ACCA Think Ahead

PROFESSIONAL ACCOUNTANTS CHANGING BUSINESS FOR THE PLANET

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

Contents

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About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of 227,000 members and 544,000 future members based in 176 countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that supports both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions and preparing us for tomorrow.

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Executive summary

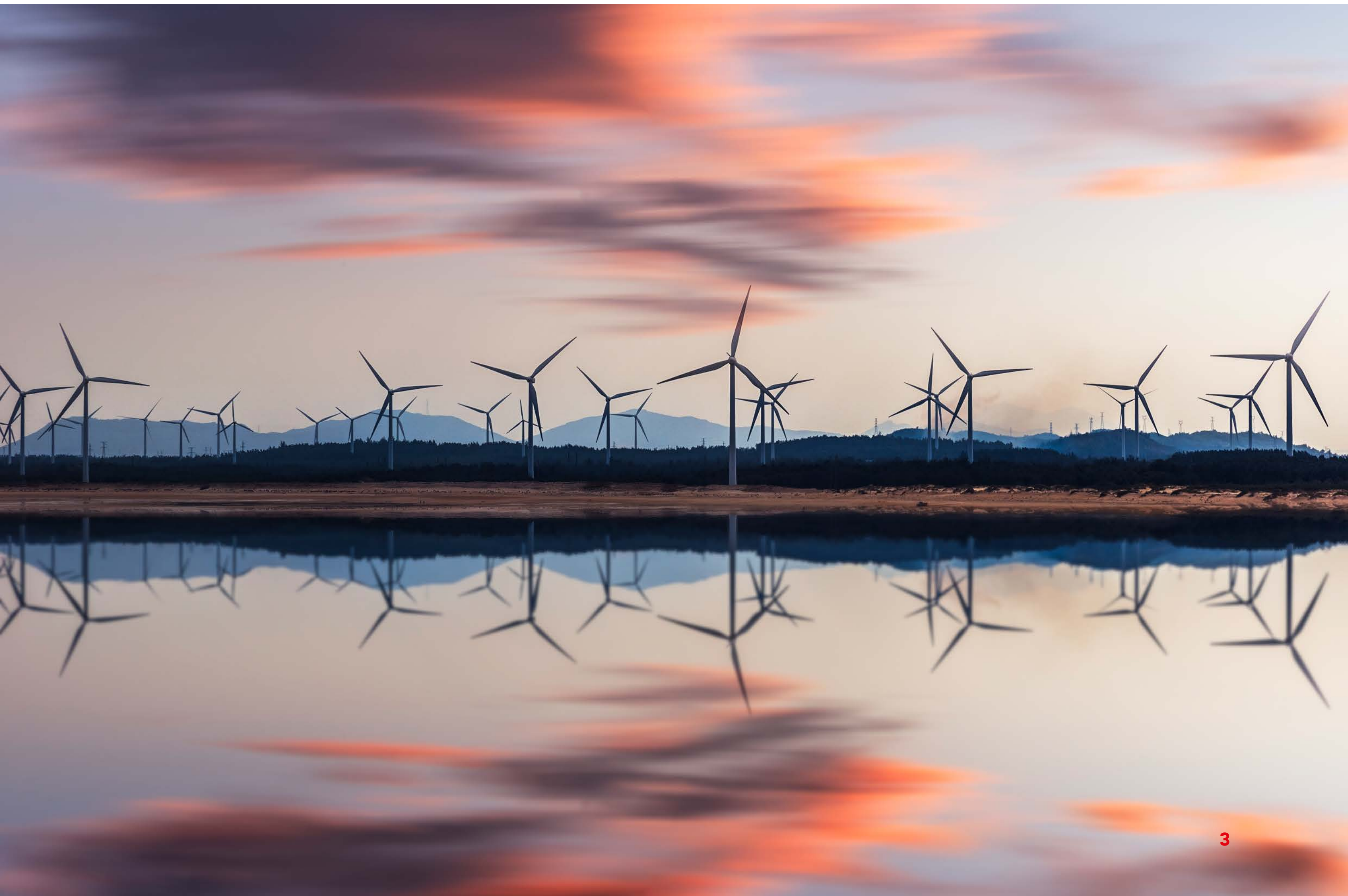
The corporate reporting function plays an important part in the dialogue between business and its external stakeholders: it gives these stakeholders the information that they need, in a form that they can understand and trust.

