5th Colloquium Memorandum

Enterprise Value Creation

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Good Governance Academy

Agenda, source materials and sponsors

The colloquium was held by Zoom webinar on 13 May 2021 and the agenda was as follows:

Topic	Speaker
Welcome & Logistics	**Carolynn Chalmers** CEO of the GGA
Introduction to the Colloquium	**Prof Mervyn King SC** Patron of the GGA
The Value Reporting Foundation What is the importance of the Value Reporting Foundation and is it a stepping stone to the creation of a global corporate reporting system?	**Helen Brand** ACCA Chief Executive Officer and Value Reporting Foundation co-deputy Chairperson
The importance of sustainability in enterprise value creation How do sustainability matters create or erode enterprise value creation?	**Jonathan Labrey** IIRC Chief Strategy Officer and Financial Reporting Council (UK) the former Head of Communications
Break	
International Sustainability Standards Board Does the world need an International Sustainability Standards Board?	**Kevin Dancey** IFAC Chief Executive Officer
Conceptual Framework for International Sustainability Reports Do we need different conceptual frameworks for financial statements and sustainability reports?	**Paul Druckman** World Benchmarking Alliance Chairperson and IIRC former Chief Executive Officer
Q&A with speakers	**Carolynn Chalmers**
Colloquium Summation	**Prof Mervyn King SC**

The Good Governance Academy community portal, GoGovern, contains all the presentations as well as the content from the prior colloquiums – see the GGA website (https://www.goodgovernance.academy/) "COMMUNITY" option.

The GGA would like to sincerely thank the Colloquium sponsors:

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Message from the patron

Professor Mervyn King SC

Corporate Reporting

In the last half of the 19th Century and right through the 20th Century, the dictates of the governance and direction of companies was the primacy of the shareholder.

It was during this period that we had unsustainable development – we were using and continue to use natural assets faster than nature is regenerating them while, at the same time, population is increasing. By 1983 members of the United Nations (UN) recognized that Planet Earth was suffering from environmental degradation.

A world commission was established (1983 – 1987) to look at development and the environment under the chairmanship of the former Norwegian Prime Minister, Brundtland. The commission highlighted that, in development, three dimensions were to be considered: the economy, society and the environment and that these dimensions were integrated. The commission's now famous conclusion was that the needs of the present must be addressed in a manner that does not compromise the ability of future generations to meet their needs.

Towards the end of the 20th Century there was an increasing shift in the make-up of the market capitalization of companies listed on the world's stock exchanges. Analytics firm Ocean Tomo showed that only about **20%** of the make-up of the market capitalization of S&P 500 companies was reflected as assets on balance sheets according to financial reporting standards. The Global Reporting Initiative (GRI) was formed in 1997 to try and give some guidance to corporate report preparers on how to report on these so-called intangible assets.

Sustainability in sustainable development

At the turn of the 21st Century, sustainability in sustainable development became an important subject and was approached through, what I have labelled as the "Brundtland lens". The GRI standards look at sustainability in this way. In the second decade of the 21st Century, it was realized that there was, like a coin, another side to sustainability. The realization was that the three dimensions (economy, society and environment) needed to be considered not only from the perspective of a company's impact on them, but also of their impact on the company.

As reporting on this information became more and more important so did the number of framework providers. This caused clutter and confusion, for both preparers and users, and a dilution of comparability. The IIRC started the Corporate Reporting Dialogue to try to get harmonization of ESG standards. In March 2019 I presented to an audience in London which included many of the framework provider executives and called the status quo a "social outrage" that these framework providers were seeing themselves as competitors when, in fact, they were all dealing with public interest issues. My presentation is said to have galvanized the framework providers into thinking about SDG 17 (collaboration). The collaboration of scientists in 2020 to find a vaccine for the coronavirus was a driver for collaboration by these framework providers. The World Economic Forum (WEF), Deloitte, EY, KPMG and PwC used their metrics on reporting (see report). The IFRS Foundation issued a consultation paper towards the end of 2020 which is now leading to the establishment of an **International Sustainability Standards Board (ISSB) in November this year**. The IFRS Foundation have formed a technical working group to learn from framework providers and have established a multilateral consultative group to investigate regulations in 144 jurisdictions (where the IAASB standards are applicable and where the ISSB standards would be applicable) to find possible contradictory regulations. Importantly, the ISSB focus in its work will be on Enterprise Value.

Collaboration led to talks of merger and the creation of the Value Reporting Foundation (VRF) as a result of the merger of the IIRC and SASB. The VRF intends to safeguard the concepts of integrated thinking and integrated reporting with a focus on Enterprise Value Creation.

It is imperative for sustainable development that there is the same consistency, reliability and rigour in sustainability reporting standards as there are in financial reporting standards.

Information is the lifeblood of boards in making business judgement calls; informed corporate reporting is the lifeblood of accountability because the more informed is a board's report, the more transparent is their accountability.

The task teams are endeavouring to ensure that the language used in these standards are assurance friendly and with some certainty the IAASB believes that it will be able to achieve reasonable assurance of sustainability reports under the ISSB standards and of integrated reports.

The new dawn for the accountancy and the auditing professions

In 2018, I wrote "The Auditor Quo Vadis?" together with the Chair of the Public Interest Oversight Board (PIOB). If the external auditor is going to be auditing the financial statements (to ensure that they are aligned with the IASB standards) and sustainability reports (to make sure that they are in line with the ISSB standards) as well as integrated reports then the question answers itself.

A consequence of the above is that there is a rebirth of the accountancy and the auditing professions and it is an exciting time. As many of you will know, I said in 2016 that accountants can save the planet but with a changed mindset from being financial officers to being value officers.

Mainstreaming impact for a sustainable recovery

Helen Brand, chief executive of ACCA

Against the background of the continuing social and economic shocks created by Covid-19, new concepts about purpose and value are emerging for business and organisations. There is a growing convergence on how to face crises, to manage risks, rebuild economies and support societies to thrive, and to do it at the speed and scale needed.

Globally, pioneering leaders in organisations of all sizes are making intentional and additional positive impact a part of their strategies. Investors are seeing impact not just as something to achieve alongside financial returns, but as a driving force behind what they say and do.

Our report **Mainstreaming impact: scaling a sustainable recovery** identifies the barriers and opportunities for improving businesses' management of social and environmental impacts through the eyes of finance teams and professional accountants. Its global survey of 829 accountants and finance professionals reveals their deep concerns about social and environmental issues, with 90 per cent saying they want organisations to increase efforts to become more environmentally sustainable and make a more positive impact on society after the pandemic.

Accountants want to spearhead this change - 95 per cent agree that finance teams have a role to play in building a more socially inclusive and environmentally sustainable future. Respondents admit their own organisations need to change to do more to address social inequalities (75 per cent), and to do less damage to the environment (85 per cent).

Financial and sustainability reporting is part of this equation. ACCA has long advocated for global standards that allow for comparability and clarity. We believe that organisational accountability is essential. Being transparent and reporting on issues and impacts can help achieve this and more.

Guided by the United Nations' Sustainable Development Goals, which can act as a common language roadmap out of the current crisis, businesses of all sizes can step forward and commit to making an intentional, positive impact on society and the environment through their activities.

Mainstreaming impact's call to action for all organisations is for them to commit to building better impact management into their processes to create value. There is an important governance angle here as board-level commitment is needed to make additional and intentional social and environmental positive impact creation. Resources must be allocated within finance teams to build decision-making capabilities related to environmental and social impact. And they need to ensure that reporting on impact is developed by and with finance teams so that it is balanced, complete, and concise, and has the necessary credibility to support usefulness.

Professional accountants have a vital role in making these commitments a reality, helping to drive the transition to a net-zero carbon world. ACCA is ensuring that sustainability and green finance is an integral part of our world-class qualification and members' CPD, supporting our members with learning and development in this crucial area. We're also creating opportunities for them to share their experiences and benefit from the latest research and best practice, supporting this through our professional insights research and policy work - and we've made our own organisational commitments too.

Now is the time to mainstream social and environmental impact management, so that our economies and societies become more resilient to future shocks and can embed health, equity, community and sustainability into business models. Professional accountants and finance teams are central to this, with the desire, skills, knowledge and ambition to do more.

Our Mainstreaming impact report and other information about the role of accountants can be found on our Rethinking sustainable business hub: www.accaglobal.com/sustainable-business.

ACCA Think Ahead

Moving towards a globally accepted comprehensive corporate reporting system

Helen Brand, ACCA Chief Executive

The International Integrated Reporting Council (IIRC)

No-one has done more than Professor Mervyn King to advance global corporate reporting and best practice in corporate governance so that they genuinely work for the benefit of all. He was instrumental in creating the IIRC as an umbrella for holistic, forward-looking and decision-useful reporting and integrated thinking.

