Reporting 3.0
Accounting
Blueprint Exposure
Draft 2 Review

FEB 19 - FEB 23, 2018
36 PARTICIPANTS / 166 POSTS
Background

Thank you for joining this online dialogue on the Exposure Draft of the 3.0 Blueprint for New Accounting. We conduct this dialogue with the assumption that accounting as change agent has a purpose, an evolving discipline that is about more than merely processing numbers. If accounting and accountants were to play a role in saving the world, the Blueprint addresses the how. Based on developments of the past two decades, it asks “What could Accounting look like 20 years from now?” Mapping how financial, management and sustainability accountants could capture multicapital value and shape an integrated discipline over the coming two decades, it proposes shared accounting principles, integrated statements and strategic narrative. It also proposes improved ways of recognising externalities, intangible assets, value drivers and future value, as well as implications for education, organisation and governance in the making of New Accounting.

OBJECTIVES

The content generated in this discussion will enable us to finalise the Accounting Blueprint of Reporting 3.0, making final revisions before its launch at the Reporting 3.0 Conference in Amsterdam this June. Our objective is to:

- Test proposals and recommendations made in the Exposure Draft;
- Capture additional insights from invited experts and participants on the related subthemes; and
- Engage you with members of the 3.0 Accounting Working Group in a discussion involving different types of accounting, standards and management expertise from different parts of the world.

AGENDA

Day 1
Opening: From Old Accounting to New Accounting

Day 2
Numbers: Alternative metrics, statements and multicapital value

Day 3
Approach: New principles, business model dynamics and user needs

Day 4
Resources: Accounting standards, method and skills required

Day 5
Conclusion: Narrative, timeframe and strategic outlook
On this report, we had the following Guest Experts, who kickstarted the debate each day with introductory statements and respond to follow-up remarks/questions posted by the participants in two discussion threads running in parallel each day:

- **Wim Bartels**
  Programme Lead, Corporate Reporting Dialogue, International Integrated Reporting Council (IIRC) and KPMG, The Netherlands

- **Ben Carpenter**
  Operations Manager, Social Value International

- **Sonal Dalal**
  Technical Director, Sustainability Accounting Standards Board (SASB), USA

- **Paul Druckman**
  Independent Non-Executive Director and Chair of the Corporate Reporting Council, UK FRC

- **Mark Gough**
  Executive Director, Natural Capital Coalition

- **Lois Guthrie**
  Director Redefining Value, World Business Council for Sustainable Development (WBCSD)

- **Helen Slinger**
  CFO Leadership Network Director, The Prince’s Accounting for Sustainability Project (A4S)

- **René Orij**
  Assistant Professor, Center for Financial Reporting, Nyenrode Business University, The Netherlands

- **Linda Devonish - Mills**
  Director, Technical Accounting Activities, Institute of Management Accountants (IMA)

- **Paul Hurks**
  Manager International Accountancy Coordination, Royal Netherlands Institute of Chartered Accountants (NBA)

- **Ken Weldin**
  Audit & Assurance, PKF Australia

- **Zimkita Mabindla (CA) SA**
  Senior Executive: Corporate Reporting, South African Institute of Chartered Accountants (SAICA)
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Executive Summary

**Day 1** Opening -- From Old Accounting to New Accounting

Our first Guest Expert, former IIRC Chief Executive Paul Druckman, started the day by asserting that the accounting we foresee in 20 years time will be about accounting for value, and accountants will be the guardians of the information flows and its credibility. But without integration, there is a lack of understanding of how value is created and for what purpose.

Our second Guest Expert Zimkita Mabindla of SAICA argued that the mandate for Integrated Reporting in South Africa has resulted in “combined reports” produced under the CFO with the “back section” produced by the finance function and the “front section” produced by marketing and communications -- a “set-up that has precluded the Financial Accountants from understanding the principles of Integrated Reporting.”

**Day 2** Numbers -- Alternative metrics, statements, and multicapital value

Day two started with an opening statement on Natural Capital (NC) by Mark Gough, who described how members of the Natural Capital Coalition are experimenting bottom up, applying the NC Protocol at product and project level before eventually looking at organisation level. He reminded participants that understanding what the numbers are telling you is absolutely critical when running any organization. Numbers though, when delivered without an understanding of the bigger picture in which they fit, are necessarily limited in the information that they are able to convey, and therefore the decisions that they are able to inform.

An opening statement on Social Capital (SC) was provided by Ben Carpenter of Social Value International. He argued that if we are to make decisions that are not solely based on financial value, then non-financial value should be incorporated into the same set of accounts. If the information is kept in separate places it is seen as two different activities and the financial will continue to be seen as more important. But if the statements are integrated, then the different sets of information are hardwired into more integrated decision-making.

