS'S OVERARCHING STRATEGY.

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2. Tools

Key messages

- Natural capital reporting is likely to be driven by mandatory reporting requirements and external stakeholder demands, but there is also an opportunity to innovate so that the reports provide decision-useful insight for the business leadership.
- Natural capital-related risks should be considered in non-financial reporting (in the management commentary, or in separate sustainability or corporate responsibility reports). In addition, it could affect financial reporting. The materiality of financial impacts arising from natural capital-related risks should be considered carefully.
- Voluntary non-financial reporting initiatives could form the basis of future mandatory reporting requirements, so it is worth familiarising yourself with them and adopting leading practice early.
- Innovations in corporate reporting should drive better decision-making: both by the business's management, and by your stakeholders.

Know the business's reporting needs

Your business's reporting needs are likely to be driven by:

- the information needed by business leaders (board and management) to make informed decisions
- the mandatory reporting requirements to which your organisation is subject, and
- the legitimate information needs of key stakeholders.

Jurisdiction-specific mandatory reporting requirements could influence your reporting in a significant way. In the 'Using reporting guidance' section below, we will refer to examples of mandatory reporting requirements, and discuss their likely future direction.

There is a clear overlap between the information that key stakeholders demand, and the information that business leaders need to consider to make informed decisions: in directing the company's strategy, business leaders need to be cognisant of what the external stakeholders expect of them. Therefore, it's important that accountants in corporate reporting functions collaborate with their colleagues in performance management, as well as working effectively with business leaders.

Using reporting guidance

Guidance can come in the form of financial reporting standards, mandatory reporting requirements and voluntary guidelines. In this section, we will take you through some of these, starting with financial reporting, before moving on to non-financial reporting.

Financial reporting

All but the smallest of private unlisted companies are required to apply financial reporting standards – whether International Financial Reporting Standards (IFRS® Standards) or national Generally Accepted Accounting Principles (GAAP), which may be based on IFRS® Standards or IFRS for SMEs®. Natural capital topics may not feature prominently in the accounting standards, but just like other events and conditions that can change companies' economic resources or give rise to claims against the company, they could well be material to users of the financial statements. You need to exercise professional judgement in determining whether natural capital risks and opportunities should be disclosed or recognised in the financial statements or elsewhere in the annual report. Certainly, it would be a mistake to assume that natural capital-related issues belong only outside the financial statements, in the front half of the annual report.

'[…] As set out in [Practice Statement 2 of the International Accounting Standard Board (IASB) (IASB 2017) Making Materiality Judgements, *qualitative external factors, such as the industry in which the company operates, and investor expectations may make some risks 'material' and may warrant disclosures in financial statements, regardless of their numerical impact.*

Given investor statements on the importance of climate-related risks to their decision-making, the implication of the materiality definition and the Practice Statement is that companies may need to consider such risks in the context of their financial statements rather than solely as a matter of corporate-social-responsibility reporting.'

Nick Anderson, IASB Board member (Anderson 2019)

Climate change is just one of many potentially relevant natural capital topics but, as it has been an area of particular interest to investors, lenders and other creditors – the primary users of the financial statements, it is also the focus of recent guidance from the IASB. Much of the guidance also applies to other natural capital elements such as water resources and biodiversity, which, depending on the nature of your business, could also prove financially material.

IAS 1 *Presentation of Financial Statements* emphasises that materiality judgements should be based not only on the magnitude of impact, but also on its nature. So, even if the current-year financial impact of climate change or natural capital risks seems small, it may still have the potential to influence investing decisions.

Practice Statement 2, *Making Materiality Judgements* (IASB 2017) provides an interesting example (see Box 2.1) of a situation where a very small carrying amount of debt on a bank's balance sheet could nevertheless be material by its nature, and therefore require specific disclosure.

We can replace the financial difficulties experienced by the national economy in this example with climate-related risks or water-stress, and the conclusions would still stand.

Natural capital risks should be considered when you make decisions about the recognition, measurement, presentation and disclosure of items in your organisation's reports. The IASB's educational material, *Effects of Climate-Related Matters on the Financial Statements* (IASB 2020), highlights the recognition, measurement, presentation and disclosure implications that climate-related risks may bring. The following sub-sections summarise some of these. Again, these focus on climate, but the same principles also apply to other natural capital risks that your business may be facing.

We have summarised the key accounting and disclosure impacts of climate-related risks in Appendix 1.

Box 2.1: Example illustrating the influence of external qualification factors on materiality judgements

Background
An international bank holds a very small amount of debt originating from a country whose national economy is currently experiencing severe financial difficulties. Other international banks that operate in the same sector as the entity hold significant amounts of debt originating from that country and, hence, are significantly affected by the financial difficulties in that country.

Application
Paragraph 31 of IFRS 7 Financial Instruments: Disclosures requires an entity to disclose information that enables users of its financial statements to evaluate the nature and extent of risk arising from financial instruments to which the entity is exposed at the end of the reporting period.

When preparing its financial statements, the bank assessed whether the fact that it holds a very small amount of debt originating from that country was material information.

In making that assessment, the bank considered the exposure to that particular debt faced by other international banks operating in the same sector (external qualitative factor).

In these circumstances, the fact that the bank is holding a very small amount of debt (or even no debt at all) originating from that country, while other international banks operating in the same sector have significant holdings, provides the entity's primary users with useful information about how effective management has been at protecting the bank's resources from unfavourable effects of the economic conditions in that country.

The bank assessed the information about the lack of exposure to that particular debt as material and disclosed that information in its financial statements.

Source: Practice Statement 2, *Making Materiality Judgements* (IASB 2017)

Management commentary

Management commentary – the narrative first-half of the annual report – complements the financial statements by providing important context for financial performance and position, and filling information gaps. A key part of this is providing forward-looking information to supplement the past performance presented in the financial statements. Investors need this in order to assess a company's long-term prospects, and evaluate how effectively management is exercising stewardship.

IASB's Practice Statement 1, *Management Commentary* (IASB 2010) sets out a principles-based approach to explaining a company's strategy, risks, performance and prospects. Although non-mandatory itself, it has formed the basis for national requirements in this area. One example of this is the UK Strategic Report requirements. The UK Financial Reporting Council's guidance on these emphasises the importance of not only explaining a company's financial performance and position, but also providing a holistic picture of how the company is creating value over the longer term (FRC 2018).