I have had the honor of serving on the Board since the IIRC's inception and currently act as its co-vice-chair so have had a close and privileged view of everything IIRC has accomplished.

It was never the intention for IIRC to be a permanent institution, existing for its own sake. Rather, it was intended to act as a catalyst for the principles and concepts that were formulated by the community it convened and embedded in the Framework the movement designed.

The next significant evolution in our global corporate reporting and thinking journey is the creation of the Value Reporting Foundation which has been created through the merger of the IIRC with the Sustainability Accounting Standards Board (SASB), effective from 1 June 2021.

The problem of complexity

Over the past decade we've seen a proliferation of codes, standards and models designed to address broader reporting that meets the needs of stakeholders. One of the chief issues this creates is confusion for report preparers. The proliferation of standards actively works against the adoption of the integrated thinking that companies should be seeking to practice. With a patchwork of different forms of wider reporting, it is also difficult for investors and report readers to assess performance across companies within sectors, let alone across industries. In addition, those charged with oversight need to be clear to exercise their duty of care to companies fully and properly – the current complexity in global corporate reporting is a major impediment to this stewardship.

The formation of the Value Reporting Foundation is therefore an important step in addressing this problem of complexity – and we hope and intend that it will lead to even further simplification.

The Value Reporting Foundation (VRF)

The Value Reporting Foundation is designed to be the nexus between market-based frameworks and standard-setters focused on information relevant to enterprise value, capital markets and global regulatory authorities. It aims to be a unifying and authoritative voice advocating for a globally-accepted and comprehensive system of corporate reporting in the public interest, drawing on the energy and expertise of regional and local networks that provide insight, accelerate adoption and deepen its market knowledge and understanding.

To enable this, the VRF will have a programme of technical, thought leadership, policy and market-facing activities to promote growth in the adoption of the <IR> Framework, SASB Standards and integrated thinking. In terms of resources, it brings together 70 existing highly skilled and experienced staff members globally, with a unified structure will enable it to increase global reach, strengthen relationships and create additional value to funding organisations.

The Value Reporting Foundation intends to be responsive to the changing context within it is to operate. Businesses and investors are demanding a simplified structure of standards that will help capital markets to assess enterprise value, supporting sustainable, long-term decisions. They also want to see the structure gain global legitimacy and endorsement to achieve widespread acceptance.

In this evolving context, a unified VRF can play three critical roles:

1. Advancing a simplified corporate reporting landscape, bringing together existing frameworks and standards to better serve the information needs of capital market decision-makers;
2. Providing active support to achieve the ambition of a global Sustainability Standards Board (SSB) under the IFRS Foundation's governance, with a conceptual framework that links financial and sustainability standards; and
3. Developing valuable technical, business, investor and education resources that encourage and enable the corporate governance and reporting eco-system to truly embrace multi-capital thinking and reporting.

The intention is that the Value Reporting Foundation will expand to include similarly aligned organisations and initiatives, where doing so can simplify the field and create a stronger and more compelling tool set for reporting on enterprise value creation. Such rationalisation in the corporate reporting landscape is overwhelmingly supported by market participants.

Market disruption is needed

Disruption in the corporate reporting landscape is required to achieve the successful endgame of a global comprehensive corporate reporting system that serves everyone.

The world of corporate governance and reporting is being impacted by three interlocking super-cycles and there is an urgent need for governments, regulators and capital markets to provide a comprehensive global response:

1. A fundamental refocusing of our economic system. Corporate reporting urgently needs to serve not just those with an appetite for narrowly defined financial metrics that may distort or hide material drivers of value. It needs to deliver for investors who wish to access a broader range of information that provides insight about how value is created and eroded over a short, medium and long-term horizon.
2. Refocusing of capital to solve urgent strategic global challenges. Capital needs to be refocused towards businesses that are trying to solve our most urgent strategic global challenges, including sustainable development and tackling climate change, through developments like electric vehicles, energy capture and storage.
3. Technology. The acceleration of the digitalisation transformation across almost every aspect of our lives is abundantly clear, and is leading to a democratisation of data and information and having a profound influence on the shape of decision-making.

These powerful shifts are transforming the information needs of capital markets. And they are challenging us to apply a different mindset and reach for a new set of tools. They also represent an unparalleled opportunity for our capital markets to unlock value and demonstrate the power of private enterprise to solve some of the world's most intractable problems. These are the titanic issues like resource scarcity, extreme inequality and climate change which need to be tackled in a purposeful, profitable and sustainable way, while ironing out the hidden risks that information asymmetry can create. This includes not taking into account known future risks in today's decision-making, the so-called 'tragedy of the horizon' to which Mark Carney has so memorably referred.

The journey both organisations have been on over the past decade show that the IIRC and SASB share a clear vision for the future of corporate reporting – one in which business and investor information needs are met, framed by the external environment and informed by stakeholder expectations. So, the combined resources, technical strength and relationships that will form the Value Reporting Foundation are designed to provide impetus for developing a clear set of global standards relevant to enterprise value creation.

This merger is an important stepping-stone towards even greater consolidation and simplification in the corporate reporting ecosystem.

The VRF value proposition

"Our purpose is to empower capital market decisions for a more just and sustainable world"

In a world dealing with the systemic shock of a virulent global pandemic, the inequalities across our society have been highlighted in a way that is impossible – and indeed immoral – to ignore. In addition to the global health emergency, social and economic shutdowns have destroyed livelihoods, reduced incomes, disrupted educational attainment, led to a rise in mental health problems, worsened gender imbalances, and limited access to medical care, including vaccine provision.

In so many ways, the pandemic has revealed to many what was already known but largely hidden. The systems for creating prosperity were already stretched, skewed towards rewarding too few and leaving many vulnerable to various shocks and risks. Unequal access to public goods, quality employment opportunities and the means by which to live a good life have increased gaps in societies as the rungs of the socio-economic ladder within many countries have been driven further apart.

Industries rocked by the loss of income and potentially irreversible effects of the pandemic on their business models and value chains are also facing calls for doing more to help people live well, to create more resilience to shocks and to cause less harm by design.

Beyond demands for less environmental damage, questions are growing about business's role in society, its societal purpose, and the inaction of businesses in meaningfully engaging with the negative social and environmental impacts of their activities. These charges range from a focus on short-term profits rather than longer-term value creation, lack of support for workforces, distortionary effects of market concentration, lack of protection of the climate and natural world and giving enough priority to social inclusion and the concerns of wider stakeholders.

Our mission is to ensure the global information system for capital markets delivers high quality corporate governance and disclosures relevant to enterprise value creation, which serves the public interest.

There are three clear pillars of activity underpinning this, so we will achieve this by:

1. advocating for integrated thinking
2. maintaining and promoting a framework for integrated reporting
3. setting sustainability disclosure standards to complement existing financial disclosure standards

Our vision is a world of efficient and productive capital allocation facilitated by trusted information that drives business performance and sustainable investment, motivating economic and societal progress.

What we do needs to ultimately be about driving both economic and societal progress; helping create that more just and equal world. We are very conscious that, while the VRF is a hugely significant step on the journey towards genuine simplification and consolidation, it needs to be just the start of a broader undertaking. The developments seen since the creation of the VRF was publicly announced are very welcome and part of a larger movement towards a single corporate reporting ecosystem. And they signal real, positive intent to evolve our reporting structures, at pace, for the better.

The IFRS Foundation working group

On **21 March 2021**, the Trustees of the IFRS Foundation announced the formation of a working group to accelerate convergence in global sustainability reporting standards focused on enterprise value and to undertake technical preparation for a potential international sustainability reporting standards board under the governance of the IFRS Foundation.

Specifically, the working group will provide technical recommendations built on the Financial Stability Board's Taskforce on Climate-related Financial Disclosure (TCFD) recommendations. The group will also review how technical expertise and content might potentially be transitioned to the new board under the IFRS Foundation's governance structure. During this preparatory phase, the working group is also actively welcoming engagement with any jurisdictions that are working on sustainability reporting.

- The working group will be chaired by the IFRS Foundation and include participation by the International Accounting Standards Board (IASB), given the need for connectivity with financial reporting.
- The International Organization of Securities Commissions (IOSCO) will also participate in the group as an observer, recognising the essential role it would play in evaluating and endorsing any standards issued by a new board.
- The Climate Disclosure Standards Board (CDSB) framework will provide guidance on the disclosure of material information for investors through the integration of climate, wider environmental and social-related information into financial reporting.
- The World Economic Forum (WEF) will contribute their work on cross-industry metrics and disclosures that CEOs of a wide range of the world's largest multinational companies have found to be important for disclosure.
- The working group will also engage closely with the VRF, Global Reporting Initiative (GRI) and Climate Disclosure Project (CDP).