A commentary on the BP2 Exposure Draft by the Sustainability Context Group was presented by Mark McElroy, one that critiqued the use of monetization for lacking respect of sustainability context and for assuming substitutability between capitals or different resources.
Executive Summary

**Day 3** Approach -- New principles, business model dynamics, and user needs

Opening Day 3 on new approaches and management accounting, Linda Devonish-Mills of the IMA reminded participants that management accounting is about the decision support, planning, and control functions pertaining to an organization's finances, complementary to the work of financial accounting. She added that increasingly CFOs are asked to perform in more strategic roles to make best use of data for organizational decisions, which requires an advanced skillset for management accountants at all levels. In addition, automation and Artificial Intelligence technologies are making more data available and raising the bar when it comes to strategy in management accounting.

The second thread, focused on new principles of accounting, was opened by Paul Hurks of the Dutch accountants association NBA. He argued that the following conditions are relevant for the Recognized Comprehensive Accounting Principles (RCAP) proposed by the Blueprint: (1) general accepted accounting framework, (2) suitability of criteria and (3) availability of data. He added that timely, reliable and comparable context-based information is necessary for reasons of accountability and decision-making. Furthermore, he views stewardship usefulness and decision-making usefulness as two sides of the same coin.

**Day 4** Resources -- Accounting standards, method, and skills required

On Day 4 Sonal Dalal of SASB introduced Thread 1 related to accounting standards and approaches. She explained the approach of SASB and the case for a sectoral, industry specific approach when determining relevance. As example, financial analysts cover specific sectors because it is essential to understand basic value drivers, business models, and the regulatory environment if one seeks to compare financial performance. She said it is the same with sustainability performance. Companies that provide similar products and services tend to have similar business models, use resources in similar ways, and tend to have similar impacts on society and the environment. Information on sustainability risks is best understood in an industry-specific context.

Thread 2 focussed on assurance and auditing, a discussion introduced by Kenneth Welden of PKF Australia. He signalled that increasingly Boards are seeking audit services to provide assurance over "non-financial" items (incl lead indicators) as they look to include them in investor briefings and market releases. He noted that the basis of future work in auditing and assurance will require: (i) quicker, more streamlined ways of issuing accounting standards, guidance and interpretation; (ii) more open mindset to adopt new technologies quicker; and (iii) new reporting models for different stakeholders, reporting less information but more often with more focus on non-financial data and qualitative metrics.

**Day 5** Conclusion -- Narrative, timeframe, and strategic outlook

The concluding day considered implications of the digital revolution as well as broad conclusions from the Accounting Blueprint. Opening a thread on the role of new Information Technologies (IT), Rene Orij of Nyenrode University described accounting twenty years from now as one in which Artificial intelligence (AI) will be omnipresent, with self-accounting computers being the equivalent of self-driving cars. Self-learning AI algorithms will arrange the collection, analyzing, reporting and verification of accounting data. All transactions will be processed and kept in a decentralized database system, accessible for the respective stakeholders. This decentralized system will be Blockchain or internet-based.

Thread two on overall conclusions was led by Wim Bartels of KPMG and the IIRC. He highlighted the most significant proposals of the Accounting Blueprint as being: (i) its proposed RCAP principles, with the principles of ‘relevance’ and ‘intertemporal value’ being potential game changers to the field of accounting by taking into account the sustainability context and an integrated perspective on value; (ii) the proposed statement on long-term risks (and opportunities) - accounting can no longer focus solely on the past and the present to be sustainable in its own right; and (iii) the proposed integrated statements, attempting for example to better explain total value versus book value as well as real value creation in respect of sustainability thresholds and systems context.
Day 1: Opening From Old Accounting to New Accounting
Paul Druckman, Independent Non-Executive Director and Chair of the Corporate Reporting Council, UK FRC

- Accounting to my mind could be explained as being about control, process, methodology and systems - the override for these is likely to be value. The accounting we foresee in 20 years time will be about accounting for value, and accountants will be the guardians of the information flows and its credibility.

- The same language for Accountants is based on the core concepts of control, process, methodology and systems. The deep expertise within even the financials has specialist language. But I would contend that there is still the common foundation.

- In my view without integration there is a lack of understanding of how value is created and for what purpose. This holds within and outside the capital market players system. In 20 years that system is likely to be far closer to an inclusive culture where integration will be thought of as simply normal.

- There are bad apples in every system and it is our responsibility to uphold ethics and standards that develop rather than undermine. There will be a clarity of purpose coming through in the next few years for the accounting profession, as long as it recognises the change mechanisms and its role within that urgent change.