The Practice Statement is currently (January 2021) being revised by the IASB. The new Practice Statement could prove to be an important piece of guidance on how financial reporting and non-financial reporting should be interlinked, and how natural capital issues can be presented in a consistent way, through both words and numbers.

Non-financial reporting

Mandatory reporting requirements

Innovations in corporate reporting are often developed within the constraints of mandatory requirements. Mandatory reporting requirements may arise from:

- listing requirements and/or
- national legislation or regional directives, whose scope may be defined by:
  - size
  - sector
  - the jurisdiction in which the business is based.

It is worth bearing in mind that mandatory reporting requirements often have a wider reach than their explicit scope. In the same way that a UK company that is a subsidiary of a US parent company would probably have to maintain financial accounts in US GAAP, a Nigerian subsidiary of a China-based group may need to collect information and report to its parent to comply with Chinese laws about greenhouse gas emissions and water pollution.

Trickle-down effects could also occur through the supply chain from one jurisdiction to another, and affect businesses that are smaller than the companies that fall directly within the scope of the mandatory requirements. A clothing manufacturer in Bangladesh could, for example, be obliged by a Spanish fashion brand customer to provide information about the environmental impact of the dyes that it uses.

In addition, some mandatory requirements that are aimed initially at large listed companies may, in future, be expanded to apply to smaller, unlisted businesses. For example, the European Commission is considering extending the scope of the soon-to-be-revised EU Non-Financial Reporting Directive to smaller listed companies (ESMA 2020).

A forward-looking mindset is therefore needed when you consider mandatory reporting requirements.

At the time of writing, we are in the midst of some significant developments in non-financial reporting, with voluntary initiatives, regulators and the IFRS Foundation all pushing towards harmonisation with an unprecedented sense of urgency. This could mean that the provisions of frameworks and standards that, until now, have been voluntary may well become mandatory reporting requirements in the short- to medium-term. It is worth bearing this in mind when considering the other non-financial reporting initiatives discussed below.

Voluntary reporting initiatives

Many voluntary reporting initiatives provide relevant guidance on natural capital reporting. The key ones are listed in Table 2.1 below.

As you may have noticed, the frameworks and standards above differ slightly in their objectives. The GRI Standards, currently the world's most widely-used sustainability reporting standards, aim to meet the needs of a wider group of stakeholders. By contrast, the other standards and frameworks are based on the premise – similar to financial reporting standards – that investors are the primary audience of corporate reporting.

The standards also differ in terms of scope. As a simple overview, Figure 2.1 shows the topic areas covered by the <IR> Framework and the GRI and SASB standards.

TABLE 2.1: The objectives, scopes and audiences for various non-mandatory reporting standards

	OBJECTIVE	SCOPE	REPORTING AUDIENCE
IASB's Practice Statement 1, *Management Commentary* (IASB 2010, currently under revision)	Presentation of management commentary that relates to financial statements that have been prepared in accordance with the IFRS Standards	Integrated information that provides a context for the related financial statements	Present and potential investors, lenders and other creditors
Recommendations of the Financial Stability Board's Task Force for Climate-Related Financial Disclosures (TCFD 2017)	Business-led framework, ensuring that that the effects of climate change become routinely considered in business and investment decisions	Climate-related financial risks and opportunities	Users of mainstream financial filings
The International Integrated Reporting Framework (<IR>) (IIRC 2021)	Improving the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital	Six capitals (resources and relationships used and affected by an organisation in creating, preserving and eroding value): financial, manufactured, intellectual, human, social and relationship, and natural	Primarily providers of financial capital
CDSB Framework (CDSB 2020)	Reporting environmental information in mainstream reports	Environmental information: the broad climate focus recognises the intrinsic interconnections between climate and other environmental matters	Primarily investors
GRI Standards (GRI 2020)	Enabling companies to report on their sustainability impacts consistently, in a way that meets the needs of multiple stakeholders	Significant economic, environmental and social impacts	A broad range of users, including investors, companies, policymakers, civil society, employees, and customers.
SASB Standards (SASB n.d.)	Facilitating the disclosure of sustainability information that is financially material, decision-useful, and cost effective.	Sustainability topics across five dimensions: environmental, social capital, human capital, business model and innovation, and leadership and governance	Investors, lenders and other creditors

Source: adapted from CDP et al. 2020a

FIGURE 2.1: Comparison of areas covered by <IR> Framework and the GRI and SASB Standards

GRI, Dimensions of sustainability

Economic	Environmental	Social

<IR> Framework, Capitals

Financial	Human	Intellectual
Manufactured	Natural	Social and relationship

SASB, Dimensions of sustainability

Business model and innovation	Environment	Human capital
Leadership and governance	Social capital	

Source: IMP (2021)

Common principles

Although the plethora of different standards and frameworks may seem overwhelming, their underlying principles have much in common.

ACCA's position paper, *The Tenets of Good Corporate Reporting* (ACCA 2018a), identified seven common qualitative characteristics of good corporate reporting that apply to both financial and non-financial reporting (Box 2.2).

As we have highlighted above, the question of what information is likely to be relevant depends upon who the users of the report are. Different corporate reports may be intended for different user groups, so what is material may vary from one report to another. We will discuss the issue of materiality in the 'Making decisions' section below.

Box 2.2: Qualitative characteristics of good corporate reporting

Relevance and materiality: The report should provide information that is capable of making a difference to decisions made by its users.

Completeness: The report should contain all relevant information necessary for a user to understand the position, performance and, where appropriate, the prospects of the reporting entity.

Reliability – neutral and free from error: The report should be unbiased in its presentation. Estimates should be based on the best evidence available at the time. Significant estimation uncertainties should be disclosed.

Comparability: The report should allow the user to understand the similarities and differences between reporting entities, and to compare one entity's performance from one reporting period with that from the next.

Verifiability: Information should, as far as possible, be objective and open to testing. Knowledgeable and independent observers should be able to reach a reasonable consensus on that information.

Timeliness:
The more up to date information is, the more useful it is.

Understandability:
Reports should aim to communicate complex matters clearly.

Harmonising content elements

Not only do the main existing standards and frameworks share common principles, but a consensus is also emerging about the content elements that good natural capital reporting should cover.