IOSCO Technical Expert Group

On **30 March 2021**, IOSCO announced the establishment of a new Technical Expert Group under its Sustainable Finance Task Force. This Group will work closely with the IFRS Foundation's working group and will be tasked with reviewing and assessing its technical recommendations focused on enterprise value creation.

As part of this, it will assess industry-specific metrics and consider whether a refined prototype could be a sound basis for the development of an international reporting standard, with a focus on enterprise value.

Such a prototype would need to:

- Meet the capital market's core information needs and serve as a baseline for consistent and comparable approaches to mandatory sustainability-related disclosures across;
- Be compatible with existing accounting reporting standards and promote good governance of sustainability-related disclosures among preparers; and
- Form the basis for the development of an audit and assurance framework.

The role of individual professional accountants

"If we do not have a planet, we are not going to have a very good financial system"

James Gorman, CEO, Morgan Stanley

We face a once in a generation opportunity to reshape the future of corporate reporting in line with the objectives of the IIRC and SASB for the creation of a globally accepted and comprehensive corporate reporting system.

"the accounting profession is absolutely essential" in safeguarding the planet, *Mark Carney*

The ACCA's October 2020 report, Mainstreaming impact – scaling a sustainable recovery, showed that an overwhelming 90% of the members surveyed globally supported the suggestion that organisations must increase efforts to become more environmentally sustainable and make more of a positive impact on society after the pandemic. Over half of those surveyed believed they have already had sufficient skills to carry out these important tasks. Alongside this they are keen and willing to develop further skills to meet the social and environmental impact management imperative. Respondents stressed, however, the barriers that finance professionals face stopping them from playing a larger role but also acknowledged that through partnering and engagement, finance professionals can help others achieve their objectives.

Having one aligned global corporate ecosystem that works for report preparers, companies and end users is a goal that is now in sight. It will undeniably take lots more work, collaboration and dialogue to pull the strands together, but the cohesive and unified structure it would create would be a priceless legacy for all the parties involved in making capital markets work as they should.

The creation of the Value Reporting Foundation represents a significant step in this vital journey. It is progress that is in the interests of the businesses and investors that form part of our community and networks around the world, as well as the broader corporate reporting eco-system, capital markets, the global economy and society.

In short, it is in the public interest.

Global Accountancy Profession Positioned to Lead

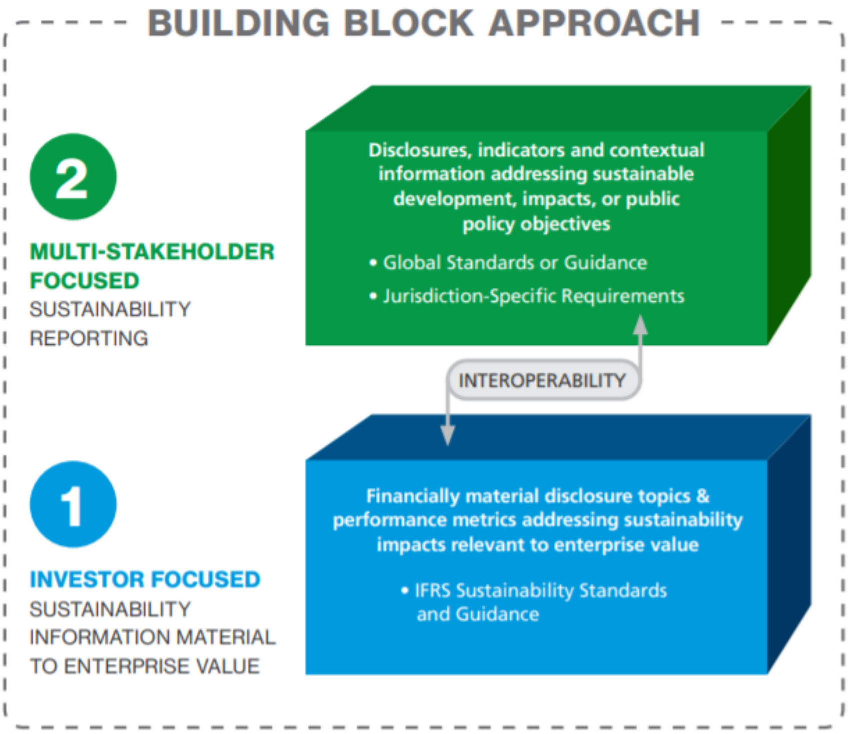
As the chief stewards of business information, professional accountants have both an important responsibility and a transformative opportunity to engage in and lead on improving corporate reporting and the quality of sustainability information.

The voluntary approach to reporting sustainability information has been in place for a long time but the capital markets lack consistent, comparable, and assurable information, and greenwashing continues to be prevalent. We believe that the immediate development of a baseline of global standards for sustainability information under the IFRS Foundation is important for the capital markets, investor protection and for companies.

There has been significant global momentum in which the International Federation of Accountants (IFAC) is a leading advocate. IFAC believes setting up a new International Sustainability Standards Board – "ISSB" under the IFRS Foundation is critical to achieve globally consistent sustainability standards that will reduce regulatory fragmentation through a global structure that already has legitimacy and meets the needs of institutional investors and asset managers and other stakeholders wanting better information about companies and their effects on the economy, environment and people/society.

IFAC's building blocks approach to reporting sustainability information enhances our previously issued roadmap, The Way Forward.

IFAC believes that adopting a Building Blocks approach is the only way to reconcile the objectives and demands of all stakeholders and the aspiration of achieving both a global solution for a baseline of consistent information for global capital markets and satisfying the objectives of certain jurisdictions for better reporting on a variety of public policy matters.



IFAC is also working with its 180 professional accountancy organization members to position the profession to lead in sustainability in the following areas:

Encouraging Sustainability-Related Skills and Competencies

IFAC will continue to work with its members and through the International Panel on Accountancy Education to demonstrate that professional accountants not only have the skills and competencies needed to prepare, assure, and utilize this information, but also the expertise to build and evaluate necessary controls and processes related to sustainability, to identify which existing foundational skills can be leveraged to meet new requirements, and in creating access to obtain new subject matter expertise.

Championing an Integrated Mindset

The insight gained from both financial and sustainability-related (or "non-financial") information is maximized when an integrated approach connects the two rather than financial and sustainability information being treated in disconnected silos. An integrated approach leads to better decisions that deliver long-term value creation—financial returns to investors while taking account of value to customers, employees, suppliers, and societal interests. Professional accountants working in companies must continue to foster an integrated mindset that connects financial and sustainability data, processes and analysis. IFAC's Rethinking Value Creation webpage provides case studies of integrated thinking.

Advancing Assurance Services

Assurance is a necessary component of the evolving global reporting system and an imperative for our profession. IFAC is undertaking a benchmarking study to better understand current and best market practices, identify gaps, and develop a shared narrative that best positions professional accountants to perform sustainability assurance. We recently published Accelerating Integrated Reporting Assurance in the Public Interest and the IAASB have released new Guidance on Applying ISAE 3000 (Revised) to Extended External Reporting Assurance Engagements.

The importance of sustainability in enterprise value creation

Jonathan Labrey, IIRC Chief Strategy Officer

How do sustainability matters create or erode enterprise value creation?

Three critical paradigms

2020 was a year of challenges, complexities and rapid accelerations. Microsoft, for example, estimated that 3 years of technology advancement had occurred in just the 2nd quarter of 2020. We cannot ignore a discussion on sustainable development without recognizing the impacts of the pandemic and the subsequent mantra of world leaders across the globe of "building back better".

From a corporate reporting perspective, the pandemic offers some opportunity – businesses in their integrated and annual reports will write the first chapter on this extraordinary period. Historians and economists will look back at these reports and gain a snapshot of the time and how boards and management of companies were orientating their resources to prepare for the future. We would like business to turn to standards to tell the story of value in this time.

If we think about the concepts, structures and behavioural changes we need, together we have the potential to change the paradigm of the last 40 years – at least in 3 critical areas:

1. **Primacy of financial capital considerations.** Giving this primacy even when we know that the future exists outside the realm of financial statements over the longer term and climate risk is a classic example. In the speech that Mark Carney gave on the tragedy on the horizon that led to the creation of the Task Force on Climate-related Financial Disclosures (TCFD).

