STATEMENT OF POSITION ON **SUSTAINABLE BUSINESS INFORMATION AND MANAGEMENT**

IMA® (Institute of Management Accountants) is a global association representing more than 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries, and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, governmental entities, and multinational corporations.

IMA is a member of the International Federation of Accountants (IFAC). It was also a founding member of the International Integrated Reporting Council (IIRC) and under formal arrangement to work cooperatively with the Sustainability Accounting Standards Board (SASB), which subsequently combined into the International Financial Reporting Standards Foundation in the formation of the International Sustainability Standards Board. IMA is also a founding member of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

IMA is uniquely qualified to provide careful and reasoned insight into the due diligence processes by governments, policy makers, and standard setters on proposals regarding sustainability and business. The unique combination of core proficiencies in six domains, as described by the IMA Management Accounting Competency Framework, clearly indicates the central role management accountants must play in achieving sustainable businesses, markets, and economies over the short, medium, and long term. These domains align the components of strategy, planning, performance, reporting, control, technology, analytics, and business acumen for leadership based on a foundation of professional ethics and values.

Authorities around the world are advancing new precedents, regulations, and standards that will have significant effects on our profession. The structures will have profound effects on the accounting and reporting ecosystem. These global trends call for the talents and expertise of our members, corporate professionals with important responsibilities for meeting these evolving demands in a way that builds value for all stakeholders and promotes trust.

IMA expresses its views regarding sustainable business information and management by stating a series of nine principles that are fundamental to building a successful and sustainable accounting ecosystem within an ever-changing landscape. These principles, which are meant to be applied to a changing regulatory and standard-setting environment, may be revisited as circumstances change. The dynamic principles are defined as follows.

1 SUSTAINABLE BUSINESS REPORTING MUST INSTILL TRUST AND CONFIDENCE: Trust, accountability, and transparency are the cornerstones of professional accountancy. Our work must build the public's trust. The world is asking businesses to reconsider how the planet's limited and precious resources are consumed and to account for them. Expectations are for businesses to deliver on sustainability with the same rigor, thoughtfulness, and energy used to deliver on profits. We support this global transition of delivering profits with purpose. At the same time, environmental, social, and governance (ESG) information must be high-quality and reliable; it must be produced through processes that instill this trust.

2 SUSTAINABLE BUSINESS INFORMATION MUST BE DECISION-USEFUL AND ACTIONABLE FROM MANAGEMENT'S PERSPECTIVE: The fundamental purpose of accounting is the delivery of decision-useful information not only for external users but also for management. To be worthwhile, information must be actionable. The constantly increasing demands for additional, external disclosure that is less and less relevant is itself an unintended, unsustainable waste of an accounting team's resources. We want responsible companies not merely to report information but importantly to act responsibly based on the information. Management needs talent resources to analyze the data, respond to risks, innovate, and execute strategies around what is most relevant. CFO team members are instrumental for this process to be robust.[1]

3 ENTITIES MUST PRODUCE RELIABLE SUSTAINABLE BUSINESS INFORMATION THAT FLOWS FROM SYSTEMS WITH STRONG GOVERNANCE, OVERSIGHT, AND INTERNAL CONTROLS: As noted, IMA is a member of COSO, which supports the utilization of rigorous and effective control and oversight systems that, as with financial reporting, are equally applicable to climate and other ESG disclosures. In the United States, public entities must adhere to rigorous internal control processes in compliance with the Sarbanes-Oxley Act.

To promote the disclosure of high-quality, reliable information in accordance with the value of trust—the hallmark of our profession—new climate change and other sustainable business disclosures that are not currently included in annual or quarterly processes will

[1] Kristine M. Brands and Shari Helaine Littan, *Finance Function Partnering for the Integration of Sustainability in Business*, IMA, 2020.

require new systems of oversight. New regulations and standards must take internal control processes into consideration. Our constituents, experts in implementing new types of disclosure in a way that ensures quality and integrity, urge authorities to move ahead with care. Financial reporting professionals must be allowed the time and space to develop and implement effective systems to ensure the quality of material ESG disclosures.[2]

4 **CORPORATE REPORTING MUST FOLLOW FROM A VALUE-CREATION MINDSET:** We strongly support initiatives that bring about integration and alignment and avoid creating (or enabling) "financial" and "nonfinancial" silos. We observe a market need for a holistic and value-based approach for investors, management, intermediaries, and all other capital market participants. We believe that integrated thinking is a critical part not only of integrated reporting but also of effective management of an entity's collective resources contributed by its multiple stakeholders.[3] It drives the development of enterprise-wide strategy and enhances relationship assets, performance, and value.

5 **SUSTAINABLE BUSINESS REPORTING MUST FULLY UTILIZE TECHNOLOGY FOR EFFICIENCY IN THE DATA ECOSYSTEM:** IMA's work and participation on global initiatives demonstrate the promise of technology to facilitate alignment of various reporting frameworks.[4] Today, the cost of producing multiple reports for multiple users in multiple jurisdictions is staggering and wasteful. Without alignment, new reporting mandates will exacerbate this. We view technology as a critical means to improve corporate reporting along the information ecosystem from data source to ultimate users. This digital transformation process is changing the means of reporting from a periodic document to the delivery of data sets.