This act of 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, motivates business leaders to set credible strategic objectives, and to achieve them.

Increasingly, these strategic objectives now cover natural capital. 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 and affected the reputation of brands or 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: there are currently over 700 mandatory reporting requirements related to the environment in 70 jurisdictions(Reporting Exchange n.d.), and, given the global focus on climate change mitigation, this number will continue to grow. Mandatory requirements are being built on some core voluntary initiatives. It's time to prepare for the changes ahead by familiarising yourself with these voluntary initiatives.

Although your natural capital reporting will be shaped by mandatory requirements and key stakeholders' information needs, the reporting process and output should also create value for the business. This can be achieved by streamlining the reporting package, and by seeking to provide decision-useful insights to business leadership at each stage of the process.



1. The role and the skills you need to report accountably

Most corporate reporters work in the Finance team, bur natural capital reporting can also fall within the remits of professional accountants in business working in Investor Relations, Sustainability or Strategy teams, or those in practice advising companies on corporate reporting. Corporate reporting roles and management accounting roles may also overlap: 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). Because many different functions may be involved in reporting, you need to collaborate effectively with a wide range of colleagues.

The role of a corporate reporter requires communication and problem-solving skills, up-to-date technical knowledge and a strong sense of professional ethics. You will need the skills in Table 1.1 to fulfil your key responsibilities.

TABLE 1.1: 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

THE ROLE OF A CORPORATE REPORTER REQUIRES COMMUNICATION AND PROBLEM-SOLVING SKILLS, UP-TO-DATE TECHNICAL KNOWLEDGE AND A STRONG SENSE OF PROFESSIONAL ETHICS. ”

2. Tools

Financial reporting guidance

You should carefully consider whether, and how, natural capital-related risks affect the business's financial reporting. As IAS 1 *Presentation of Financial Statements* makes clear, materiality judgements should be based not only on the magnitude of impact, but also its nature. So, even if the current-year financial impact of climate change or natural capital risks seem small, they may still have the potential to influence investing decisions. Education material, *Effects of Climate-Related Matters on the Financial Statements*, provided by the International Accounting Standards Board (IASB) (IASB 2020) highlights the recognition, measurement, presentation and disclosure implications that climate-related risks may bring. This approach can be also applied to other natural capital risks.

Non-financial reporting guidance

Natural capital matters are reported in the front half of the mainstream annual report, in the management report. This may be subject to the mandatory non-financial reporting requirements that apply to your industry or jurisdiction. At the same time, you may be guided by other non-mandatory standards, frameworks and guidance, such as those in Table 2.1.

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 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 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

The guidance above can also inform the way you report on natural capital outside mainstream reports, for example in a separate sustainability report.

Common principles

Although the frameworks and standards above differ in their purposes and scopes, their underlying principles have much in common. These are identified in ACCA's position paper, *The Tenets of Good Corporate Reporting* (ACCA 2018):

- relevance and materiality
- completeness
- reliability – neutral and free from error
- comparability
- verifiability
- timeliness, and
- understandability.

Content elements

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

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.

Comparable metrics could be within reach if the IFRS Foundation sets up a Sustainability Standards Board. For now, it is a good idea to work towards implementing the metrics recommended by the TCFD. The CDSB and

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

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.

Useful sources of guidance on metrics include the following.

- World Economic Forum (WEF) white paper, *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation* (WEF 2020): this summarises core metrics from existing initiatives.
- SASB's materiality map (SASB 2018b): this is a very helpful tool for identifying the natural capital issues and metrics that are likely to be relevant to specific industries.
- GRI Standards (GRI 2020): detailed topic-specific measures.

Our *Performance Manager* guide (ACCA 2021) provides a more detailed discussion of natural capital metrics, and what you should consider when setting them.

Developing a robust and forward-looking materiality approach

Information is material if omitting, obscuring or misstating it could influence the decisions that users make on the basis of the report.

Corporate reporting should drive better decision-making: both by the business's management, and by your stakeholders. To be useful for decision-making by management, information must relate to the business's strategy. This strategically focused information is also likely to be useful for some other stakeholders. Nonetheless, some stakeholders may require more detailed information about how the business's strategy and activities are affecting them.