2. **Short-term versus Long-term decision-making**. Business decisions are often being made to seek to create financial outcomes in the short-term (over the next quarter) even if this means foregoing value-enhancing investments over the medium and long-term.

3. **Silo-based governance versus integrated governance.** Silo-based corporate governance is where specialized business units and departments develop segmented and sometimes conflicted strategies even within the same business, creating confusion and a lack of proper oversight and accountability. It is applying through integrated thinking principles that these silos can begin to be broken down. In siloed thinking it has been difficult for investors and other stakeholders to truly understand the opportunity and risk in a company. In essence an investors role in price discovery has been hampered by the way corporate governance has been organized.

Incentive systems and therefore behavior have flowed from these three paradigms, entrenching rather than challenging the often harmful impacts to our environment, society and ultimately our economy too.

The International Integrated Reporting Council (IIRC)

The IIRC gains much of its authority from the international coalition to bring about the evolution in corporate reporting. The IIRC believes that corporate reporting should explain how organisations create, erode and sustain value over the short, medium and long-term. The coalition believes that value is multi-dimensional and the multidimensional value creation process is explained by reference to six interconnected capitals.

The coalition also believes that purposeful, successful businesses create value not just for themselves but for others. Business, in the words of Prof Mervyn King, “is a part of society not apart from it”. Therefore, understanding stakeholder needs at the outset and their expectations is essential for the value creation process. Value creation is a fundamental concept for integrated reporting.

Over the last year, reporting has evolved in a rapid series of changes which, we hope, will result in a global comprehensive corporate reporting system. Through these changes, we believe, potential exists to revitalize the support for the role of business leaders in addressing systemic issues and in turn re-building trust, for stakeholders and society, in business and economic decision making.

The UN Sustainable Development Goals (UN SDGs)

The systemic challenges put forward by the United Nations (UN) in the Sustainable Development Goals really challenges businesses to ponder how to meet the goals by 2030, finance the goals and orient their organisations to meet these goals. Yet, the value of our equity markets today is approximately $95 trillion USD which is, according to the World Bank’s International Finance Corporation, more than enough to transition the world’s economy towards more sustainable outcomes and meet the UN SDGs by 2030.

Examining how institutional investors assess, value and allocate financial capital is a critical economic, social and environmental imperative. It is how investors integrate sustainability matters within their value creation models and the valuations placed on companies that interests us when discussing enterprise value creation.

Enterprise Value Creation

We know that sustainability matters now fundamentally influence enterprise value creation. There are four pieces of research that illustrate this point:

1. **World Economic Forum's Global Risks Report 2021.**
   This annual risk survey of global risks faced by the economy, businesses and capital markets has changed, of course, over the last 10 years. 10 years ago, the risks highlighted were financial in nature – today, virtually every risk is not of a financial nature. Today the risks include, for example, climate risk, political polarization and social inequality and the impact these have on the financial capital markets. In 10 years there has been a transformation from financial risk to risks outside the realm anything that has been reported on a company's balance sheet. The analysis attached to this report indicates that the risks facing the economy today are simultaneous and interconnected and that new systems, standards and frameworks are needed to respond to this new world.

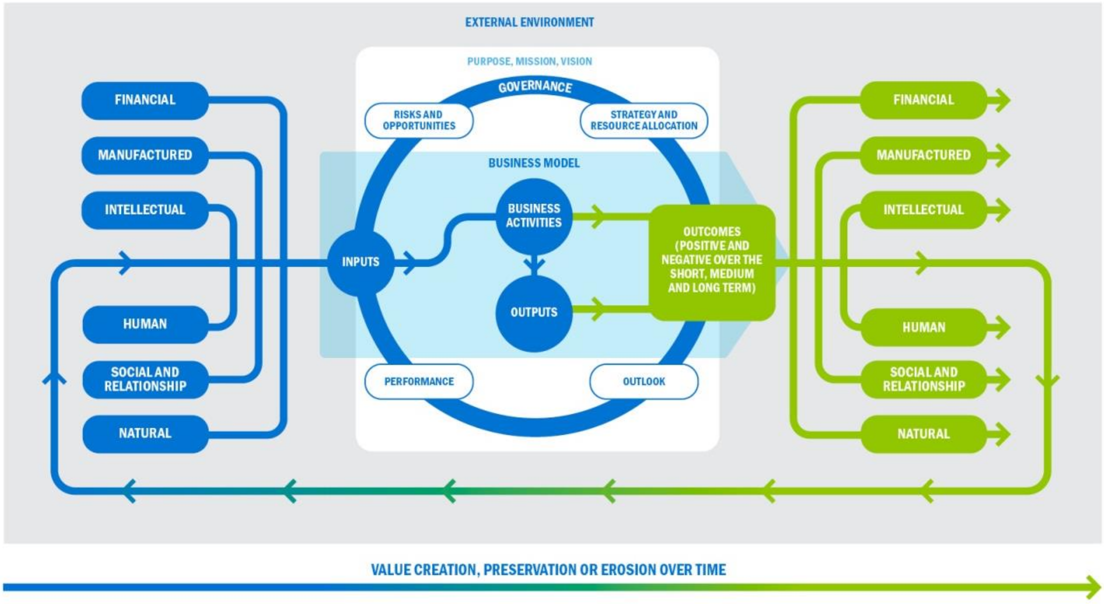
2. **The Edelman Trust Barometer 2021**
   This, the largest survey of its kind, examines stakeholder trust in different institutions in our economy. In a period when business stakeholder trust was falling, businesses are now making a rapid recovery. It is not only trust though, stakeholders are more ready to believe that CEOs and Boards of Directors will take action and positively contribute to the big systemic issues such as climate risk and social inequality.

3. **Deloitte Global Millennial Survey 2020**
   This survey shows that even as the pandemic was taking hold this group of stakeholders remained focused on societal issues and in making positive change in our society, including the expenditure of businesses and capital markets, and investor decision making. This is essentially a leading indicator of the expectations of tomorrow's consumers.

4. **PwC 24th Annual Global CEO Survey**
   This survey shows that chief executives of the world's largest businesses understand that they need metrics to manage issues relating to climate, human capital and other intangibles. The overwhelming majority feel that they do not yet have the systems, standards or metrics to support them in this task.

The risk profile of the world has changed, business is trusted and expected to act, the next generation will move their money to the most sustainable enterprises and CEOs need data, systems and standards to make sense of this fast evolving world.

The IIRC Value Creation Process diagram illustrates the conceptual and practical underpinning to understanding, measuring and articulating how value is created in the 21st Century:



(Source: international <IR> Framework, January 2021, IIRC)

Many companies are using this framework to explain their value creation story. This is intended to be a core corporate governance tool for use by the management of organisations to develop and then articulate long-term strategy. In doing so, the business considers its purpose, mission and vision.

The question of purpose is being driven up the corporate agenda in no small part by the Business Roundtable statement on the purpose of organizations challenging the primacy of the shareholder model. Outside of the United States, the question of purpose-driven organizations is also gaining traction. The Dutch bank ABN AMRO, for example, expresses its purpose as “Banking for better, for generations to come”. In addition, in their integrated report, the bank explains how they address their role in society and set out their strategy with each pillar of their strategy measured and accounted for. This, of course, supports and enhances not only the quality of corporate governance but also of stewardship, including dialogue with investors.

The recent IPO of food delivery firm Deliveroo on the London Stock Exchange provides an interesting case study on how ESG and broader sustainability factors are influencing investor valuations and considerations of enterprise value. Initially the company sought a valuation of almost £9 billion UKP but concern from its stakeholders over its working practices led to a £2 billion UKP fall in its valuation on its first day of listing in March 2021.

Purpose, a multi-capital view, a focus on factors that influence value over the short, medium and long term, including employee rights, are critical to gaining stakeholder and shareholder support.