Zimkita Mabindla, Senior Executive: Corporate Reporting, South African Institute of Chartered Accountants (SAICA)

- Much work still needs to be done on the ground to educate the accountancy profession on the principles underlying Integrated Reporting (Integrated Thinking and Sustainability).

- What is called an integrated report is often largely a combined report, with the auditors checking that there is no contradiction, where there are numbers that have been extracted out of the historical financial statements and used in the front section. This set-up has precluded the Financial Accountants from understanding the principles of integrated reporting.

- The issue of fraud and corruption raises much more than reporting standards. Issues of fraud and corruption cannot be addressed by accounting standards only. A much bigger discussion needs to be held on corporate culture, behaviours that are incentivised by corporates, ethical leadership, morality and personal values.

- The Financial and Management Accounting disciplines are well established and key competencies to qualifying as a Chartered Accountant (CA). Sustainability accounting is not as well established and not understood by the accounting profession. A lot of work still needs to be done to educate the profession on sustainability accounting.

- There needs to be in-depth research and study as to why management accounting and internal reporting did not flag in advance the risks associated with accounting scandals of the last two decades.

- As management accounting reports on an on-going basis, as opposed to financial accounting which is historically focused, it should be an effective tool to identify and pre-empt significant risk areas including those related to fraud.

Helen Slinger, CFO Leadership Network Director, The Prince’s Accounting for Sustainability Project (A4S)

- Accounting is currently failing in presenting a true and fair view of the position and performance of companies and this misrepresents companies' ability to sustain themselves.

- The UK's Companies Act requires a company's accounts to "give a true and fair view of the state of affairs...[and] of the profit or loss of the company". Though despite truth being a central notion in accounting, it can be argued that a solely financial report cannot adequately provide a true and fair view because it does not contain sufficient non-financial information relevant to a company's long-term performance.

- An asset is defined as "a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity". This definition notably excludes resources upon which the company relies if they are not controlled by the entity. In other words, it assumes they have no value to the company, which in turn implies that any change in the condition or value of them has no impact on future economic benefits expected to flow to the entity.

- The Sustainable Developments Goals explicitly include the protection of life on land and in water, and the reduction of inequality as necessary outcomes. Therefore, how can an accounting system designed to measure and report on the value of companies be appropriate, if it drives natural destruction and neglects social welfare?
“An asset is defined as “a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity”. This definition notably excludes resources upon which the company relies if they are not controlled by the entity. In other words, it assumes they have no value to the company, which in turn implies that any change in the condition or value of them has no impact on future economic benefits expected to flow to the entity.”

Helen Slinger

“if the objective is to account for/report on value creation, the above themes (and others set out in the background paper) would have to be considered and would take us beyond accounting for owned and controlled resources and known and past events.”

Lois Guthrie

“I would plea for a fourth area for the accounting of the future: that of intangibles accounting.”

Wim Bartels

“I consider the role of “sustainability accountants”, those that work with the sort of indicators as recommended from GRI and SASB, including those engaged with both the social and natural protocols that is a bright future as part of the accounting function/regime of the future. They may become the specialists I mention or develop into the coordinators. It will be challenging for the existing technical financial accounting professional to adapting, those with the fundamentals of accounting and the breadth of sustainability may well take the lead.”

Paul Druckman
Thread 2: Zimkita Mabindla / Accounting and reporting integration in emerging markets

“There is always the risk that excellent standards (either on integrated reporting or on corporate governance) will not lead to excellent performance. With detailed guidance - also from international bodies - it become possible and easy for companies to issue excellent but formulaic integrated reports and to disguise - probably unintentionally - the lack of integrated thinking.”

Daniel Malan

“I think that this is where the challenge is- how do we ensure that the value of practicing integration resonates with the accountant?”

Loshni Naidoo

“The Accounting Blueprint suggests that in future New Accounting will require corporations to have in place comprehensive accounting departments in which financial, management and sustainability accountants work in the same office.”

Cornis Van Der Lugt

“Zimkita correctly points out that “Sustainability accounting is not as well established and not understood by the accounting profession.” I agree. This is why Reporting 3.0’s work is so important, and in particular its embrace of Context-Based Sustainability (CBS) as a methodology for sustainability accounting.”

Mark W. McElroy, Ph.D.
Day 2: **Numbers**
Alternative metrics, statements, and multicapital value
Mark Gough, Executive Director, Natural Capital Coalition

- Understanding what the numbers are telling us is absolutely critical when running any organization. Numbers though, when delivered without an understanding of the bigger picture in which they fit, are necessarily limited in the information that they are able to convey, and therefore the decisions that they are able to inform.