The Carbon Disclosure Project (CDP), CDSB, Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and SASB, in their joint paper *Reporting on Enterprise Value Illustrated with a Prototype Climate-Related Financial Disclosure Standard* (CDP et al. 2020a), proposed that the four pillars of the TCFD Recommendations should provide the basis for climate-related financial disclosures (Table 2.2). In practice, these pillars can be applied more widely to all natural capital disclosures.

Note that these content elements are recommended for businesses that want to report to providers of finance, within the structure of mainstream reports, on how climate-related risks and opportunities affect the business. If you are reporting to a wider range of external stakeholders, then you may well need to look beyond risks and opportunities that affect the business, to the business's impacts on these stakeholders.

TABLE 2.2: The four pillars of the TCFD Recommendations

TCFD PILLARS	RELATED CONTENT ELEMENTS	EXAMPLE OF DISCLOSURE
Governance	Governance	Disclose skills and competencies for governing and managing strategies designed to respond to climate-related risks and opportunities
Strategy	Business model	Describe the climate-related risks and opportunities that enhance, threaten, or may change the entity's business model and strategy over the short, medium and long term
	Strategy	Explain whether and how climate-related risks and opportunities and their associated impacts serve as an input to the entity's decision-making, strategy formulation and financial planning processes, including decisions and plans
	Outlook	Provide an analysis of whether and how the resilience of the entity's strategy and business model may be affected by climate-related risks and opportunities
Risk management	Risk and opportunities	Explain the entity's risk-management process and strategy for each category of climate-related risk that it identifies and disclose how risks are identified, prioritised, assessed and measured
Metrics and targets	Operational	Disclose metrics that reflect the impact of climate-related risks and opportunities on the entity's financial performance and non-financial performance
	Risk	Disclose metrics that analyse the degree to which financial results are sensitive to climate-related factors such as changes in the price of carbon or key commodities

Source: adapted from CDP et al. 2020a

Search for common metrics

Consistent and comparable metrics are crucial to ensuring that natural capital information is useful and can be trusted by external stakeholders – be they investors, lenders, or civil society.

In 2020, the IFRS Foundation consulted on a proposal to create a Sustainability Standards Board, operating alongside the IASB (IFRS Foundation 2020). Comparable metrics could be within reach if this proposal leads to the creation of global sustainability reporting standards. The groundwork has already been laid by the voluntary initiatives that we looked at above. Most recently, the World Economic Forum (WEF), working with International Business Council members and the Big Four accountancy firms, proposed a set of key metrics from among those proposed by existing initiatives. We will look at some of these below.

Box 2.3: The WEF's four pillars of stakeholder capitalism

In September 2020, the World Economic Forum (WEF) published the white paper *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation* (WEF 2020). This looks across existing initiatives to identify 21 core and 34 expanded metrics and disclosures, organised under four pillars:

- governance
- planet
- people
- prosperity.

The WEF highlight the interconnections between the natural, social and relationship, and financial capitals, noting: 'In the planet pillar, assessing the materiality of impacts on society associated with a given metric can be a helpful basis for establishing its materiality to long-term value creation for the company. This is because a range of factors, including changes in policy and regulation, and changes in employee, consumer and investor expectations, are leading to a convergence between societal value and financial value' (WEF 2020). ■

Climate-related disclosures

Regulators, as well as voluntary initiatives around the world, are coalescing around the TCFD Recommendations.

- The non-mandatory guidelines to the EU Non-Financial Reporting Directive (NFRD) show how required NFRD disclosures integrate with the TCFD Recommendations (European Commission 2019).
- Countries including New Zealand, Australia, Canada, UK, France and Japan have either legislated to make TCFD reporting mandatory, or announced plans to do so (New Zealand Government, 2020).
- Signatories of the UN-supported Principles for Responsible Investment Network are now required to report in line with TCFD Recommendations (PRI 2020).

As part of core metrics and disclosures under the 'Planet' pillar, the WEF recommends that companies fully implement the TCFD Recommendations (WEF 2020).

Financial institutions responsible for assets worth over $150 trillion (TCFD 2020) have already announced their support for TCFD. It is therefore a good idea to consider now how your company might implement the TCFD Recommendations, starting with an analysis of the business risks associated with a 2°C or 1.5°C rise in average global temperature. This will inform the company's emissions targets and climate strategy. As early as possible, you should demonstrate accountability by setting out a timeline towards full TCFD implementation and clearly communicating that timeline to external stakeholders.

In setting and communicating a climate strategy, you will need to work hand in hand with the business leadership and performance management functions.

The CDSB and SASB have published a useful *Implementation Guide for the TCFD Recommendations* (CDSB and SASB 2019a), as well as a *Good Practice Handbook* (CDSB and SASB 2019b) drawn from examples from across the G20.

Other natural capital metrics

Besides climate-related topics, other natural capital concerns may also be relevant for your company, depending upon the location and nature of its activities. Some examples of these, drawn from current practice, are presented in Table 2.3. These are by no means exhaustive. The metrics that you decide to use will be driven by the risks faced, and the strategy adopted, by your business. For a more detailed discussion of natural capital metrics, and what you should consider when setting them, please refer to our *Performance Manager* guide (ACCA 2021).

TABLE 2.3: A range of natural capital issues

TOPIC	METRIC	SOURCE	RATIONALE
Nature loss	Land use: number and area (in hectares) of sites owned, leased or managed in or adjacent to protected areas and/or key biodiversity areas (KBAs).[2]	GRI 304-1 (GRI 2020) WEF (WEF 2020)	Particularly relevant for companies with operations in or near sensitive ecological areas, and those with significant agricultural operations, supply chains or customers. Having operations inside or close to KBAs or protected areas indicates heightened risk of adverse impacts on biodiversity and heightened risk of exposure to associated legal or reputational risk.
	Biodiversity impact metric: land area x proportion of biodiversity lost x biodiversity importance	University of Cambridge Institute for Sustainability Leadership (CISL) and Natural Capital Impact Group (2020)	With this Biodiversity Impact Metric (BIM), businesses can determine where their operations pose the greatest threats to nature around the world. The metric can also be used to choose between different strategic responses and sourcing options. See the *Performance Manager* guide (ACCA 2021) for further explanations.
Fresh water availability	Water consumption and withdrawal in water-stressed areas: ■ megalitres of water withdrawn ■ megalitres of water consumed, and ■ the percentage of each in regions with high or extremely high baseline water stress	WEF (WEF 2020) SASB CG-HP-140a.1 (SASB 2020) WRI Aqueduct water risk atlas tool (Aqueduct n.d.)	Fresh water availability will be most material for companies with significant operations, supply chains or markets in water-stressed areas, particularly in developing countries. Water consumption and withdrawal can indicate the potential for negative societal impacts and associated business disruptions and shutdowns.
	Water consumption to generate one unit of turnover	Diesel and Motor Engineering Company Annual Report (DIMO 2020: 24)	This measure, applied to each business segment, enables the business to assess each segment's degree of dependency on water.
Waste	Waste per consumer use of products	Unilever (2019: 22)	Having identified plastic waste as a key risk affecting consumer demand, this key performance indicator (KPI) measured Unilever's progress towards its target of halving the total waste sent for disposal by consumers by 2020, compared with 2008 levels.