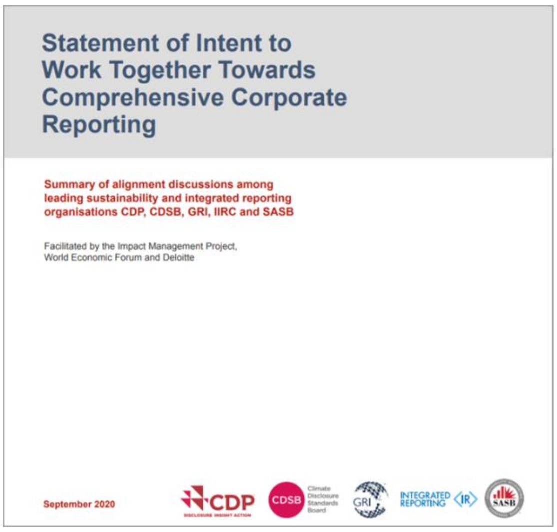
Purpose is "the engine of long-term prosperity"
Larry Fink, Blackrock Chief Executive

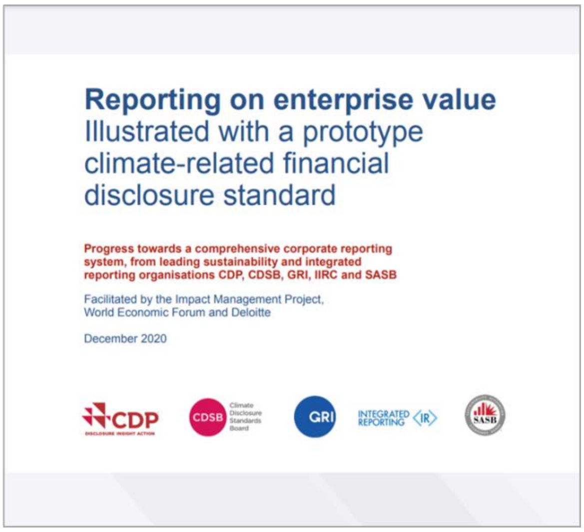
The impact of climate risk on enterprise value is even more stark with research from South Korea showing the higher the level of greenhouse gas emissions and energy consumption reported, the greater the negative effects on the company valuation. They also found that these relationships were the strongest in the group of companies researched with the highest climate change risks.

It has been clear for some time now that the importance of sustainability in enterprise value creation is strengthening. In my personal experience when Petronas in Indonesia obtained a lower cost of capital as a direct result of their integrated report. The Japanese bank providing the capital said that they could lower the cost of the capital as the report lowered the risk profile of the deal because they had a great line of sight through the business, its management and key risks and opportunities. See also Japan's GPIF report on investor confidence relative to reporting and disclosure.

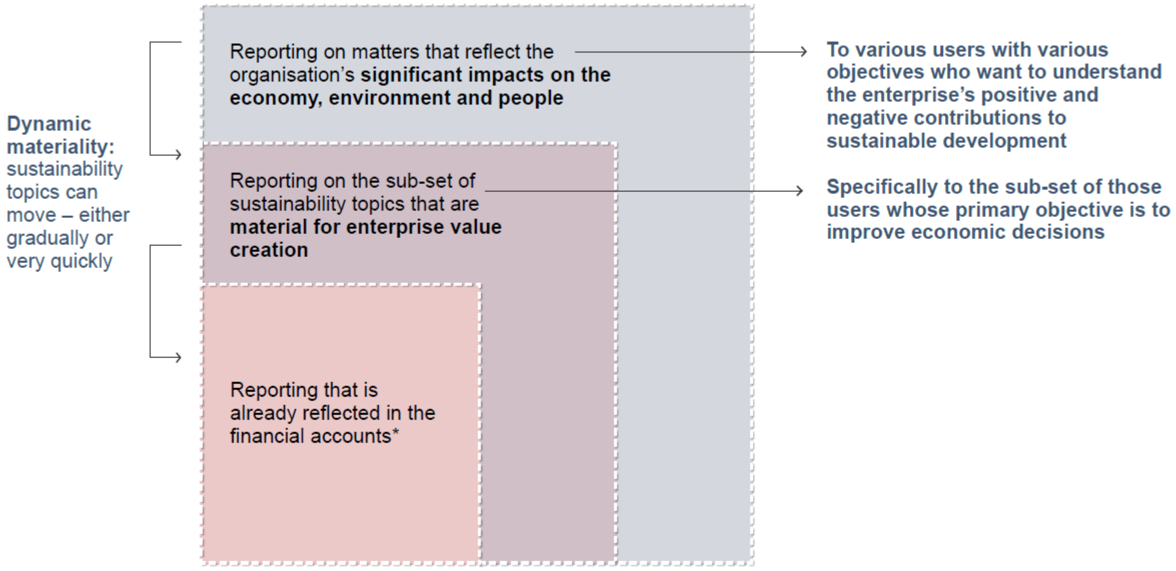
Shifting the paradigms

To shift the paradigms, we must firstly close the reporting gaps and develop a globally accepted and comprehensive system of corporate reporting, simplifying through collaboration and, where possible, reach convergence. Five organizations came together to set out a joint vision for the future of corporate reporting and a framework for climate related financial disclosure focussed on matters that influence enterprise value. We believe that this prototype standard can be applied to other sustainability topics and draws on the content of existing frameworks and standards.





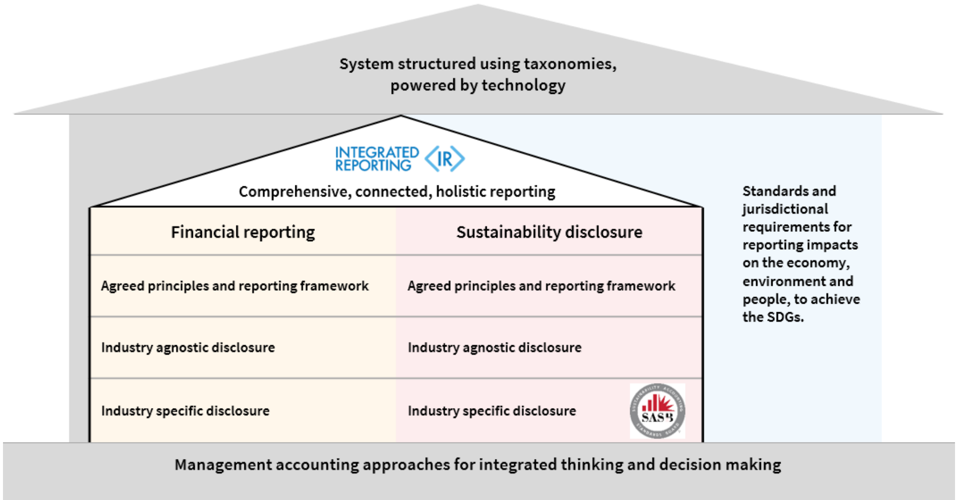
The alliance of framework providers and standards setters has also developed the concept of nested and dynamic materiality:



*Including assumptions and cashflow projections

This concept recognizes the fact that issues can become material to different audiences at different times and are influenced by a range of different factors, changing stakeholder expectations or regulatory requirements. In addition the concept highlights that our understanding of materiality should not be standard but should be dynamic.

By combining our forces, the IIRC and SASB seek to help bring about a more coherent and connected corporate reporting system. We want the integrated reporting framework, its principles and concepts and integrated thinking to be used in developing a comprehensive global corporate reporting system. We believe that integrated reporting in particular can play a role in providing the connectivity between financial reporting standards and sustainability standards, underpinned by integrated thinking and decision making.



The $95 trillion USD of capital invested in equities is not somebody else's money or somebody else's problem to deal with. We all have an interest in ensuring the capital we deploy achieves the best economic, social and environmental outcomes.

We are at an inflection point

As Prof Mervyn King said, information and corporate reporting are the lifeblood of accountability and it is therefore essential that we harness the power of information to scale up positive change and reduce negative impact.

There are three wider issues which need mentioning:

1. We can have the best frameworks and standards in the world but these also need a global integrated approach with no regional fragmentation. We also need connectivity of information to be hardwired into the system. We need to avoid the negative impacts of a siloed mentality.

2. The changes will require a changed mindset including those of the regulatory and government communities. This means bringing in new skills to develop the standards and developing new relationships to gain world-wide support for the kinds of changes needed.

3. Other issues are on the periphery of the development of standards but remain critical to their success. These "frontier issues" include the use of technology and the use of assurance to illuminate insights and build trust.

Most analysts today and political economists and observers are predicting a period of economic uncertainty even greater than that of the last year, 2020. As we emerge from the immediate crisis, inflation pressure will potentially challenge the investment case for the kinds of businesses that are going to help us to change the paradigms. So the importance of providing investors with the information they need in these challenging times to help them solve the world's critical problems is urgent and of the utmost importance.

The International Sustainability Standards Board (ISSB)

Kevin Dancey, IFAC Chief Executive Officer

Does the world need an ISSB?

In my presentation you will see that I clearly support the creation of an International Sustainability Standards Board but I do so with a single caveat, that it is created under the auspices of the IFRS Foundation. So the answer for the need for an ISSB is a resounding yes as the world needs better corporate reporting.