- Even after valuation has been used you can still end up with just a number. We have often seen headlines saying, “Our natural capital is worth xx billion.” This again does not often help to inform decisions as even, and sometimes especially, the very big numbers become meaningless. We need to understand the context of all the numbers we use if they are to be meaningful.

- Whether you decide to assess in monetary terms or not, depends on what decision you are trying to inform. If you are looking at a Capex decision, then monetisation might make sense. If you are looking at an operational decision, then it may not. Some situations will benefit from monetization, and others will not. It is about assessing this on a case by case basis.

- When organizations that we speak with begin to experiment with their scope at the start of this process, they often have lofty ambitions to apply the Protocol across their entire organization. Soon however, many recognise that it is much more pragmatic to familiarise themselves with the systems and process involved by beginning at the level of a project or individual product.

Ben Carpenter, Manager, Social Value International

- Social Value International believe that it is entirely possible to measure the amount (or ‘stock’) of social value/capital that an organisation is creating. Using a consistent methodology it is possible to report on these changes and the social value created in year one and then chart increases or decreases in subsequent years or time periods. What is harder to measure is the original amount of social capital that existed before your activity begins.

- All organisations are currently making decisions about where to allocate their resources. These decisions are made often with an implicit valuation about the social outcomes. SVI promotes the use of valuations to make these decisions a) more transparent and b) based upon stakeholder-led valuations.

- We also advocate for the monetisation of social outcomes for the following reasons: a) money is a common yardstick or reference point that allows for comparison when attached to outcomes experienced by different stakeholders; and b) monetising the social outcomes from an activity allows for the comparison against the costs of delivering the activity - hence a social return on investment ratio can be generated.

- We do need the development of expanded income statements and balance sheets with social externalities incorporated. If we are to make decisions that are not solely based on financial value, then we believe non-financial value should be incorporated into the same set of accounts. If the information is kept in separate places it is seen as two different activities and the financial will continue to be seen as more important.
Thread 1: Mark Cough / Natural Capital

“Monetisation of social and environmental factors is an invaluable technique for companies to balance these elements. After all, it is a methodology that allows them to compare the cost-benefit of their business decisions across financial, natural and social capital in a single unit and thus informs their decisions in a much more comprehensive way than traditional, solely financial based methods.”

Helen Slinger

“Precise estimates need to be avoided. There is no such thing as a true single cost of something. Value is a perspective. The same item will have lots of different values depending upon who you ask and it will change over time and geography. This is why it is important to start by thinking about what decision you are trying to inform and not what number you want.”

Mark Gough

“Monetization suffers from two very serious shortcomings: a. First, monetization is not contextualized vis-à-vis thresholds in the carrying capacities of the capitals.”

“This discussion, in turn, is forcing us all to choose between the different interpretations of what we mean by SA. Personally, I have no interest in the ‘valuation for inclusion in financial statements’ interpretation because it doesn’t address the question of how best to assess the sustainability performance of organizations.”

Mark W. McElroy, Ph.D.

“You say “we need to separate the capitals we can and cannot monetize.” I’d like to challenge that. In my work with intangible capital, I’ve come to see that there are three kinds of perspectives on each capital: financials, internalities and externalities.”

Mary Adams
Thread 2: Ben Carpenter / Social Capital

“We also advocate for the monetisation of social outcomes for the following reasons: a) money is a common yardstick or reference point that allows for comparison when attached to outcomes experienced by different stakeholders; and b) monetising the social outcomes from an activity allows for the comparison against the costs of delivering the activity - hence a social return on investment ratio can be generated.”

“The additional layer to the balance sheet reflecting the difference between book and market value (as set out in the Blueprint) would be an excellent move. It would undoubtedly help increase transparency and decision making about where to allocate resources.”

“1.) It’s very important to establish the links or causality between different capitals. What does an increase in human capital lead to? Be careful not to count both.

2.) the valuation approach within each capital should be consistent.”

“A company should not only account for gains, but also negative outcomes related to human capital. When an employee leaves the company, considerable know-how is lost. The employee could have mentored others to develop a specific skill. In addition, reputational damage due to human errors could also not be ignored.”

“I remember well when the CEO of Puma at that time was commissioning work about natural capital externalities with the argument ‘it only exists for me when it’s on the p/l and the balance sheet’. While we have experience with natural capital we have less experience with social capital, so Reporting 3.0 also pushes for that inclusion. This is linked with our macro level approach to a green, inclusive & open economy in which true costing, true benefitting, true pricing and true taxation are the four building blocks to change economic system design.”
Day 3:

**Approach**

New principles, business model dynamics, and user needs
Increasingly, CFOs and their teams are asked to perform in more strategic roles to make best use of data for organizational decisions. This requires an advanced skillset for management accountants at all levels. Automation and Artificial Intelligence technologies are making more data available and raising the bar when it comes to strategy in management accounting.