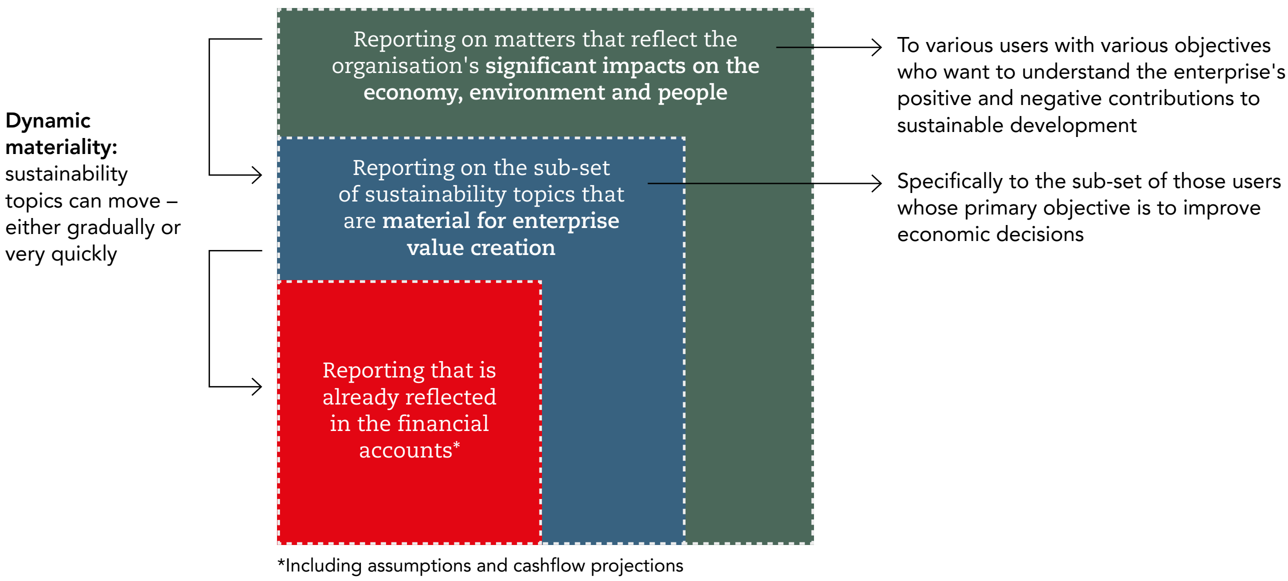
The Statement of Intent published CDP, CDSP, GRI, IIRC and SASB (CDP et al. 2020b) highlights three closely related perspectives on materiality (Figure 2.1).

The inner box represents the **financial perspective**: financial information about the reporting entity that can materially influence existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

The middle box represents the **enterprise value creation perspective**: information that substantially affects an entity's ability to create value in the short, medium and long term. This includes information that business leaders – the board and executive management – use in making strategic decisions.

The outer box represents the **external impact perspective**: information that reflects the organisation's significant economic, environmental and social impacts; or that substantively influences the assessments and decisions of a wide range of stakeholders, including business partners, civil society organisations, consumers, customers, employees and other workers, governments, local communities, as well as shareholders (CDP et al. 2016: 6).