Why an ISSB is important

No one can debate why this issue is important and the IFRS Foundation found this when they did their global consultation on the matter:

- Investors are demanding consistent, comparable, reliable, assurable information and every asset manager will confirm this. So the need for an ISSB is demand driven
- Other stakeholders are also demanding better reporting on company impacts on the economy, the planet and society as a whole.

Why an ISSB is important NOW

The issue of ESG and sustainability reporting has been around for years so why is it so important now?

The reasons include:

1. **Stakeholder demand**
   The IFRS Foundation said they weren't going to consider this area unless it was clearly demand driven and their results showed that there is demand.

2. **Climate**
   There is growing recognition around the world that the climate crisis is real. Targets are being set and there is every indication that people want to meet these targets, but there is no commonly agreed way to measure progress towards these targets. So commitments to climate related targets are hollow if jurisdictions and businesses within jurisdictions can't measure their progress in a meaningful, consistent and comparable way.

3. **Voluntary sustainability reporting hasn't worked**
   We have been at the voluntary approach for a long time and clearly it hasn't worked. We don't have consistent, comparable, assurable sustainability information today, there is only confusion in that area. Companies don't know what to use – there are a variety of frameworks and approaches.

IFAC has just completed a benchmarking study across the G20 countries and is starting to analyse the data. The survey included top companies in all the G20 jurisdictions to get a sense of what sustainability reporting was being produced, what reporting frameworks were being used and if there was assurance provided on these reports, what assurance frameworks were being used. Not surprisingly,

initial analysis shows that companies are using a variety of reporting frameworks and very few companies are only using one framework! When it comes to assurance – who is providing assurance and what standards they are using varies around the world quite dramatically. This is confusing and not very helpful for anybody let alone stakeholders.

4. **There is significant moment across the world**

Looking across the world and across every jurisdiction there is so much activity with respect to sustainability reporting. Activities include that of:

- European Union's Non-Financial Reporting Directive and now the Corporate Sustainability Reporting Directive provide a legislative mandate to proceed in this area.
- The International Organization of Securities Commissions (IOSCO) has a task force in this area.
- The Financial Reporting Council (FRC) in the United Kingdom has issued a paper on this.
- In the United States the change in government has clearly shifted its approach in how it is addressing climate and other sustainability factors.
- The group of five or what I call the "gang of five" is a group of global standards setters who are working towards rationalizing and harmonizing their standards. This group includes: the Global Reporting Initiative (GRI), CDP (formerly the Carbon Disclosure Project), Climate Disclosure Standards Board (CDSB), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB).
- SASB and the IIRC are merging to create the Value Reporting Foundation.
- The World Economic Forum's International Business Council (IBC) issued a set of common metrics to be used.
- The IFRS Foundation, which develops and issues International Financial Reporting Standards through the International Accounting Standards Board in 144 countries today, issued their consultation paper and have indicated that they may set up an International Sustainability Standards Board and will announce their intentions at the COP26 meeting in November. They clearly seem to be moving in this direction as indicated by their announcements over the last few months and the release of their constitution review last week seeking comments by July 2021 as they would need to change their constitution to set up a new International Sustainability Standards Board (ISSB).
- IFAC has been promoting enhanced corporate reporting for a while and released a roadmap in September 2020, in advance of the IFRS consultation paper, setting out the reasons why a new ISSB was important and why it was important under the "building blocks" approach under the IFRS Foundation.

Why an ISSB under the IFRS Foundation is part of the solution

This approach is not the whole solution – it is very important to keep this in mind.

IFAC doesn't view an ISSB under the IFRS Foundation as the complete solution. We see it as a very important piece of the puzzle but is not the only aspect which needs to be taken into consideration when reaching a global consensus on this issue and move forward in a unified manner.

Sustainability reporting needs to be broken down into its constituent parts to understand this, what we call the Building Blocks. A schematic was released last week which provides additional insight into this approach.

Block One

- Investor focused
- Identifies those sustainability factors material to short, medium, long-term enterprise value

Block Two

- Multi-stakeholder focused
- Captures impacts of a reporting entity on economy, environment, and people that are not already in Block 1

The goal is to ensure that we are enhancing corporate reporting by encouraging consistent, comparable and assurable sustainability information. To add to this, before Prof King jumps on to this, to make sure that the information is understandable.

Block One: outside-in impacts

Block One is the investor focused sustainability information that is material or relevant to enterprise value. We call these the "outside-in" impacts. What are the external things that have an impact on the short, medium or long-term performance of the entity in terms of entity's resilience, survivability and its success for example.

Block Two: inside-out impacts

Block Two has a multi-stakeholder focus and is the reporting which helps meet a wide range of stakeholder needs to understand a company's positive, or negative, impacts on the economy, environment and people. We call these the "inside-out" impacts. These are the impacts that an entity or an organization has on the economy, environment and people. These impacts don't necessarily, at least yet, have a boomerang effect back on the enterprise value of the entity.

With these in mind, a case can be made for an International Sustainability Standards Board under the IFRS Foundation.

Why is the IFRS Foundation the place to go for Block One type of information?

1. **Global approach**
   A global approach is preferred as it reduces regulatory fragmentation cost. When thinking of investor and capital markets, they are global and they want consistent and comparable information at the global level. So having a global approach is important.

2. **Global connectivity**
   The Block One information, the investor focused information, needs to be integrated with existing financial information (whether GAAP or IFRS) to report a complete picture of enterprise value. The IFRS and IASB standards provide global reach, being used in 144 jurisdictions around the world, and good connectivity. So one can see how the global connectivity can work between a global ISSB and the IASB under the auspices of the IFRS Foundation.

3. **Importance of speed**
   It is very important to move quickly at the global level to lay down a marker to reach a global solution on the Block One type of information. One of the main reasons for this is to leverage the global momentum. Consider Europe – Europe has a legislated mandate to move in this direction. Other jurisdictions are also looking as if they will be following a similar approach, consider the UK's FRC and now with the shifts in the US, one wonders what the US will do.

   If the IFRS doesn't get out in front of this, and lay down a marker as to why they can be the solution to that Block One information, we are going to get a lot of regional, jurisdiction specific approaches. In our view, this will lead to increased cost and not meet the needs of the investors. Perhaps over a number of years, the fragmentation will come together in a unified approach, but there is no certainty that this would happen and certainly it would take a long time.

   There are many reasons as to why the ISSB can fit within the IFRS Foundation for Block One type of information. Others include:

   - The IFRS Foundation already exists and provides exactly what is needed, but for financial reporting only. To start something from scratch would take huge effort and many years (the IFRS Foundation was created in 2001).
   - The IFRS Foundation already has the necessary legitimacy – for example, it already has the backing of IOSCO.
   - The IFRS Foundation also have an interest in the Block approach as well. Their interest, their focus is Block One but this does not preclude Block Two information.

As an organization, the IFRS Foundation itself hasn't always moved with speed – clearly some standards under the IASB have taken a while to be formulated. This is part of the history that the IFRS Foundation would need to address as it moves forward. But considering what the IFRS Foundation has managed to achieve over the last 6 months, the pace of change of the organization itself is very encouraging. They are demonstrating that they can move with pace and I think that they know that they need to move with pace to be able to remain relevant.

4. **Assurance**
   There is a strong demand for information to not only be consistent and comparable (under Block One type of information) but, importantly, the demand is for it to be assurable. This is also strongly supported by IOSCO. If information is going to be assurable a global reporting framework is needed to make sure that a commensurate global assurance framework is relevant and works effectively. If a number of jurisdiction-specific reporting frameworks exist and each has tweaks then a global assurance framework will unlikely provide effective results.

When it comes to Block One information, the IFRS Foundation really ticks all the boxes:

- It already exists;
- There are links to and integration with financial reporting;
- It has legitimacy with the backing of public authorities like IOSCO;
- It's existence and operations can support the speed necessary at a global level; and
- As an organization it is able to move with the necessary speed.

What about Block Two type of information?

When it comes to Block Two information, there is an increasing demand for this information from a wide range of stakeholders. This is "inside-out" impact information, information about the impacts that the entity has on the economy, environment and people.

We think that the demand for this type of information will, in many cases be jurisdiction specific.

The reason for this is that this information will be driven, in large part, by public policy objectives and initiatives at a jurisdictional level. It is naïve to think that this type of information would be the same in every jurisdiction around the world. Of course, over time there could be harmonization in this regard, but the jurisdictions should be afforded the opportunity to determine the specific information that they want and need from the entities operating in their countries or regions.

Block One and Block Two information can complement each other

In terms of Block One information, we need a unified, global baseline, to meet the needs of investors and the Block Two information can complement (not compete) this Block One information while meeting the needs of the other wide-range of stakeholders.