While qualitative and intangible, nonfinancial data can have value in helping organizations make good decisions and drive business performance. IMA’s interest in helping to drive the future of corporate reporting is less on reporting and more on integrated thinking, strategy and governance inside the organization.

A top down approach with use of a balance scorecard is the most effective beginning with the organizational level, drilling down to the project level. Companies that adopt the balance scorecard approach successfully are clear about their goals at a global, organization level before they address goals at a departmental, project level.

The 2013 COSO (Committee of Sponsoring Organizations of the Treadway Commission) Internal Controls Integrated Framework can be used to provide greater confidence in the use of sustainability performance data. COSO just released an exposure draft on applying the ERM framework to ESG performance measures.

IMA supports bridging the gap between financial and sustainability reporting by developing strategic alliances with organizations that have created sustainability/integrated reporting frameworks; e.g – SASB, IIRC, COSO.

The key principles of New Accounting are very well summarized in the RCAP of the Accounting Blueprint with the following for consideration. New Accounting is a logical result from inevitable transitions in economy, capitalism, transactions, organizations and reporting. New Accounting will lead to New Data management, including being multi-capital and new currency focused.

The following transition conditions are relevant for the Recognized Comprehensive Accounting Principles (RCAP) proposed by the Blueprint: (1) general accepted accounting framework, (2) suitability of criteria and (3) availability of data.

Timely, reliable and comparable context-based information is necessary for reasons of accountability and decision-making. In fact stewardship usefulness and decision-making usefulness are two sides of the same coin.

The Blueprint figures the Reporting Pyramid, consisting of different elements: reporting, disclosure, regulation and methodology. The concept of the pyramid equals the concept of the Core & More initiative of Accountancy Europe. The different (parts of the) report(s) serve(s) different audiences.

It is expected that the top ‘holistic’ view on an organization’s strategy, performance and created value is a concise integrated report for a larger part based on narrative storytelling. Other parts are probably more based on quantitative and qualitative data.

Indications that integrated thinking is feasible can be concluded from the TCFD proposals. It shows that financials are increasingly aware of non-financial (pre-financial) externalities and they therefore become more aware of related risks and opportunities. This is just a start. It will lead to more convergence in financial, management and sustainability accounting. It is all about long term viability and value.

Linda Devonish-Mills, Director, Technical Accounting Activities, Institute of Management Accountants (IMA)

Paul Hurks, Manager International Accountancy Coordination, Royal Netherlands Institute of Chartered Accountants (NBA)
Thread 1: Linda Devonish-Mills / management accounting

“A top down approach with use of a balance scorecard is the most effective beginning with the organizational level, drilling down to the project level.”

Linda Devonish - Mills

“financial and sustainability accounting set the baseline to create information that management accounting will need to ‘produce’ scenarios, recommendations (forward-looking) and controls and evaluation (backward-looking) for the ‘integral materiality process’.”

Ralph Thurm

“I looked at it systemically, and found clear evidence that business management only received information on a small fraction of the actual sustainability impacts their decisions caused. Our accounting methods leave out both all impacts of business people and all global impacts of the economy as a whole, that management decisions directly affect without being aware of it.”

Jessie Henshaw

“My fear is that in its attempt to frame performance with a reference to three sustainability dimensions (3ple bottom line) and aligned with this reference to 4-6 Capitals, we may end up with an approach which yet again is siloed (env vs econ vs social) as opposed to integrated (e.g. intercapital).”

Cornis Van Der Lugt
Thread 2: Paul Hurks / new accounting principles

“Indications that integrated thinking is feasible can be concluded from the TCFD tool. This tool shows that financials are increasingly aware of non-financial (pre-financial) externalities and they therefore become more aware of related risks and opportunities.”

Paul Hurks

“All three the disciplines would need to develop a common understanding of the meaning of “value”, “fair value” and “future value”, including the use of market-based transactions to determine such value but also alternative techniques (including scenario analysis) to recognize the current fair and future values of different capitals and different intangible assets for which markets may not exist.”

Cornis Van Der Lugt

“I find it absolutely crucial that an agnostic and pre-competitive outfit like Reporting 3.0 now presents these RCAP to instigate a discussion that needs to be discussed by a multi-rightsholder group and not just amongst the experts.”

