Corporate Reporting Dialogue

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Understanding the value of transparency and accountability

The Corporate Reporting Dialogue (the Dialogue) was established to facilitate discussion between the respective participants on their frameworks as the basis for further advancing corporate reporting. In order to achieve this progress, Dialogue participants work together to better understand and align their respective frameworks where appropriate and to develop common views on corporate reporting and its future.

As part of the discussion, Dialogue participants have explored areas where further alignment could be clarified and developed. These areas include the concepts and principles underpinning the frameworks, the interrelations between the frameworks and the specific disclosures called for in the frameworks.

For all Dialogue participants, greater **transparency** and **accountability** lie at the heart of their reporting frameworks. These attributes, which form a common foundation, facilitate bigger-picture effects, such as enhanced decision-making by capital markets (and others) or serving the public good. For some of our participants they relate to changing behaviour.

In the view of the Dialogue **transparency** and **accountability** are also critical elements to achieve high-quality governance mechanisms and empowerment of stakeholders in modern societies and markets.

Value of this paper to report preparers and users

This paper will show to users and preparers alike that our participants' frameworks are built on the same fundamentals and therefore can be used in conjunction with each other. It will demonstrate that, whereas the individual frameworks each have their specific requirements, they stem from compatible principles.

For preparers, the common principles outlined in this paper should therefore serve as an aid and reference point in case they perceive inconsistencies – as the principles guide the more detailed requirements.

Furthermore, this paper provides evidence of the value that **transparency** and **accountability** bring not only to report users but also to report preparers.

The paper also elaborates on the value of transparency and accountability for better performance and long-term business success.

The objectives of transparency and accountability

The work of the Dialogue participants consists to a large extent of issuing frameworks for organizations to report against in relation to certain topics in a defined or structured way. The objective of the work is to enable others to use the disclosures that are founded on the frameworks as the basis for their further assessment and/or actions.

The frameworks each address selected topics (i.e. products, sustainable development, financial position, value creation), differing user groups (investors, other financial stakeholders, wider society, other specific user groups) and differing media (reports, databases, certificates).

Dialogue participants have in common, however, that participants deploy their frameworks with the objectives of achieving transparency and accountability.

The Dialogue recognizes that these cannot be achieved in isolation by individual frameworks. It supports therefore each of the frameworks' role in reporting and disclosure and has an interest in integrated reporting as a concept.

For the Dialogue, transparency is an open way of communication by an organization on the topic concerned, such that the information is sufficiently accurate, complete and understandable to enable the user to make relevant decisions.

As outlined above, each of the participants' frameworks addresses particular user groups. The remit to assist these user groups with participants' frameworks is based on the premise that organizations should accept and demonstrate responsibility for their behaviour and performance to particular groups that are their constituents. Each of the frameworks detail this accountability for their respective topics, missions and user groups in order to ensure sufficient disclosure by organizations to enable users to take well founded decisions.

The common objectives of transparency and accountability form the basis for the underlying outcome goals of Dialogue participants: to enable better decision-making by market parties and in so doing, to serve the public good.

In order to achieve these outcomes, it is the Dialogue's view that the two go hand in hand. Accountability can only be fulfilled if those held accountable disclose their behaviour and liquidity is shown to improve with increasing quality. As the study concludes, investors associate higher reporting quality scores with better investment decisions[vii].

It is well recognized financial, sustainability or otherwise core-business related events that become public, can result in negative corrections of company value. Examples include the significant impact on Union Carbide in 1984 after the Bhopal incident and the financial impact on retailers whose apparels were produced in the collapsed Rana Plaza, Bangladesh in 2013. On the financial side, a number of scandals in the first decade of this century such as the Enron failure in 2001 (a loss of more than US$ 60 billion at the time) show that investors and other stakeholders respond to information on negative company behaviour by financial or other actions.

In conclusion, we are convinced that the collective efforts of our participants make a difference in actual behaviour of markets and people. We have already seen evidence of positive change in performance, both in terms of companies' own performance on sustainability and financial issues and in financial markets. Furthermore, practice has shown that information on negative company behaviour has implications as well, suggesting that stakeholders take both financial and non-financial information into account when assessing and taking action with or against companies.

Alignment on principles for reporting

As outlined in this paper, Dialogue participants' efforts support the objectives of transparency and accountability to drive change, enable better-decision making or serve the public good. The Dialogue has set further alignment between the frameworks as one of the ambitions of the Dialogue's efforts. In order to achieve a similar quality of the results of our work, it is critical that participants, where possible, subscribe to equal or similar principles to achieve the objectives; furthermore, that participants have a similar understanding of the content of these principles.

In that context, we have considered whether our participants have defined common principles to fill in the overall objectives of transparency and accountability. Some of the participants have not made their overall principles explicit. However, we have assessed that each of the Dialogue participants' frameworks incorporates principles that we see as fundamentally qualified principles for corporate reporting in general.

We notice that some frameworks include specific principles that are not embedded in other frameworks. As far as we have assessed in the context of this paper, these do not identify gaps in the other frameworks, but rather show a specific aspect of the applicable framework. Furthermore, our participants' frameworks use different wording for the principles and their further explanations. However, we address similar 'concepts' within each of the frameworks.

The principles that participants commonly believe are fundamental are outlined on page 8. In addition, each individual framework has its own unique principles that may not be present in (all) other frameworks. We have included a brief description for each. This is not to be seen as the common definition by the Dialogue, but serves only the purpose to briefly clarify the principles:

Materiality this regards relevant information that is (capable of) making a difference to the decisions made by users of the information.

Completeness all material matters identified by the organization for the relevant topic(s) should be reported upon.

Accuracy (free from material error) the information reported should be free from material error.

Balance (neutral) the information does not have bias, i.e. is not presented in such a way that the probability would be increased that it will be received favourably or unfavourably by the users.

Clarity the information will be understandable and accessible to the users; this includes a certain level of conciseness.

Comparability, including consistency information is reported on the same basis and applying the same methodologies year-on-year. Also, the information enables comparison against other organizations.

Reliability in preparing the information processes and internal controls are in place that ensure the quality of the information and allow for examination of the information reported.

These common principles are a reminder that the Dialogue participants have similar expectations from companies in preparing and disclosing information. This implies an alignment at the fundamental level of the frameworks.

On page 9 we provide an overview of the terminology used by each framework. It is noted that the table shows the similarities and does not intend to suggest that the frameworks would have exactly the same definition and understanding of the principles in all detail. In fact, the principle of materiality in particular appears to show different explanation and application.