2 'KBAs provide a science-based and internationally recognized means of identifying sites contributing significantly to the global persistence of biodiversity, while protected areas indicate nationally (and often internationally) recognized areas of ecological or cultural importance, typically with specific legal protections.' (WEF 2020).

Making decisions on which to use – factors to aid decision making

Compliance with financial reporting standards and mandatory non-financial reporting requirements is mandatory. Beyond this, however, there is an opportunity to experiment and innovate – to seize the chance to be a 'sustainability trailblazer' (ACCA 2020b) within your business.

Although the diversity of voluntary non-financial reporting initiatives can seem daunting, the good news is that they are not mutually exclusive. In fact, 39 out of 48 companies in the <IR> Business Network, whose reports ACCA reviewed jointly with the IIRC in 2019, applied both the <IR> Framework and GRI in preparing their annual reports. Four of these companies also complied with SASB standards at the same time (ACCA 2020).

The Tenets of Good Corporate Reporting (ACCA 2018a), discussed above, the IASB's *Practice Statement 1: Management Commentary* (IASB 2010), the <IR> Framework (IIRC 2021), the TCFD Recommendations (TCFD 2017) and the CDSB Framework (CDSB 2020) provide the overarching reporting principles that can inform your natural capital reporting. You can then look to the standards to source relevant and comparable metrics: the GRI Standards (GRI 2020) provide topic-specific measures, while the SASB standards (SASB n.d.) identify measures that are relevant to your industry. The SASB's materiality map (SASB 2018) provides a very helpful tool for identifying the natural capital issues and metrics that are likely to be relevant to specific industries. Further guidance will soon the provided by GRI and SASB on how the two standards can be used together, following a collaboration between the two standard-setters announced in 2020 (GRI and SASB, 2020). Meanwhile, the WEF white paper (WEF 2020) may flag the most common metrics that may well be a good starting point for measuring natural capital dependencies and impacts.

As we have highlighted at the start of this report, any innovations in corporate reporting should aim to drive better decision-making: by both the business's management and your stakeholders. To be useful for decision-making by management, information must relate to the business's strategy: helping to evaluate the likelihood and impact of key natural capital risks or measure the achievement of strategic targets.

This strategically focused information will also be useful for some other stakeholders: investors who want to understand how the company's future cash flows are likely to be affected by emerging risks; employees and future employees who need to know whether the company, and hence their employment, is sustainable in the long term; and business partners, who may prefer to transact with companies with values and strategies that are aligned with their own businesses. Other stakeholders, including governments, regulators and society at large, may need more specific information about the company's external impacts on the environment and communities in the areas where it operates.

In order for the corporate reporting output to meet the needs of the business's management, investors, business partners and society at large, a robust and forward-looking approach to materiality is needed.

Materiality approaches

Information is material if omitting, obscuring or misstating it could influence the decisions that users make on the basis of the report. What information is considered material depends on the materiality lens that you adopt in each of your corporate reports.

Financial perspectives

The financial statements and their associated notes provide crucial information to investors about the amount, timing and prospects of future net cash inflows to the company, and influence their assessment of management's stewardship of the entity's economic resources.

The *Conceptual Framework for Financial Reporting* ('Conceptual Framework') (IASB 2018) lays out who the primary users of financial statements are, and what decisions financial statements could influence.

> *The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. Those decisions involve decisions about:*
>
> *(a) buying, selling or holding equity and debt instruments;*
>
> *(b) providing or settling loans and other forms of credit; or*
>
> *(c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.*
>
> (IASB 2018: A15 para 1.2)

As we have seen in the 'Financial reporting' section above, current natural capital risks could affect an entity's economic resources in many different ways and, hence, influence the decisions that investors and lenders make.

Value creation perspective

Information in the financial statements mostly focuses on past financial performance. More than ever, investors are demanding more forward-looking information – information that allows them to evaluate the risks and uncertainties related to the business, to allow better projections of future performance. This also requires non-financial information, be it about internally generated intangibles that are not recognised on the balance sheet, or about the business's natural capital dependencies and impacts.

The <IR> Framework defines material information as: *'information about matters that substantively affect the organization's ability to create value over the short, medium and long term'* (IIRC 2021: para 3.17). It clarifies that *'this is determined by considering [matters'] effect on the organization's strategy, governance, performance or prospects'* (IIRC 2021: para 3.21).

By considering this wider range of financial and non-financial value drivers that affect the organisation's strategy, the value-creation approach to materiality reflects information that business leaders – the board and executive management – care about.

External impact perspective

While a value-creation approach to materiality may satisfy the information needs of management and investors, other stakeholders may want more information about your organisation's significant economic, social and environmental impacts. These stakeholders could include business partners, civil society organisations, consumers, customers, employees and other workers, governments, and local communities, as well as shareholders (GRI and GSSB 2020: 10).

Meeting the information needs of this wider group of stakeholders requires you not only to consider the things that business management cares about, but also, importantly, to engage with your company's other key stakeholders to understand their priorities.

GRI defines material aspects as *'those that reflect the organization's significant economic, environmental and social impacts; or that substantively influence the assessments and decisions of stakeholders'* (CDP et al. 2016: 6)

Dynamic materiality

It is important to understand that these different materiality approaches are, in fact, closely inter-linked. Matters that, today, might only be material from an external impact point of view could, sooner or later, start to affect a business's ability to create value – and this could eventually result in a financial impact.

The Statement of Intent published by CDP, CDSB, GRI, IIRC and SASB (CDP et al. 2020b) expresses this interconnection, as shown in Figure 2.2.