Ralph Thurm

“I agree with Paul’s thoughts that the convergence of frameworks is not an easy task. Similar to other initiatives, there has to be support for convergence before leadership for the initiative can be formulated. The only success I have observed with convergence of standards and framework was the FASB and IASB’s convergence project which has resulted in the issuance of the converged Revenue Recognition standard.”

Jessie Henshaw

Linda Devonish - Mills
Day 4:

**Resources**

Accounting standards, method, and skills required
Sonal Dalal, Technical Director, Sustainability Accounting Standards Board (SASB), USA

- Financial analysts cover specific sectors because it is essential to understand basic value drivers, business models, and the regulatory environment if one seeks to compare financial performance. It is the same with sustainability performance.

- Companies that provide similar products and services tend to have similar business models, use resources in similar ways, and tend to have similar impacts on society and the environment. Information on sustainability risks is best understood in an industry-specific context.

- SASB references metrics from more than 200 internationally recognized frameworks, making them both globally relevant and cost effective to disclose. The average SASB standard for an industry includes just five disclosure topics and 14 associated metrics.

- Wherever possible, the SASB Standards include quantitative performance metrics. This follows from research conducted in 2015 surveying numerous experts from SASB’s Industry Working Groups (IWGs). IWGs represented a critical stage of the SASB standards-development process, during which professionals with at least five years of industry experience voted and commented on the likelihood of each disclosure topic having material impacts.

- Participants in the IWGs also evaluated whether a metric was relevant and useful, cost-effective, comparable, and/or verifiable. Survey results showed that across the board, members favored quantitative metrics for their comparability and verifiability. This is an important reason why approximately 80% of SASB’s metrics are quantitative.

Kenneth Weldin, Audit & Assurance, PKF Australia

- We hear that the future growth of audit and assurance will come from challenging our traditional service lines and moving away from a sole reliance on external financial statement audits. The reasons for this come simply from the need to change and adapt to the world around us.

- We no longer use comptrollers and other tools of accounting used in the 1960’s - 1980’s. Similarly, the basis of our future work in auditing and assurance will require: (i) quicker, more streamlined ways of issuing accounting standards, guidance and interpretation; (ii) more open mindset to adopt new technologies quicker; and (iii) new reporting models for different stakeholders, reporting less information but more focus on non-financial data and qualitative metrics.

- Non-financial information is pervasive across most organizations. Take the example of retail, where stock keeping unit (SKU) turnover, supply chain cycle times, property yields, employee turnover, productivity and efficiency models would often be used to drive key decisions.

- The gap at present is confidence amongst corporates in reporting these lead indicators on the one hand, and on the other hand sophisticated investors and analysts who know they need to look beyond traditional profit and loss or balance sheet metrics. This gap will disappear sooner than later, and a mix of qualitative, non-financial information and metrics will soon sit alongside traditional measures in disclosures published along synced timelines.

- On the skills that New Accounting (accountants, auditors, analysts) of the future will require, I believe that Information Technology is an obvious starting point here. New innovations range from online services, more sophisticated customer experience models and data analytics to shape, verify and in real time take management decisions.

- Changes to business and value creation models of companies across all sectors and industries will require all aspects of accounting to adapt. This includes accounting standards, accounting systems, accounting books and records, auditors who check the accounts and of course the accountants themselves.
Thread 1: Sonal Dalal / SASB

“Across the board, members favored quantitative metrics for their comparability and verifiability. This is an important reason why approximately 80% of SASB’s metrics are quantitative.”

Sonal Dalal

“People do like hard numbers, but it’s also extremely important to look at what is being measured, and people mostly just don’t. Most people just trust the name for the data set, without checking to see if the data collection boundary matches the system boundary.”

Jessie Henshaw

Regarding accounting for the commons: We should take advantage of emerging technologies like blockchain, for example, to create secure distributive databases that monitor the value creation/destruction of natural capital - stocks, thresholds, allocations and transactions related to aspects like water pollution, water availability (local), land use, deforestation, hazardous waste or emissions (global).”

Felipe Arango

“My understanding is that SASB decided to limit its scope to sector-specific risk, and perhaps at most portfolio risk, but explicitly opted against encompassing systemic risk -- in particular the risks that company impacts create at the systemic level. Yet these risks certainly exist (indeed, emerging discussion is shifting toward labeling this “existential risk”) and it is certainly material, precisely because it cuts across sectors and industries.”

Bill Baue
Thread 2: Ken Weldin / PKF

“Non-financial information is pervasive across most organizations.”

“A fish rots from the head, a board’s decisions can make or break a company. I hence agree that governance is an important “pull factor” for sound sustainability reporting.”

“Verifying the audit trail of a key metrics will still be necessary. But to really improve the quality of sustainability reporting in a way it becomes useful for strategic (internal and external) decisions and meaningful to investors, auditors have a key role to play to challenge the materiality assessments.”

