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COMMUNICATION OF LONG-TERM VALUE CREATION

ASEAN stakeholders are paying close attention to steps taken by key stakeholders such as the International Financial Reporting Standards ("IFRS") Foundation, International Federation of Accountants ("IFAC"), International Integrated Reporting Council ("IIRC") and Sustainability Accounting Standards Board ("SASB") in responding to demand for a comprehensive reporting framework. Representative of IFAC and the newly formed Value Reporting Foundation ("VRF") shared their perspectives on what is a key milestone in our corporate reporting journey, with insights from an experienced investor into what businesses should be reporting to help shareholders make informed decisions.

The State of Corporate Reporting in ASEAN
A key element contributing to ASEANs attractiveness as a growing investment market is adoption of internationally recognised standards that offer consistency, comparability, and reliable and relevant information that are useful for stakeholders decision making.

As of April 2018, 144 jurisdictions required IFRS Standards for all or most domestic publicly accountable entities (listed companies and financial institutions) in their capital markets, whilst a further 12 jurisdictions permitted its use. 20% of these jurisdictions are in the Asia and Oceania region, including ASEAN. All ten countries in ASEAN have either adopted, converged their local standards into IFRS Standards, or on course to adopt and implement the Standards in the next five years.

Adoption of Integrated Reporting ("IR") is also gaining traction in recent years, particularly with businesses in selected jurisdictions such as Malaysia, Singapore, and the Philippines. An article from AFA published in May 2021 highlights the importance of starting early and making gradual progress as businesses transition into the integrated thinking required to truly adopt IR.

As a regional body for the ASEAN accountancy profession, AFA and its member organisations recognised this as a priority and are working closer with key stakeholders to provide ASEAN stakeholders with access to supporting resources and platforms for mutual learning and sharing.

Towards a Unified Comprehensive Corporate Reporting Framework
Transparent measurement and disclosure of sustainability performance that include elements of both financial and non-financial information is now considered to be a key part of businesses communication of its value creation journey to the stakeholders. Yet, the complexity that comes with the different reporting frameworks has made it challenging to establish a single comprehensive corporate reporting framework that is useful for both preparers and users.

A "disruption" was needed to respond to the demand for rationalisation of the corporate reporting landscape. The recent merger of IIRC and SASB into the VRF an important step and milestone towards a unified framework. It combines both the organisations resources and relationships.

"The IR framework and SASB Standards are complementary and powerful when used together. Whilst IR framework is industry agnostic and principle-based, SASB Standards is industry specific and metrics-based. IR framework drives connectivity of information whilst SAS Standards enables its comparability" said Jonathan Labrey (Chief Policy Officer and Head of UK Office, VRF).

Jonathan also highlighted how the concepts of sustainability and intangible value have grown in importance. Capital markets demand evidence-based, market-informed, and transparent information to deliver long-term value to shareholders while also helping secure the future of our people and our planet. IR framework combined with the SASB Standards is an important means to this end.

Role of the Accountancy Profession in Communicating Long-term Value Creation
IFAC sees the merger as a necessary step that needs to happen, to realise the common interest for a unified reporting framework that can serve as an end-to-end corporate reporting solution. It is aligned with the objectives and ambitions of the IFRS Foundation initiative to establish a new sustainability standard-setting board.

In its roadmap to enhance corporate reporting, IFAC highlighted how a fragmented approach perpetuates inefficiency, increased cost, and a lack of trust. The roadmap also supports the collaboration and rationalisation between 5 leading organisations, i.e. Climate Disclosure Standards Board ("CDSB"), Global Reporting Initiatives ("GRI"), Carbon Disclosure Project ("CDP"), VRF (formerly known as IIRC and SASB) aimed at reducing competing narratives and building comprehensive corporate reporting framework, which integrates financial and non-financial information for better decision-making, external reporting and ultimately achieves a better enterprise value creation. A new standard-setting board is necessary to build and coordinate a coherent global ecosystem of interconnected financial and non-financial reporting. IFAC has expressed its support to the IFRS Foundations strategic direction and work on sustainability.

IFAC understands that a unified global system needs to accommodate the different views of what information stakeholders require. The IFRS initiative—as well as jurisdiction-specific initiatives—should build on what already exists, help create or contribute to a global system, and accommodate different views of what information stakeholders require. The building blocks approach makes this possible.

"Accountants have the technical skills, business professionalism, and are observant to a universal code of ethics. Their role is important in taking the standards and use them to report relevant and reliable information that tells the businesses value creation story" according to David Madon (Director of Public Policy & Regulation, IFAC). It is certain that the profession will play a key role in defining the future of our corporate reporting.

Communicating Long-term Value Creation at these Challenging Times

While certain part of the world is moving forward post COVID-19, others are still struggling to fight against COVID-19. The profession must be ready to show the way at this COVID-19 pandemic which is a threat to value creation. In the face of uncertainty, the top priority of businesses is to balance the use and distribution of cash with ensuring business continuity and sustainability. Such priorities, at these challenging times, include evaluating the longer-term impact to value creation such as changes to demand, supply chains, customer behaviours and processes including accelerating digital transformation.

The sustainability agenda remains an important focus for businesses. To maintain the corporates long-term value amidst the COVID-19 pandemic, an open communication between management and investors is crucial. "Hiding of negative information would lead to loss of investors trust towards management thus affecting corporates value." said Pru Bennet (Partner, Brunswick Group). Telling a coherent story of the resources consumed and the outcomes generated as well as seeking to show how the net performance remain beneficial to investors and other stakeholders.

The idea behind integrated reporting is that the users are normally not given adequate information to fully analyse a corporates ability to execute its strategy and to sustain it in the medium to long term. The adoption of integrated reporting would help businesses capture all relevant information about corporations required by investors and other stakeholders which assist them to make decisions on the allocation of their resources.

The Investor Perspective

In the end, it is about providing stakeholders with information that is useful for their decision making. "For an investor, any process that leads to better decision making will lead to better outcomes. Investors are increasingly frustrated at the fragmentation of non-financial information. They want to avoid disasters and take advantage of opportunities. To do this, they need relevant (not necessarily more) financial and non-financial information" according to Pru.

To answer investors demand, those responsible with the standard-setting for our future comprehensive framework need to understand the key shortcomings of the current frameworks. In order to be comprehensive, the framework need to ensure that there is a clear linkage between financial and non-financial information presented in the report. A combination of both should tell the story of how the business is creating its value.

According to the experts, key absentees in current practice are the lack of information about the intangibles, including but not limited to human capital. Referring to Ocean Tomos study on intangible asset market value, intangible assets are now responsible for 84% of all business value, a massive increase from 17% in 1975 and 68% in 1995. For many businesses, human capital in particular is the core element of its value creation. The way businesses are valued are changing, yet the reporting has not really evolved to better report the increasingly important intangibles.