FIGURE 2.2: The interconnections of various approaches to materiality

Source: Adapted from CDP et al. 2020b

Box 2.4: Impacts arising from the supply chain

Take the example of a fashion brand that purchases textiles from a factory that uses polluting synthetic dyes.

- There is a clear **external impact**, in the form of the chemicals flowing into local rivers, killing fish and damaging the health of local populations (Regan 2020).
- This could then have a **value-creation impact**, as public awareness of this issue damages the perception of the brand
- In turn, **financial impacts** could follow, as consumers boycott the brand, thus affecting sales revenue, or as lawsuits arise, leading to financial penalties or compensations payable.

As governments around the world focus increasingly on addressing our natural capital challenges, some issues can move very quickly from having a purely external impact to materially damaging a business's financial performance.

The carbon emissions generated from passenger aviation have so far stayed largely in the realm of external impact. Most jurisdictions around the world exempt kerosene and other aviation fuels from taxation. If these tax exemptions are lifted, as is being considered by the European Commission (2020), companies in the aviation sector will face a financial impact.

Therefore, it would be wise for management to monitor natural capital impacts that might, at first sight, seem to be irrelevant for enterprise value creation.

As a corporate reporter, you have a role in highlighting the dynamic nature of materiality to business leaders, and in emphasising the importance of a long-term approach to risk management and strategy.

3. Delivery – process and systems, people and skills

Key messages

- Reporting should create value for the business. This can happen through the management insights that the output generates, efficiencies gained, or the collaborations that the reporting process initiates.
- To drive positive changes in the business, it is important to start the natural capital reporting process by understanding which aspects of natural capital are truly important for your business, and why.
- The annual report is an important and trusted means of communication, but not the only one. The corporate reporter should consider the different communication channels in a holistic way.
- The right scope and level of external assurance on natural capital reporting depends partly on what the business is seeking to gain from the engagement. The business rationale, and the kind of external assurance that is appropriate, will evolve over time.

Good natural capital reporting is built on:

- a sound grasp of current and future mandatory reporting requirements
- a clear understanding of stakeholders' information needs
- a focus on the key risks facing the business, and the strategy to address these risks
- constructive dialogues with the business leadership and collaboration with performance managers, assurance providers and internal auditors, where appropriate, and
- a willingness to innovate, with the aim of communicating more reliable and relevant information, more effectively.

In this section, we will look at the processes and systems, people and skills that are needed. This is by no means 'one size fits all'. We set out some questions that you may like to consider alongside high-level recommendations. Reflecting on the questions should help you to arrive at an approach that works best for you and your organisation.

Processes and systems

Reporting should never be done for its own sake. Given the time and resources that your business is devoting to reporting, it makes sense to seize every opportunity to create value for the business. These opportunities can arise through:

- management insights from the information reported
- efficiencies gained through the reporting output, and
- collaborations developed through the reporting process itself.

Information needs

The importance of strategy

In order to create value for the business and enable business leadership to manage natural capital more effectively, your information needs should align with your business's purpose and strategy. There can be a temptation to start selecting natural capital metrics immediately but, to drive positive changes in the business, you first need to appreciate which aspects of natural capital are truly important for your business, and why. From this understanding, a strategy can be developed for managing these aspects, defining actions and targets, and producing meaningful KPIs.

A useful five-step process to reporting and managing capitals is illustrated in Figure 3.1.

Because business leadership defines the strategy, dialogues between the corporate reporting function and business leaders right from the start of each reporting cycle are crucial. You have an opportunity to challenge the business leadership constructively on strategy, to ensure that it is coherent, consistent, and based upon a sound rationale.

Collaboration with the performance-management function is also going to be crucial for measuring the outputs and outcomes of strategic actions on these key capitals. Please refer to our *Performance Manager* (ACCA 2021) guide for further discussions on this.

Identify key stakeholders

The materiality determination process will help to identify the natural capital aspects that are important to your key stakeholders. As the 'Materiality approaches' section above highlights, though, you will first need to determine who your key stakeholders are. They will differ from one business to another.

Identify material aspects

Having identified the business's key stakeholders, we engage with them to discover which topics they consider particularly relevant. It's likely that information can be drawn from existing sources, such as employee engagement surveys, customer surveys, social media interactions and questions raised at investor presentations and annual general meetings. As the materiality determination process matures, more specific stakeholder engagement questionnaires may be developed for this purpose.

In order to target such questionnaires effectively, business input will be needed to narrow down potentially relevant natural capital aspects. These can be informed by the natural capital topics which have come up frequently through regular communication channels. Equally, they could be those topics that the business leaders have identified as particularly important.

The external stakeholder views need to be analysed in conjunction with the natural capital aspects that are identified as important to the execution of the business's strategy. It may be informative, for example, to review the stakeholder-generated topics against the topics discussed at board meetings.

These relevant topics can then be evaluated for their materiality for corporate reporting purposes. The materiality assessment will probably need to reflect some or all of:

- the magnitude of the actual or potential impact on the business
- the magnitude of the actual or potential impact on the key stakeholder(s)
- the likelihood that such an impact will occur
- the nature of the impact if it does occur.

Munich Airport applies GRI materiality principles in identifying material topics for its annual integrated report, as shown in Table 3.1.

FIGURE 3.1: The five-step process from defining purpose to measuring outcomes

Box 3.1: Questions corporate reporters should ask when identifying stakeholders

- Given the business's purpose, whom are we here to serve?
- Which stakeholders have a significant impact on the business's ability to achieve its overall strategic objectives?
- Which stakeholders are likely to be most significantly affected by the business's activities? In what ways might the impact that we have on them lead to repercussions on the business?
- How do we currently communicate with the stakeholders identified above? What new communication channels might we need to establish with these stakeholders?