“If the links between the content elements and capitals are clearer, stakeholders might have a better understanding - and support - for companies that they are related to.”

“Auditing must address that risk of silos or inconsistent messaging & from that the key messages come from the Board/CEO & not the rest solely in the domain of marketing or PR. As auditor I am looking for true “whole of organisation governance” which very much agrees with the “fish rots from the head” analogy.”
Day 5:

**Conclusion**
Narrative, timeframe, and strategic outlook
Conclusion - Narrative, timeframe, and strategic outlook

Orij, Rene, Assistant Professor, Center for Financial Reporting, Nyenrode Business University, The Netherlands

- Artificial intelligence (AI) will be omnipresent in accounting 20 years from now. The accounting equivalent of self-driving cars is self-accounting computers. Self-learning AI algorithms will arrange the collection, analyzing, reporting and verification of accounting data.

- In 20 years all transactions will be processed and kept in a decentralized database system, accessible for the respective stakeholders. The decentralized system will be an internet-based system, similar to the Blockchain. Next to all transactions, all ownership of assets will be kept in this system.

- The main concern of the accounting community will be the ethical standards of the people behind the decentralized system and their behavior around privacy of the stakeholders and general security issues. AI is self-learning, but the initial programming will still done by people. That will be the only subjective and human element in the system.

- A computerized system will most likely not be able to decide upon ethical standards. Because of that, there will always be a need of people being able to safeguard society’s values and norms. Managers and auditor’s education will be crucial.

- All type of performances will be integrated in the big-data type of analysis of transactions and ownership of assets. The multi-capital performance will be measured in a triple-entry system, not just debit and credit of financial statements, but debit and credit and ‘future expectations’ of all possible capitals. Or in other words, triple-entry book-keeping.

- The component ‘future’ will be fed by – what we now call – non-financial accounting. That contains sustainability, intellectual capital, human capital and may more, possibly unlimited number of capitals. The interaction of all of these capitals is of great added value, comparable with the Shared Value concept.

- There is a strong connection between the non-financial capitals and intangible assets. The link between these will be established in a qualitative manner. The value of all of these lies in the connection with each other within the ecosystem of the company, not anymore within the single asset.

- Self-learning AI will be able to establish this qualitative ‘value’ of interaction between intangibles. That will not be done with balance sheets, as these issues may not be in balance. There may be value creation like 1 + 1 = 3, because of synergy between the capitals in a qualitative way.

Wim Bartels, Programme Lead: Corporate Reporting Dialogue, International Integrated Reporting Council (IIRC) and KPMG, The Netherlands

- A first, key aspect of the Blueprint proposals relates to the principles that should serve the sustainable, inclusive green economy as envisaged by the Reporting 3.0 initiative. The principles of ‘relevance’ and ‘intertemporal value’ are of the essence and seem to be potential game changers to the field of accounting by taking into account the sustainability context and an integrated perspective on value.

- The second noteworthy element of the Blueprint is the proposed view on long-term risks (and opportunities). Accounting can no longer focus solely on the past and the present to be sustainable in its own right. The recognition that considerations have to be extended into risks and opportunities on the long term will change the perspectives outside and inside companies.

- The third aspect of the Blueprint that is also very promising is the concept of the integrated statements, again incorporating long-term risks but also attempting to better explain total value versus book value. This will provide better insights into the real value creation, protection and depletion by companies.

- To be frank, even the sustainability specialists of today hardly get their heads around context-based materiality and related allocation. We also need similar understanding at the level of standard setters and frameworks. They have to get a holistic picture of the future of accounting collectively where their ‘own’ framework only is a part of the puzzle.

- After the education phase we can start first steps towards implementation. A Corporate Reporting Lab (a closed space where companies can discuss innovative ideas for disclosure, as suggested for example by AccountancyEurope) would enable companies to experiment with accounting and reporting with this new concept of materiality. Regulating it right away will not get us there I am afraid.

- True Value - in the sense of ‘the true monetized value of a company’ - is a highly valuable approach to strengthen understanding and action on the basis of the common language of ‘money’. We should not see this as interchangeable with sustainability though. It focuses primarily on the price of externalities without considering all relevant aspects of sustainability and inclusiveness. More importantly, it does neither count the societal boundaries or thresholds nor the relationships between the aspects.

- If true value is interpreted broader to include also non-financial value(s), it gets pretty close to sustainability: the company that creates the highest comprehensive value for society (financial, well-being, education, intellectual capital, etcetera) whilst protecting the scarce resources of the planet and society (i.e. meets the planetary boundaries) should be seen as a sustainable company.