In terms of Block Two information, over time there may be a harmonization of stakeholder information needs and certainly an ISSB under the IFRS Foundation could assist in this by providing a platform to facilitate such a process.

There will always be a need for these two different types of information – block one and block two.

Changing information needs over time

One shouldn't think that the demands for the different types of information are static over time – we live in a dynamic world and our demands for information will change.
As an example, consider the issue of carbon emissions.

- When this first became a requirement, this information was really a Block Two type of information requirement – society started to become alert to climate change and the impact of carbon emissions may have on the climate. Hence Block Two type of information – information about what impact entities are having on the economy, society and the environment.
- As time went on, investors started to factor in emissions and net zero transitions into their capital allocation decisions. So this started to drive a demand for information on the associated outside-in impacts, the impacts that this could have on the short, medium and long-term objectives of the organization.
- Over time, the need for this information has got to the point where the financial consequences of the issue impact the entity's financial statements.

So factors migrate over time between the various types of information demands. Some call this "dynamic materiality" but it is just important for one to keep in mind.

I trust that the points I have made conclusively make the case that a new ISSB under the auspices of the IFRS Foundation is imperative and is the way to go. I encourage everyone to get behind the IFRS Foundation to encourage them to move forward quickly with the utmost speed.

We firmly believe that the building block approach is the only way to reconcile the objectives and demands of all stakeholders in all jurisdictions – to provide a baseline of information that meets the needs of investors but also the needs for specific information required by various stakeholders and jurisdictions in order to meet their public policy objectives.

Interpreting sustainability and enterprise value creation

Paul Druckman, World Benchmarking Alliance Chairman

Do we need an evolution or transformation in the conceptual frameworks from financial statements and sustainability reports?

There is a significant shift in regulation and guidance for companies regarding ESG, for example:

- "Good corporate governance requires an acknowledgement that an organization doesn't operate in a vacuum but as an integral part of society and therefore has an accountability to wards current and future stakeholders" King IV Report on Corporate Governance for South Africa, 2016.

- The Companies Act in the United Kingdom (Section 172) talks about the duty of a company's director is more than just to the company's members.

- The United Kingdom's Financial Reporting Council' corporate governance code (2018) Principle 1A talks to the need for successful companies to "contribute to the wider society" and the Stewardship Code (2020) Principle 1 talks to the need for "sustainable benefits for the economy, the environment and society."

This sets a precedent in what corporate reports would need to contain and what conceptual frameworks would need to encompass.

What is a conceptual framework?

- From the dictionary, a conceptual framework is a statement of theoretical principles or an approach to problem solving sometimes called a statement of principles.
- The IFRS Foundation's conceptual framework's purpose is stated to be to assist the IASB in developing and revising IFRS standards that are based on consistent concepts.

Two approaches are discussed, firstly that of evolving the existing frameworks and standards and secondly completely transforming corporate reporting.

1. Considering the evolution of corporate reporting

Should financial statements be revised to incorporate sustainability information?

There have been a few explorations in this regard, including:

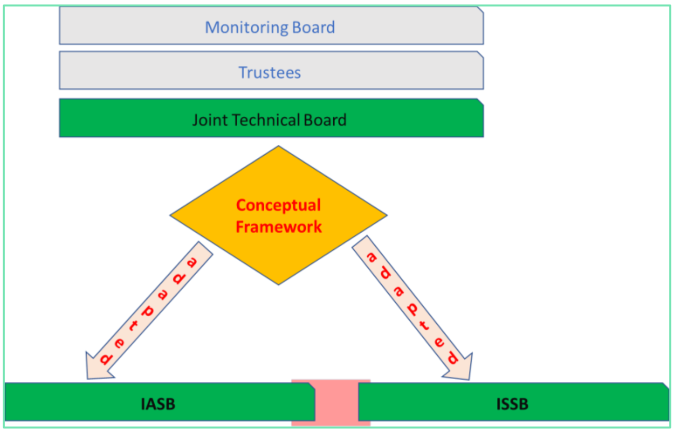
1. **Nick Anderson's paper** which notes the following key considerations:
   i) Materiality – materiality is defined through the prism of the user rather than that of the entity, i.e. the company needs to consider the audience reading the statements rather than just the size and scale of the entity itself.
   ii) Specifics – when making disclosures in financial statements, such as sustainability disclosures, these cannot be omitted if they are material to how the business is operating, i.e. all resources and value drivers should be included in the statements and several standards would need to be modified if the IFRS conceptual framework were not be modified to incorporate these factors.

2. **The IIRC Corporate Reporting Dialogue Landscape Map** which is a mapping of different international standards and frameworks through the lens of integrated reporting on all the capitals. The mapping shows the various missing concepts and indicates that perhaps the IFRS conceptual framework is not completely adaptable.

3. **The TCFD Framework** for climate related financial disclosures. This framework diagram showing governance, strategy, management and metrics as targets being the core. The TCFD also introduced the concept of scenario analysis.

4. **Accountancy Europe (AE)** produced, before the IFRS Foundation came out with the consultation paper, a proposed Global corporate reporting structure incorporating a conceptual framework for what they called "connected reporting" This is essence isn't far removed from where the IFRS Foundation seems to be moving.

   Using this AE framework and applying it to the IFRS Foundation proposal, the difference seems to be, in the IFRS model, the joint technical board which, to me, is where the integrated reporting and connectivity happens. This joint technical board oversees the conceptual framework which is then adapted for financial or for sustainability reporting.



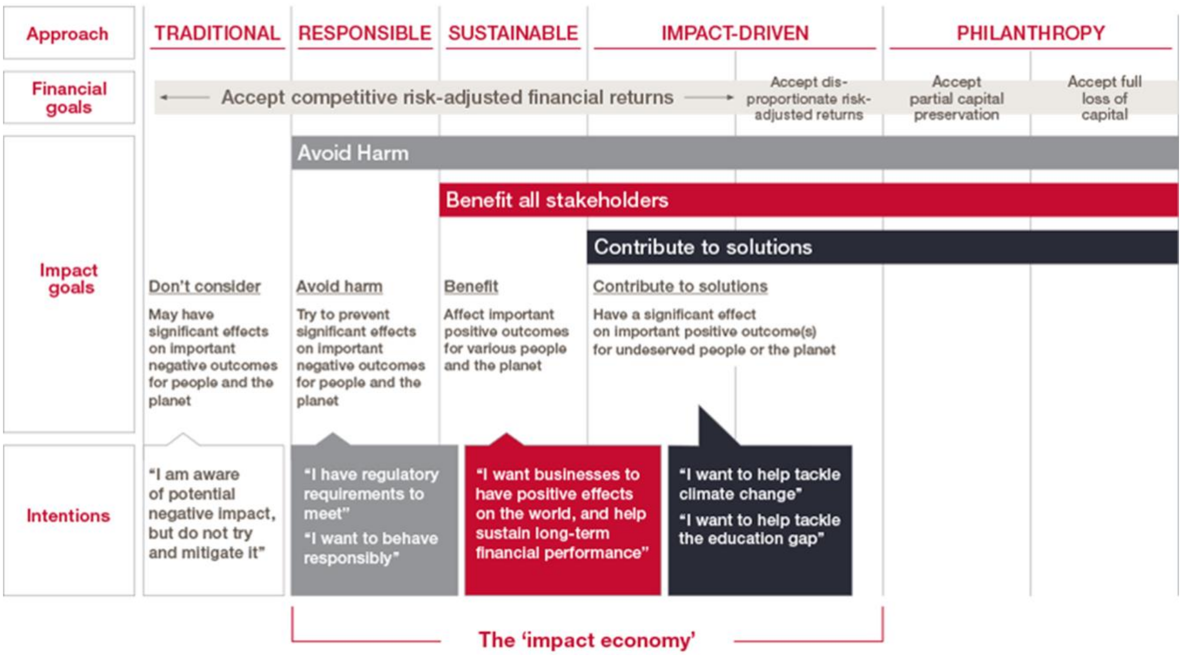
5. **The Capitals Coalition's March 2021** paper which describes how to disclose impact in financial statements within IFRS standards and suggest changing one of the key elements of the IFRS conceptual framework to include the idea of impacts which would be a significant change to the IFRS conceptual framework. The concept of impact is important and needs to be considered in the context of understanding progress made:

Environmental social and governance criteria, ESG, "creates a giant societal placebo where we think that we're making progress even though we're not," says Tariq Fancy BlackRock's former head of sustainable investing
[April 28, 2021]