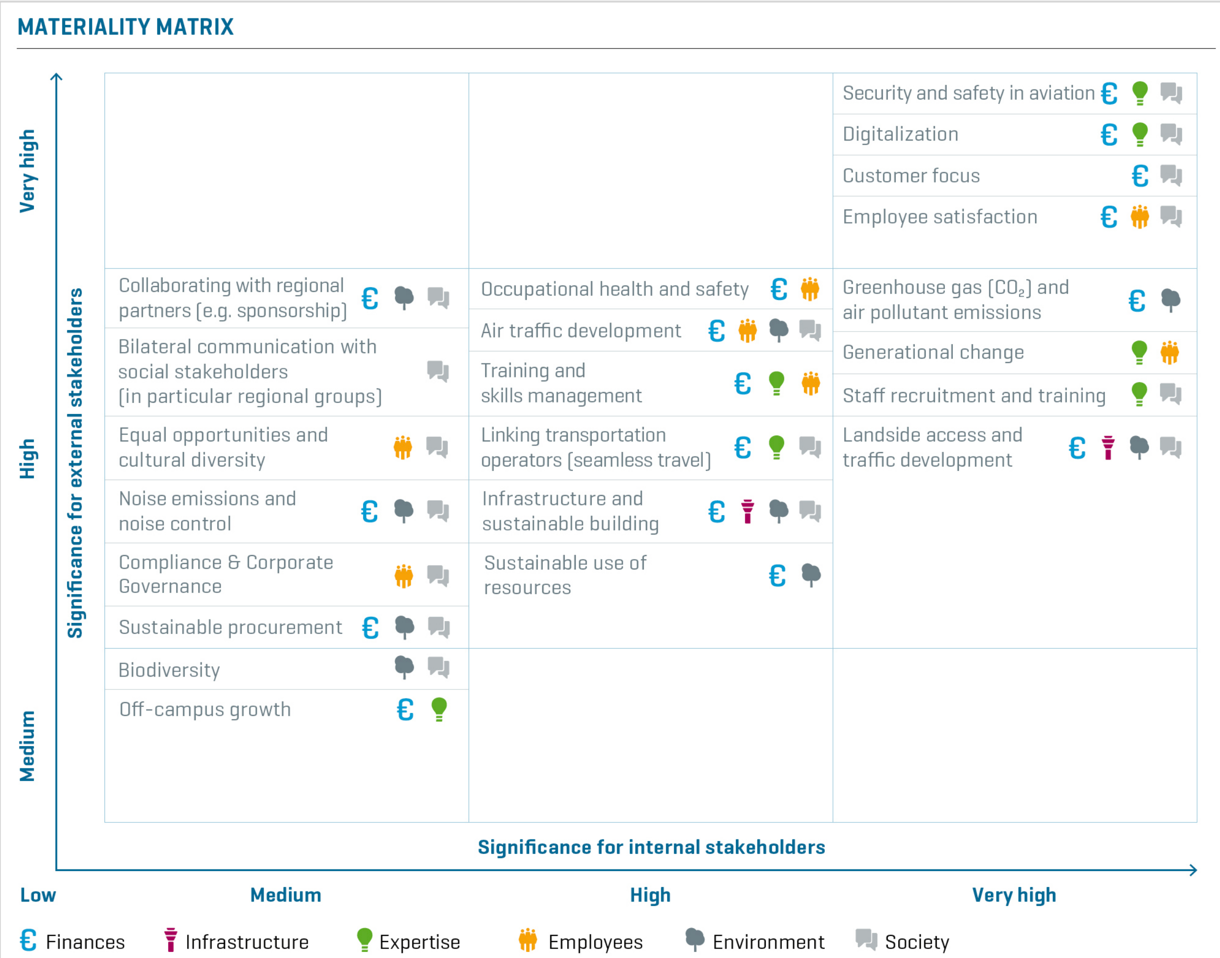
Box 3.3: Munich Airport's materiality determination steps

Munich Airport adopts a four-step materiality determination process.

1. **Identification:** It conducts a survey of the main stakeholder groups at the time when the Group publishes its integrated report.
2. **Prioritisation:** The results of the survey are presented on the materiality matrix (Table 3.1) and discussed with experts within the business. The contents are allocated to strategic fields of action.
3. **Validation:** Management discusses the topics as part of the annual strategic target-agreement process. Fields of actions and targets are adapted accordingly. The survey also provides feedback on the content of the integrated report.
4. **Implementation:** Sustainability programme initiatives and measures are set out for each material topic. Members of top management take responsibility for the sustainability programme initiatives and middle management is responsible for implementing the measures. Management remuneration contains a variable element that reflects achievement of these initiatives and measures. Progress is monitored on a quarterly basis through internal reporting.

As can be seen in Table 3.1, Munich Airport uses materiality determination not only as a reporting process, but also as a strategic management tool. (Munich Airport 2019: 28–29) ■

TABLE 3.1: Practical example of applying GRI materiality principles – Munich airport



Source: Munich Airport 2019: 28

Box 3.4: Questions to use in analysing stakeholders' information needs

- What trends and changes can be observed in the topics that stakeholders consider important from year to year? Were we expecting them?
- In what ways does the management assessment differ from the stakeholders' views? This leads to questions such as the following.
  - Which natural capital topics have been assessed as very relevant for key stakeholders, but not assessed as important for the business's strategy? Why is that?
  - Which natural capital topics have been assessed as important for the business's strategy, but not considered very relevant by key stakeholders? Why is that?
  - Does the management's assessment need to be revised in the light of stakeholder views?
- In what ways do different stakeholder groups assess the topics differently? Whose views should we prioritise in these circumstances? Why?
- Are corporate reports the most effective way of addressing the information needs of key stakeholders? What other communication channels might be used?

The reporting package

The annual report remains an important and trusted means of communicating with investors and other stakeholders. The applicable regulatory framework means that it is likely to contain comparable information between companies in the same jurisdiction and/or the same sector. Crucially, also, investors value the independent external assurance that is provided, which gives them a greater level of trust in the report's contents.

Even so, the annual report is not the only vehicle for communication with your key stakeholders. Other communication channels may be available to meet their information needs, especially if you have identified stakeholder groups other than investors as being key to your business. While it's necessary to avoid over-complicating the reporting package, sometimes it can be beneficial to publish topic-specific reports that provide more detailed information than the annual report contains: for example, a report covering the business's environmental impacts beyond the corporate boundary.

In addition, corporate websites, social media feeds, newsletters and employee meetings and supplier briefings are all examples of ways in which your business can communicate more directly, in a more tailored and more timely way, with your different stakeholders.

It is important for you, as the corporate reporter, to view these different communication channels in a holistic way. There are opportunities to add value by streamlining the reporting package, and by enhancing the level of trust that stakeholders place on the reports.

Anglo African, a Mauritian medium-sized technology-based investment business, has used <IR> principles to identify its most important value drivers (ACCA n.d.). Its integrated report has become a central document about the company, which it uses to engage with potential investors and business partners alike. In streamlining the information that is collated for different stakeholders and purposes, the firm has benefited from cost efficiencies and new business opportunities.

