



Reporting 3.0 Platform Blueprint Projects Series

Project Outline for Blueprint 2: Accounting

Accounting for future-fit reporting

Berlin, 01.03.2016

Purpose of the blueprint

How can accounting and corporate finance be transformed to serve a new purpose? How can it serve a multi-capital green & inclusive economy definition of success and value-creation in a circular economic setting? How can accounting be redefined as being not only about recording financial transactions, but about tracking of both financial and extra-financial data and their forward-looking interpretation in an appropriate context? This includes a context of addressing risks and opportunities associated with diverse (e.g. social, natural) capitals. Answering these questions include consideration of new innovations such as the development of integrated reporting, contextualization, monetisation and internalisation, as well as new integrated statements such as alternative P&L accounts and balance sheets. It also includes working with new interpretations of materiality, related thresholds and appropriate timeframes in decision-making. Evidently mainstream financial managers, accountants, and assurance providers vary considerably in their preparedness for these transformative changes.

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| Defining the servicing function of accounting | If reporting were to serve a green & inclusive economy, appropriate accounting standards and conventions for corporate financial and extra-financial decision-making need to be in place. This involves questions around the best interpretations of principles such as “recognition” and “accuracy”, the definition of success and value when terms such as “value drivers” and “economic value added” are used, the role of activities such as audit and assurance, as well as the ability of executives including chief financial officers to apply reasonable care and diligence with strategic longer-term trends in mind and when taking care of multiple capitals becomes part of the fiduciary duty. Also, this line of inquiry needs to address not only the supply side of accounting, but also the demand side, particularly in terms of investor demand for more comprehensive and long-term perspectives. |
| Building the necessary accounting structures | The blueprint will address convergence between different accounting standards, common understanding of key principles and approaches, as well as the connection between measurements and accounts at different levels, different units and time frames. This will consider greater alignment and complementarity between financial and extra-financial accounting, as well as private and public accounting in a micro-meso-macro world of interconnected impacts and dependencies. |

Areas the blueprint covers

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| Current accounting system shortcomings | These include shortcomings in accounting at the organisational (corporate finance) and public levels. As already recognised by the Big Four accounting firms in the 2000s, the current financial accounting and reporting system has become redundant. The Blueprint will examine shortcomings such as the adequacy and evolving interpretation of core principles (including materiality), ways of connecting financial and extra-financial data, the internalisation of externalities, the expansion to a multi-capital scope, and the alignment of priorities in defining and collecting information against headline indicators in the private and public sphere. |
| State of the art in multicapital accounting | Various organisations have experimented with multi-capital based approaches and the development of integrated statements. The IIRC has put a multi-capital approach in its <IR> Framework. What emerging best practice can be defined and how can the accounting professions be best involved in a collective effort? |
| Aspects that need conventions | Blueprint #2 will cover an overview of useful conventions that a multi-capital accounting approach can consider, including ways of capturing more useful and relevant information to specific target audiences such as responsible investors and regulators. In doing this, it will consider challenges of prioritisation and reliability in addressing calls for science-based and context relevant decision-making. Meaningful value creation will be assessed from an accounting point of view. |
| Connecting internal and external accounting | The SDGs can be seen as an intermediate point of reference between the micro and macro levels of target-setting and performance measurement. A new accounting system built on revised principles and standards can turn this interface into a window of opportunity and lever for scaling up what decision-makers in both the private and public sphere agree are important areas of value creation in the medium and longer term. |

Resources the blueprint will build upon

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| Existing accounting rules and initiatives at micro to macro level | <ul style="list-style-type: none"> • Major financial and non-financial accounting standards • Regulations that demand information based on accounting standards (e.g. EU Directives) • Initiatives of financial regulatory authorities and (G20) finance ministries in interaction with national planning and statistics bureaus • SDGs plus related targets and accounting initiatives under UN & MFI (e.g. WB, IMF) auspices |
| Recommendations for multi-capital accounting | <ul style="list-style-type: none"> • IIRC • Reports from financial and non-financial accounting bodies / initiatives • Papers from G20 finance ministries and international banks |
| Technical aspects of allocations and thresholds | <ul style="list-style-type: none"> • Context-based reporting • Science-based target-setting • Appropriate discount rates and time frames when calculating value (e.g. NPV) • Timeliness of reporting (e.g. quarterly or realtime disclosure) and short-termism |

Relationship to the other blueprints – how will it all connect (2-3 abstracts)

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| Blueprint 1 | <ul style="list-style-type: none"> • Blueprint #1 will benefit from Blueprint #2 through improved clarity on the underlying accounting logic that defines the value contributed by private and public institutions to the goals and targets of a green & inclusive economy. |
| Blueprint 3 | <ul style="list-style-type: none"> • Blueprint #3 will benefit from Blueprint #2 by linking accounting objects to the necessary data sources, architectures and flows that are needed to supply accounting with the data it needs for a multi-capital success measurement. |
| Blueprint 4 | <ul style="list-style-type: none"> • Blueprint #4 can benefit from Blueprint #2 through an assessment in how far new business model creation can make use of multi-capital accounting and support success measurement that differentiates it from business-as-usual. |
| Blueprint 5 (Update Blueprint 1) | <ul style="list-style-type: none"> • Blueprint #2 serves as support for the development of Blueprints 1,3 and 4. After the finalization of the whole Blueprint Series we are updating Blueprint #1. |



Expected outputs of the blueprint

| Outcome | Detail |
|------------------------------------|---|
| Repository | Blueprint #2 will stock the Reporting 3.0 Repository with a compendium of reports and assessments on the connection between accounting and reporting for a green & inclusive economy. |
| Infographics from virtual dialogue | Blueprint #2 will include a virtual dialogue that is a global feedback mechanism on the first draft of the Blueprint. |
| Public comment | The final draft will be offered to the global public in a public comment period. All comments will be made public. |
| Blueprint 2 | The final version of Blueprint #2 will be published as a Reporting 3.0 Platform Blueprint Report. |

Timeline

| Month | Activities |
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| 1 | Call for participation, set up of working group, budget check, official launch |
| 2 | Literature collection, analysis, 1:1 expert interviews |
| 3 | Structuring of outcomes, finalizing draft 1.0 White Papers |
| 3 | Online Think Tank, structuring outcomes for Working Group input |
| 4 | Working Group in person meeting |
| 5-6 | Draft White Papers |
| 8 | Working Group in person meeting |
| 9 | Final version of blueprint |

Resources

| Contributions | Description |
|---------------|---|
| Funding | 100k Euro, divided by 5 (@20k) or up to 10 (@10k) |
| In-kind | possible |

Given the above activities and funding asks, we are inviting you today to get in touch with us and discuss your contribution.

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