

# Getting accounting right to meet future requirements

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Today, the transformation towards a sustainable economy becomes a reality. We need to rethink how the value contribution of companies is defined, measured, and valued.

We live in a time of change: Standard-setters as the IFRS Foundation, together with SASB and IIRC will develop sustainability reporting standards at a global scale, policymakers within the EU, US, and China support the harmonization of corporate reporting and setting strong sustainability objectives. Financial market players call for comparable sustainability information and introduce new products such as green and social bonds. Finally, organizations such as the OECD, IOSCO, or the WEF are supporting the development.

This development relies on consistent, robust, and reliable information provided by companies on their sustainable performance. Now, companies are asked to improve their decision making, steering, and reporting efforts along two aspects - the double materiality:

- Enterprise value or outside-in perspective (financial license to operate): Companies need to demonstrate how sustainability issues impact their enterprise value beyond traditional financial KPI and assets such as intangibles, natural, social, and human capital.
- Impact on society or inside-out perspective (social license to operate): Companies need to understand and disclose how their business model positively and negatively impacts society, environment, and economy along the value chain.

Sustainability accounting or measuring a company's sustainability performance, will be a precondition to enable this movement. The Value Balancing Alliance (VBA) is a non-profit organization bringing together international companies and the four largest auditing firms to standardize the measurement and valuation of sustainability performance in monetary terms. The methodology builds on the double materiality concepts taking positive and negative impacts and dependencies into account. As 'practitioner's lab, the main ambition is to integrate sustainability aspects directly in decision making and steering.

To achieve this objective, the VBA collaborates with various organizations such as the WEF, Capitals Coalition, WBCSD, OECD, EU, SASB, IIRC, Impact Management Project, and universities such as Oxford and Harvard.

As VBA we are strongly convinced that the transition of the economy needs to be underpinned by sound and meaningful accounting systems reflecting the double materiality. These sustainability accounting practices need to

- Be pragmatic and integrated into existing accounting systems
- Be scalable and transferable
- Be aligned with reporting frameworks and verifiable by third parties
- Provide meaningful and comparable information for the financial market and additional stakeholders
- Improve the management accounting of companies

As non-for-profit association, the VBA and its members are committed develop consistent methodologies to measure and value the sustainability performance of companies in monetary terms building on existing approaches. All members are piloting the methodologies developed to check their feasibility and benefits in decision-making and reporting. The learnings inform the further development of the methodology. Last but not least the VBA share their practical now-how in standard-setting processes. For example, the VBA directly informs the EU Corporate Sustainability Reporting Directive via the project TRANSPARENT together with the Capitals Coalition and WBCSD and is member of the EU Platform Sustainable Finance.

As a practitioner's lab, we are convinced that methodologies need to be tested before their (mandatory) implementation. In recent months, eleven member companies from seven different industries have successfully piloted the first version of the VBA methodology on impacts to society – the inside-out perspective.

In this pillar of methodology, companies measure their positive and negative externalities or impacts on the society, environment, and the economy in monetary terms along the value chain. Monetizing impact enables people who may not be experts in economic, environmental, and social fields to immediately grasp the context and engage on the subject matter. In addition, money is the leveling language that businesses and other stakeholders understand: monetization will inform and support decision-making processes while increasing transparency towards external stakeholders.

The first pilot shows that the methodology works, is scalable, and provides meaningful insights and robust information for decision making and reporting. It is an important step towards a standardized methodology for impact analysis across all industries. Above all, it has shown that the methodology can be used successfully with reasonable effort and demonstrate how the long-term value contribution of companies can be compared.

All of the companies have successfully measured and valued the economic, social, and environmental impacts arising from their own operations and their full supply chain along with more than 180 sub-indicators.

Regardless of their previous experience, all companies were able to successfully apply the proposed methodology. The extensive peer exchange within the VBA helped accelerate the adoption of the methodology by the newcomers. Even the less experienced companies were able to educate and engage their stakeholders, source the necessary data and calculate their impact on society and nature within months of the start of piloting.

The first version was far from complete but is a significant step towards greater transparency, more informed decision-making, and better reporting.

VBA will work closely with its partners to improve and further test to provide a standardized methodology by the end of 2023.