Questions that you may need to ask include the following:

- To what extent do different key stakeholders care about the same material topics? Can we address most of their information needs through one report?
- What other communication channels are we using to engage with our key stakeholders? Who controls these communication channels?
- How can we ensure that information communicated through these different channels is reliable and consistent?
- How can we ensure that information communicated through these different channels is published in a timely way, and kept up to date?
- How can we streamline the communication process? Whom should we work with to make this possible?

Assurance

A robust assurance framework is key to ensuring that corporate reporting information can be trusted by external stakeholders. The internal audit function should ensure that internal controls for the reporting process are effective, and that the information provided by different parts of the business is reliable and consistent.

It is also worth carefully considering the scope and level of external assurance that are necessary to meet the needs of key stakeholders. You will need to consult with business leaders, especially the audit committee, if there is one, to define the external assurance offering that would be most suitable for your core reports. Our fourth report in this series will discuss the roles of the auditor and the assurance provider in more detail.

Scope

As we have seen above, there are many different channels through which a business communicates with its key stakeholders. Today, it's not practical to obtain external assurance of all the information communicated through these channels. Nonetheless, it is worth identifying your core reporting outputs, so that external assurance can focus on these. In time, as you streamline the reporting across different channels, you can work towards ensuring that the information reported through other channels is consistent with information that has been externally assured.

The financial statements are, of course, subject to statutory audit. As part of the statutory audit, the International Standard on Auditing (ISA) 720 The Auditor's Responsibilities Relating to Other Information, requires auditors to consider whether there are material inconsistencies between information in the financial statements and that published with these statements (IAASB 2015). This other information includes the management commentary, which is likely to contain at least some, if not all, of your company's natural capital disclosures and metrics.

The requirements of ISA 720 do not, however, constitute an audit or assurance engagement in themselves. Separate external assurance on non-financial information may be required by national regulation. Even if it is not, external assurance could enhance the trustworthiness of the management commentary for your key stakeholders.

If the business publishes natural capital disclosures and metrics in a separate report then, again, the need for external assurance should be considered. Research conducted by the UK's Financial Reporting Council (FRC 2020) suggests that sustainability reports are rarely read by stakeholders, who cite a lack of trust as a key barrier to relying on them. External assurance can go some way to addressing this lack of trust.

Level of assurance

Natural capital disclosures and metrics can be subject either to limited or to reasonable assurance. Reasonable assurance provides the same level of assurance as that given in a statutory audit of the financial statements. By comparison, in a limited assurance engagement, the assurance provider affirms that nothing has come to his/her attention to indicate that the disclosures or metrics are materially misstated.

In principle, the ultimate aim should be for non-financial reporting, including natural capital disclosures and metrics, to be subject to the same level of reasonable assurance as financial reporting. We are still some way from that goal. For now, you need to consider what level of assurance is appropriate for your core reports, and that decision will depend upon what you are looking to gain from external assurance.

Today, the way that non-financial assurance engagements are conducted varies widely from one assurance firm to another. The same limited level of assurance, for example, may be the result of very different procedures. This is partly driven by the different business rationales for seeking external assurance on non-financial reporting:

- for some, it is to enhance external stakeholders' trust in the reports
- for others, assurance providers are called upon to act as independent advisers, giving recommendations to business leaders about how internal processes might be improved.

In the first scenario, reasonable assurance may be desirable, but a well-scoped out limited assurance engagement or agreed-upon procedures may work well in the second scenario. The business's motivations for seeking external assurance may also evolve over time.

Whatever scope and level of assurance that the business decides upon, it is worth setting this out clearly in the report, along with the business's rationale for obtaining external assurance in the first place. Given the wide range of external assurance that is provided today, the more clarity that you provide in this area, the greater the trust that stakeholders will be able to place in your natural capital reporting.

Box 3.5: Questions to ask when determining the type of external assurance required

- What are business leaders seeking to gain from external assurance of natural capital disclosures and metrics? Is it to improve the management of natural capital issues, or to increase the credibility of reporting in the eyes of external stakeholders?
- Are the preconditions for an assurance engagement satisfied? This will need to be discussed with the external assurance provider.
- If you opt for limited assurance or agreed-upon procedures, over what information should assurance be provided? Where would external assurance add most value to management, and/or enable it to meet the information needs of external stakeholders?
- To what extent should information communicated through other channels be subject to external assurance? How should we change the overall reporting package to make this possible?

People

In order to collect the information needed for natural capital reporting, collaboration with colleagues in different functions across the organisation will be crucial. It pays to look at the current corporate reporting responsibilities from a fresh perspective, and ask yourself these questions.

- Is the current allocation of responsibilities most appropriate if we want to maximise the value we create from the corporate reporting process?
- Are the decision-makers in the business involved in an appropriate way?
- From which part of the business will natural capital information be sourced? Does any team need to be involved that is not currently involved?

The interviews that we have conducted with corporate reporters have highlighted that concrete business benefits can come from involving the right people in the reporting process – by breaking down silos between different teams, and enabling an open and constructive dialogue between business operations and the leadership. In a survey conducted among <IR> Business Network participants in 2017 (ACCA 2018b), 70% of the respondents cited better connections between different departments as a key benefit of adopting integrated reporting.

> 'The exercise of connecting content elements with each other and connecting the concept of past, present and future has helped us to break existing silos between organisational areas'.
>
> Jose Miguel Tudela, Organisation and Corporate Responsibility Director, Enagas (ACCA 2017)

Skills

As you can well appreciate by now, you need to draw on a wide range of both technical and soft skills in order to drive positive changes for the business and the planet through corporate reporting. Key to this is the willingness to move beyond pure reporting duties, to become a true business partner to senior management.

We identified the key responsibilities for the corporate reporting function at the start of this report. Table 3.2 sets out the skills that you may need to fulfil these responsibilities effectively.

70% OF THE RESPONDENTS CITED BETTER CONNECTIONS BETWEEN DIFFERENT DEPARTMENTS AS A KEY BENEFIT OF ADOPTING INTEGRATED REPORTING.