FIGURE 2.1: The interconnections of various approaches to materiality



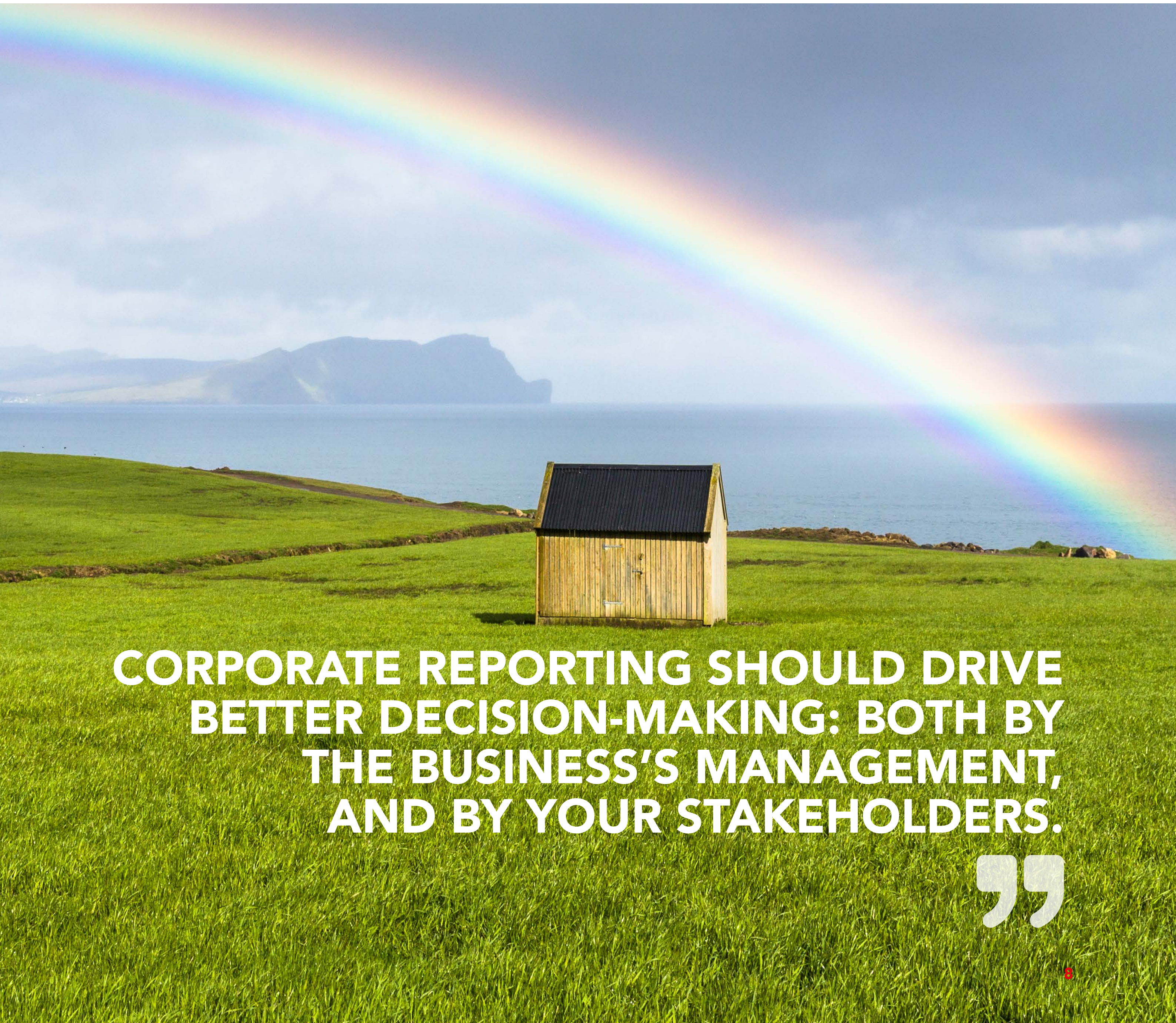
Source: Adapted from CDP et al. 2020b

Natural capital topics can move from being material in an external impact sense to being material from an enterprise value creation, or even financial, sense.

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 the tax exemptions are lifted, as is being considered by the European Commission (2020), companies in the aviation sector will be dealing with a financial impact.

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

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



CORPORATE REPORTING SHOULD DRIVE BETTER DECISION-MAKING: BOTH BY THE BUSINESS'S MANAGEMENT, AND BY YOUR STAKEHOLDERS.

3. Delivery

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.

Process and systems

To drive positive changes in the business, it's important to start the natural capital reporting process by understanding which aspects of natural capital are truly important for your business, and why. From this understanding, a strategy can be developed to manage these aspects, actions and targets defined, and meaningful key performance indicators (KPIs) result.

We recommend a five-step process to reporting and managing your natural capital (Figure 3.1).

The annual report is an important and trusted means of communication, but not the only one. 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 stakeholders other than investors. You should consider the 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.

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.

A robust assurance framework is key in making sure that corporate reporting information can be trusted by external stakeholders. The internal audit function has a role to play in this. 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.

It is not possible to give a one-size-fits-all recommendation for the processes and systems, people and skills that are needed. Instead, 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.