Unlike the 1930s when modern accountancy and regulatory schemes began, technology and tools are available today to facilitate harmonization. Standards can and should be issued not only in human language but also in machine-readable language by using accepted data standards that are interoperable. This will facilitate the use of sustainability information across borders. It will also make data readily available to management so that meaningful action can be taken in response to sustainability indicators. Technology can improve sustainability information quality that is subject to robust internal control and oversight.

6 **ESG INFORMATION MUST BE RELEVANT TO SMALL AND MEDIUM-SIZE ENTITIES (SMEs):** The needs and perspectives of these businesses must be considered in comprehensive approaches regarding sustainable business information and management. To meet demands for ESG information, these entities need understanding, processes, and talent resources. In particular, many small business professionals state that they lack benchmarking data around relevant key performance indicators. Moreover, we are observing that many SMEs find external reporting increasingly less relevant to how they actually build businesses. Therefore, it will be highly beneficial for sustainable business standards setters to consider, at all times, the implementation challenges and benefits for SMEs.

7 **ESG EXTERNAL REPORTING STANDARDS MUST ADDRESS THE BURDENS OF PREPARERS, PARTICULARLY AROUND FRAGMENTATION:** IMA observes that fragmentation has generally been detrimental to the development, implementation, and usefulness of reported sustainable business information. This fragmentation

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[2] Robert H. Herz, Robert B. Hirth, Jr., Douglas Hileman, Shari H. Littan, Brad J. Monterio, and Jeff C. Thomson, ***Achieving Effective Control over Sustainability Reporting (ICSR): Building Trust and Confidence Through the COSO Internal Control—Integrated Framework***, COSO, 2023.

[3] Mary Adams and Nick A. Shepherd, ***Unrecognized Intangible Assets: Identification, Management and Reporting***, IMA, 2010.

[4] Tanuj Agarwal, Deborah Leipziger, Urmish Mehta, Dermot Murray, Liv A. Watson, and David Wray, ***A Digital Transformation Brief: Business Reporting in the Fourth Industrial Revolution***, IMA, 2020.

has resulted in confusion among well-meaning organizations that seek to respond to stakeholder demands. We endorse efforts and activities by authorities and standards organizations toward reducing this fragmentation and toward alignment.

In addition, although we view comparability among reporting entities as desirable, one unfortunate trend that we have been observing is the unrelenting pressure on companies by ratings agencies and data aggregators. Companies are being inundated with individualized requests for information and survey instruments as analysts seek more specific disclosures with the goal of comparability across companies. However, not all information reported by companies—many with unique and differentiated business models—can be completely commoditized if it is to be decision-useful by investors, policy makers, and other stakeholders. In short, there is a difference between meaningful comparability and forced commoditization.

8 **DISCLOSURE OF ESG INFORMATION TO THE SECURITIES MARKETS MUST ADHERE TO ACCEPTED DEFINITIONS OF MATERIALITY:** The fundamental purpose of accounting and reporting is delivering decision-useful information. In financial reporting, which primarily considers the needs of external debt and equity investors, this is operationalized through "materiality." We believe that it is important that information released for investors continues to adhere to the existing definitions of materiality. The precedent around materiality is highly developed around the world, well understood, and enforced under the securities laws.

For example, in the U.S., historically and still considered among the world's safest securities markets, companies are legally bound to comply with Supreme Court decisions and legal standards around materiality (*Basic, Inc. v. Levinson,* 485 U.S. 224 (1988); *TSC Industries, Inc. v. Northway, Inc.,* 426 U.S. 438 (1976)). We observe that this definition does not serve as a barrier to the disclosure of sustainable business information. Material information, whether labeled ESG or otherwise, is already subject to disclosure.

9 **DISCLOSURE MANDATES MUST BE CLEAR AS TO THE INTENDED USER:** Traditionally, generally accepted accounting and reporting guidelines were developed to facilitate the delivery of decision-useful information primarily to debt and equity investors. Today, however, there are movements and demands to mandate sustainable business information for a range of other external users, such as policy makers who represent the community and collective natural resources. This has led to a debate on whether corporate reporting should follow single or double materiality. It is our observation that this is creating wasteful delay and confusion in the market.

We emphasize that not all users of corporate reporting (or even of financial reporting in the narrower sense) are the same. A number of current global initiatives are unclear about the intended users and purpose of certain reporting proposals. This lack of clarity can aggravate fragmentation and make operationalizing new mandatory disclosures problematic and excessively wasteful. Moreover, impact accounting is still a nascent area in terms of identifying the key indicators and measurement, and for many informational demands a robust internal control environment is lacking. Moving ahead without this clarity can make the quality of sustainable business information on the market even less reliable than it is today and result in a loss of trust in accounting. •

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