- Much of this starts with understanding, education, and interest to consider the field of new accounting. Regulators and standards bodies should engage themselves in the debate and long-term thinking on accounting. Investors should engage to better understand the relationships between non-financials and financials and put effort into sophisticating their models and approaches to investing. No longer will ‘discounted cash flows’ and ‘net present values’ count. Investors will need to integrate ‘planetary boundaries’, ‘societal value’ and ‘intertemporal value’ into their thinking.
Conclusion - Narrative, timeframe, and strategic outlook

Day 5

Thread 1: Rene Orij / IT Nyenrode University

“Yet reporting too frequently can also lead to greater (perceived) volatility in performance and market pricing, and additionally undermine long-term investment.”

Cornis Van Der Lugt

“The multi-capital performance will be measured in a triple-entry system, not just debit and credit of financial statements, but debit and credit and ‘future expectations’ of all possible capitals. Or in other words, triple-entry bookkeeping. The component ‘future’ will be fed by – what we now call – non-financial accounting.”

René Orij

“Humans will still have an essential role to ensure that the “sustainability story” is accurately and clearly displayed, especially to explain possible 2+2 = 5 scenarios.”

Nadia Mans-Kemp

“Systems thinking introduces the time element, as it encompasses questions of pace as well as those of scale, so integrating such elements into your “3rd entry” idea seems like a great opportunity.”

Bill Baue
Thread 2: Wim Bartels / Overall Conclusions, KPMG IIRC

"If true value is interpreted broader to include also non-financial value(s), it gets pretty close to sustainability: the company that creates the highest comprehensive value for society (financial, well-being, education, intellectual capital, etcetera) whilst protecting the scarce resources of the planet and society (i.e. meets the planetary boundaries) should be seen as a sustainable company."

Wim Bartels

"Reliability will not be improved by accounting for the difference between book value and market value. In my view this should also not be the key purpose. Already currently book values are not necessarily accurate (i.e. contain judgment and estimates). The benefit of accounting for the ‘full value’ would be the better insight into a company’s value drivers and its restrictions. This can drive decision-making and thus real change in business behavior."

Wim Bartels

"I think the Accounting Blueprints offers just the fundament, the rest is experimenting and iterating with the aim to come to conventions, that’s what accounting is all about."

Ralph Thurm

"Distinguish between impact valuation (IV) and sustainability accounting (SA) in discussions like this. Non-substitutability is not necessarily a problem if what we’re talking about is IV. It absolutely is a problem, however, in SA."

Mark W. McElroy, Ph.D.

"There are three big measurement perspectives relevant to this discussion: financial, internalities and externalities. These three are like a prism; you can see each of the capitals through the prism. The challenge is to reconcile and connect the three perspectives."

Mary Adams
Facilitator’s Conclusion

Thanks to everyone for a very productive week of dialogue on the final Exposure Draft of the Accounting Blueprint. Your insightful input sets us up well for last revisions to ready the Final Report for release at the 5th International Reporting 3.0 Conference on 12/13 June at KPMG HQ in Amsterdam, graciously and gracefully hosted for the second year running by Wim Bartels. We look forward to seeing many of you there, and imagine that some of you may be speaking about the Blueprint, and some of you may be launching pilot project as part of the Beta Testing Program to bring to life the Report’s Recommendations.

For me, the biggest takeaway is the distinction between Impact Valuation and Sustainability Accounting, an awareness that had started to dawn on me in background discussion with signatories of the Sustainability Context Group’s Public Comment Letter. I believe this is an important distinction to clarify, and of course these two domains are not completely isolated from one another, but are interrelated -- for one thing, by their joint need to address thresholds, as Mark McElroy and Christian Heller (through his Global Thresholds & Allocations Council Presentation Abstract) note.

Thanks to the Reporting 3.0 and Convetit teams for background support. I look forward to working with both on the Summary Report, which I will post here in the Dialogue when it’s ready. For now, the platform will be closing to further input, but it will remain visible to public view hereafter, so please share the link with all who you think might find it interesting and valuable.

Closing Statement

Thank you to all 36 participants including 12 panelists for an exciting and fruitful exchange on New Accounting over the last five days. We started the week with Paul Druckman arguing that in 20 years time accountants will be the guardians of relevant information flows, and concluded with Rene Orij suggesting that in 20 years self-accounting software will be doing much of the hard work. The discussions showed diverse backgrounds of participants from different parts of the world, specialising in different subdisciplines of accounting and focused on different levels of interest, from the organisational level to the broad systems level. There was broad agreement that core concepts such as “value” and “sustainability” need to be revisited and reconciled.