Information needs

Identify key 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?

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

Identify material aspects

- 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 stakeholder 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

- 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

- What are business leaders seeking to gain from external assurance over 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 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

- 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? Which team needs to be involved that is not currently involved?

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.

Appendix – 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

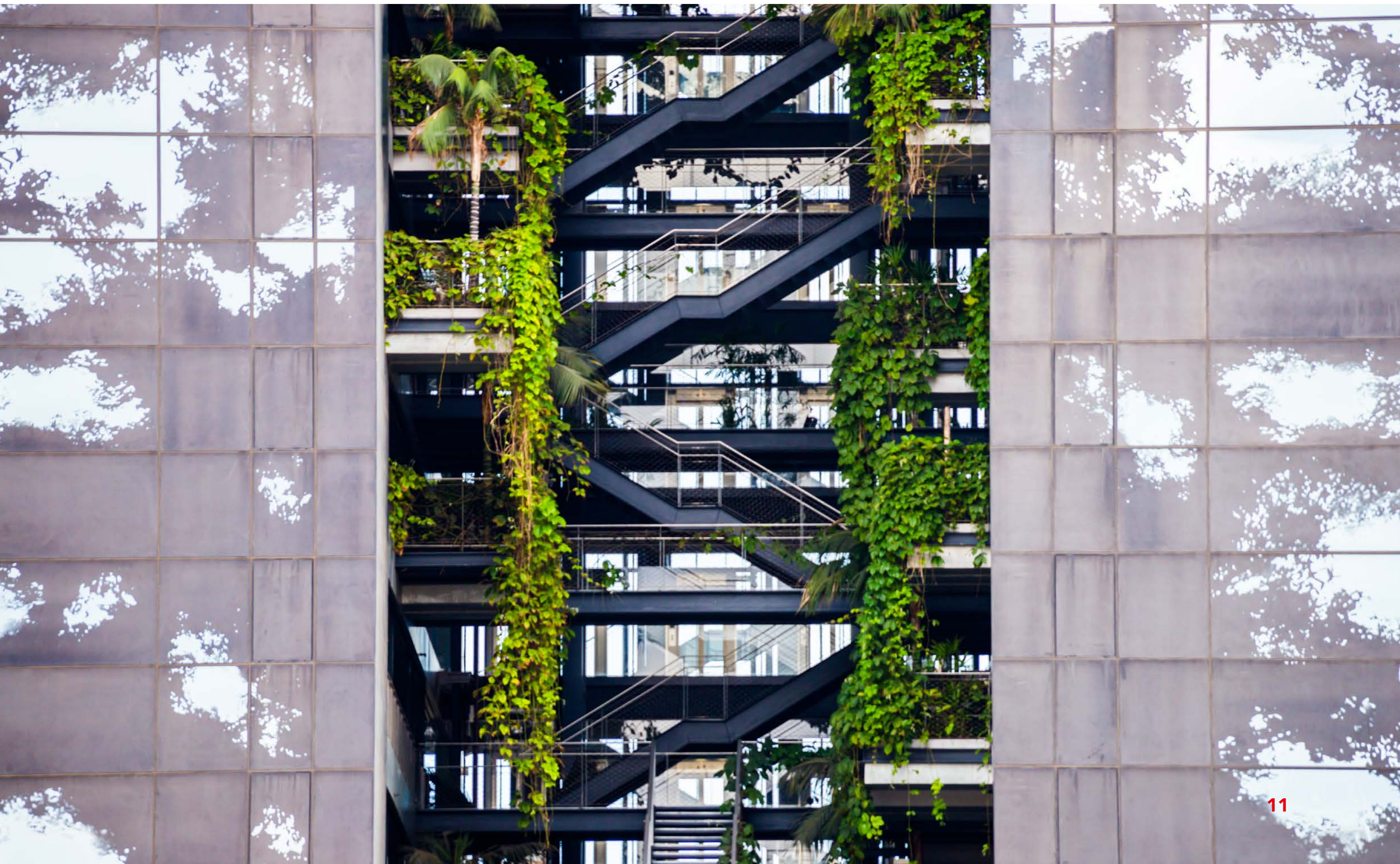
Good Practice Handbook (CDSB and SASB 2019b)
Includes examples drawn from across the G20

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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