TABLE 3.2: The skills and responsibilities of the effective corporate reporter

SKILLS	RESPONSIBILITIES
Commercial acumen	Engage with business leaders through the reporting cycle to: ■ understand the company's strategy ■ identify key stakeholders who would affect, or be affected by, the company's strategy ■ develop a corporate reporting strategy that meets the key stakeholders' information needs
Technical competence	Comply with the mandatory reporting requirements
Persuasion Questioning mindset Collaboration	Work with business leaders and performance managers to align information needed by management internally, for making decisions, with information reported externally
Scientific literacy Communication	Develop an understanding of potentially complex dependencies and impacts, and ways of measuring them
Analysis Problem-solving	Identify information gaps and find ways of overcoming them
Communication Ethics	Communicate information to external stakeholders in a way that meets both mandatory reporting requirements and the principles of good corporate reporting

Appendix 1:

Financial accounting and disclosure impacts of climate change

The following summary of the financial accounting and disclosure impacts of climate change is derived from IASB's education material, *Effects of Climate-Related Matters on the Financial Statements* (IASB 2020), and the article 'IFRS Standards and Climate-Related Disclosures' (Anderson 2019).

Financial accounting impact

Climate-related risks could affect the recognition and measurement of items in the financial statements in several ways.

TABLE A1.1: Standards and their impacts

STANDARD	IMPACT
IAS 2 *Inventories*	If the cost of inventories is not recoverable owing to obsolescence, lower selling prices or increased costs to completion; inventories need to be written down to their net realisable value.
IAS 12 *Income Taxes*	Deferred taxes are recognised to the extent that future taxable profits are available against which temporary differences or unused tax losses can be offset. Climate-related matters could change the expected level of taxable profit, and thus could also affect the amount of deferred taxes recognised.
IAS 16 *Property, Plant and Equipment* and *IAS 38 Intangible Assets*	Investments in assets or in R&D can give rise to costs that need to be capitalised as assets on balance sheets. Any R&D expenditure that's expensed during the year should also be disclosed. Climate-related matters can also change the residual value or useful lives of tangible and intangible assets.
IAS 36 *Impairment of Assets*	Declines in demand for products or changes in regulation could indicate that property, plant and equipment, intangible assets or right-of-use assets might be impaired.
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	Levies, regulatory requirements to remediate environmental damage, onerous contracts, business model restructurings and legal proceedings could all give rise to provisions that need to be recognised on the balance sheet. The nature of provisions and contingent liabilities also needs to be disclosed, with an indication of the uncertainties about the amount or timing of any related outflows of economic benefits.
IFRS 9 *Financial Instruments*	Climate-related matters can affect lenders' exposure to credit losses. They can affect the value of collateral, and may need to be factored into recognition and measurement of expected credit losses.
IFRS 13 *Fair Value Measurement*	Climate-related matters could affect the fair value of assets and liabilities. They could also form part of the unobservable inputs that market participants would use when pricing assets and liabilities where relevant observable inputs are unavailable.
IFRS 17 *Insurance Contracts*	Climate-related matters could affect the frequency and/or magnitude of insured events, and therefore the assumptions used to measure insurance contract liabilities.

In addition to the standards, the IASB is also conducting research that may lead to relevant changes to accounting requirements in the future.

- **Extractive activities:** potentially changing the way companies in the extractives industry account for exploration and evaluation expenditures (currently under IFRS 6 *Exploration for and Evaluation of Mineral Resources*).
- **Pollutant-pricing mechanisms:** addressing the accounting treatment of pollutant-pricing mechanisms, such as emissions-trading schemes.

Disclosure in notes to the accounts

Even when climate-change matters do not affect the numbers in the accounts, they may well require disclosure. Such matters include the following.

- **Estimation uncertainty and significant judgements:** if the assumptions a company makes about the future have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, IAS 1 Presentation of Financial Statements requires these to be disclosed. This includes assumptions about how climate will affect future cash flows in testing assets and liabilities for impairment, or in measuring decommissioning liabilities, for example.
- **Going concern:** if climate-related matters give rise to material uncertainties about the company's ability to continue as a going concern, these material uncertainties must be disclosed under IAS 1. Even if there are no material uncertainties, any significant judgements involved in reaching that conclusion also need to be disclosed.
- **Financial Instruments disclosures:** IFRS 7 Financial Instruments: Disclosures requires a company to disclose risks arising from financial instruments and how the company is managing these risks.

Each of the standards referred to in the list above also has specific disclosure requirements. Notably, some standards require you to disclose information in the accounts even if you have concluded that climate-related matters do not affect the numbers in the financial statements. Many of these disclosures require you to analyse and present forward-looking information, as shown, for example, in Table A1.2.

TABLE A1.2: Examples of forward-looking disclosures

STANDARD	IMPACT
IAS 36	Key assumptions used to estimate the asset's recoverable amount, and information that could reasonably cause these assumptions to change
IAS 37	Major assumptions made about future events reflected in the amount of a provision, where these are necessary to provide adequate information
IFRS 13	The inputs used in those fair-value measurements and, for recurring fair-value measurements, a narrative description of the sensitivity of the fair-value measurement to changes in unobservable inputs if a change in those inputs might result in a significantly higher or lower fair-value measurement
IFRS 17	Significant judgements and changes in judgements made in applying IFRS 17, and a company's exposure to risks; the concentrations of risk; how it manages risks; and sensitivity analysis showing the effect of changes in risk variables

Appendix 2: Useful guidance

International Accounting Standards Board

'IFRS Standards and Climate-Related Disclosures' (Anderson 2019)

Education material: *Effects of Climate-Related Matters on Financial Statements* (IASB 2020)

Sustainability Accounting Standards Board

SASB Materiality map (SASB 2018)

Climate Disclosure Standards Board and Sustainability Accounting Standards Board

TCFD Implementation Guide (CDSB and SASB 2019a)
Includes mock disclosures from across multiple sectors

Good Practice Handbook (CDSB and SASB 2019b)
Includes examples drawn from across the G20

CDP, CDSB, GRI, IIRC, SASB

Reporting on Enterprise Value: Illustrated with a Prototype Climate-Related Financial Disclosure Standard (CDP et al. 2020a)
Provides an explanation of dynamic materiality. Appendix 5 sets out a detailed comparison of each standard and framework's objectives, principles and content elements, mapped across to TCFD Recommendations.

World Economic Forum

Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation (WEF 2020)
Provides a core set of well-established metrics and disclosures and other recommended metrics and disclosures on governance, planet, people and prosperity.

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