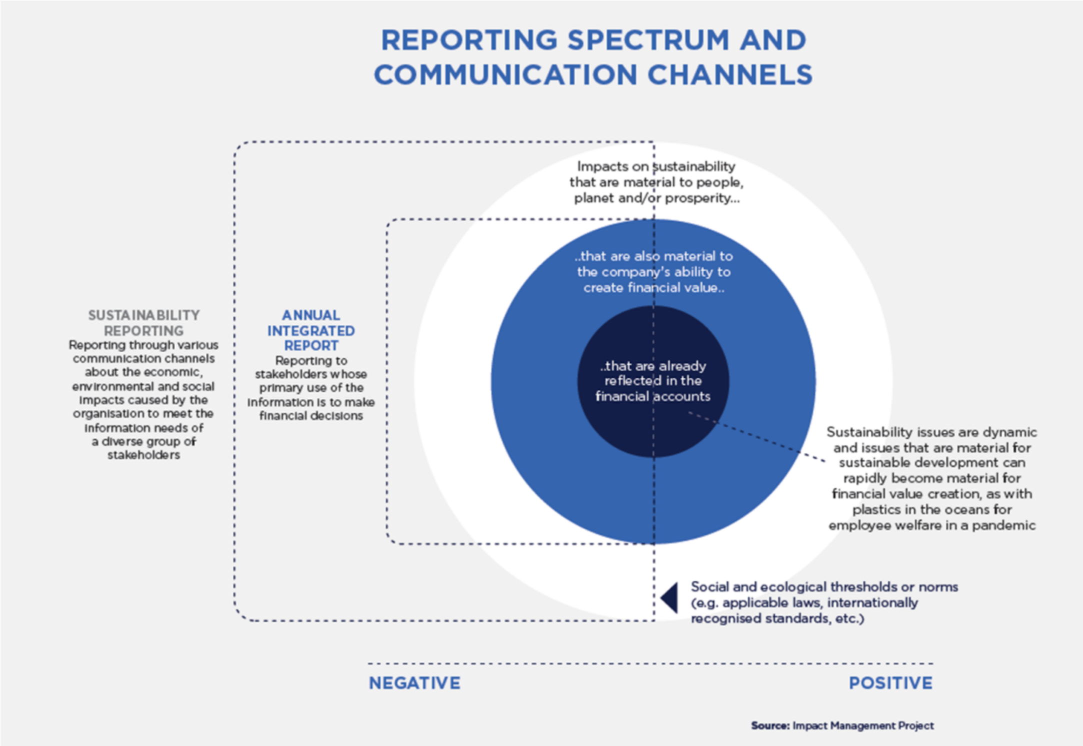
Moving towards Impact

It is important that impact is considered to avoid such a risk (of creating "a giant social placebo") and ensure that reporting standards promote tangible outcomes. Some guidance includes:

1. **Reporting spectrum.** Firstly, this diagram provides a neat overview of the spectrum of "sustainability" reports and provides us with an idea of the vast differences in the purpose of various reports. This helps us to better conceptualize what kind of reports we need to be working towards and the standards we should be putting in place for that scope:



2. Impact Management [Project](#) diagram provides another important view in this regard:



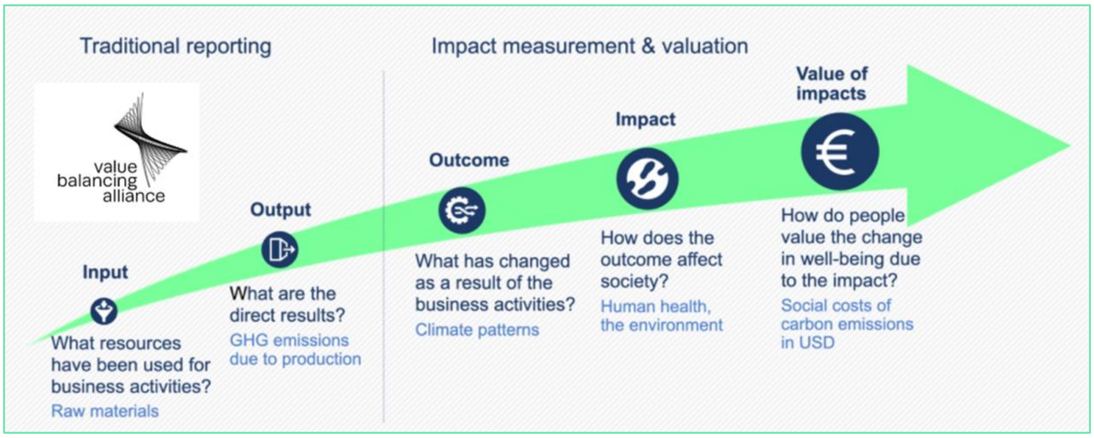
3. The European Financial Reporting Advisory Group's preparatory work for possible EU non-financial reporting standards report "Proposals for a relevant and dynamic EU sustainability reporting standard-setting" provides 6 core concepts:

1. Public good
2. Quality of information
3. Retrospective and forward looking information
4. Levels and boundaries of reporting
5. Double materiality
6. Connectivity

Concepts 4 and 5 are particularly relevant as it moves into the "white area" of the previous diagram (2. Impact Management Project) – further than the light blue area. After years of debate on the definition of materiality, the world is moving towards the double materiality idea. This means that businesses should report on financially material matters that influence enterprise value as well as matters that are material to economies, society and the environment.

4. Harvard Business School's Impact-Weighted Accounts Project. This project's idea is to bring the impacts into the financial statements.

5. **Value Balancing Alliance's** work supports this approach. The alliance works to create a way of measuring and comparing the value of contributions made by businesses to society, the economy, and the environment – a metric not previously reflected in a company's balance sheet.



6. **Carol Adam's** recommendations on Sustainable Development Goals Disclosure (SDGD). These recommendations use concepts similar to that of TCFD (the four disclosures: governance, management approach, strategy and performance and targets). The recommendations provide principles of: future orientation, stakeholder inclusion, connectivity of information, reliability and verifiability. These principles are common and should be taken up in proposed conceptual frameworks and reporting standards.

Redesigning the Annual Report

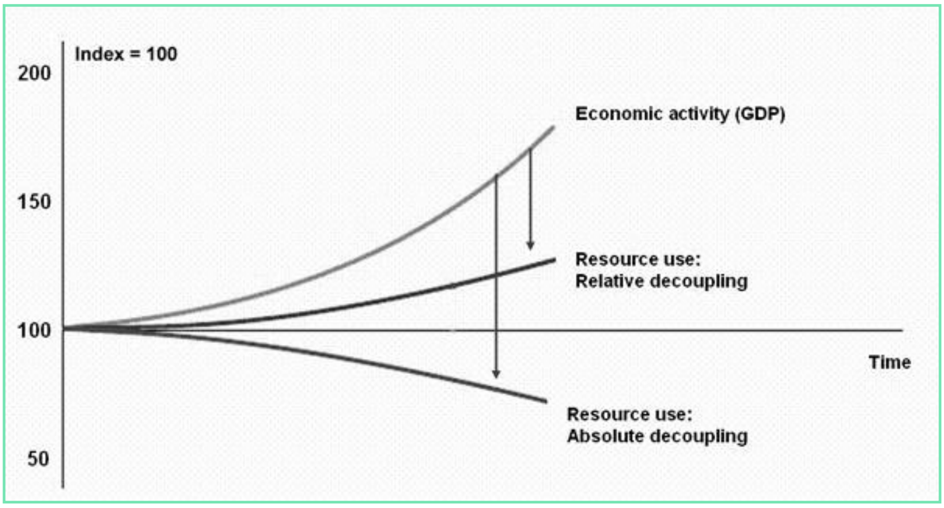
Considering whether and how Annual Reports could be changed to consider sustainability factors. As an example, consider the work done by the UK's Financial Reporting Council and their discussion paper, The Future of Corporate Reporting. This discussion paper which sets out vision for a new principles-based framework for corporate reporting as a whole. The proposals were designed to be tested with stakeholders and stimulate the conversation about what the future of corporate reporting should look like.

The work started on the premise that the report was too big, too comprehensive and that technology was not being used sufficiently to assist with the complexity.

- The report proposes that the Annual Report is broken up with supporting detail provided in other reports. What remains are three core reports: The Integrated Report (the business report), the Public Interest Report and the Financial Statements.
- The use of technology intends to move the report from a "push" approach, where preparers push the information to users, to one of a "pull", where users can extract from the information available, what they want.

2. Considering the transformation of corporate reporting

Professor Dasgupta's report on the GDP growth fallacy says that GDP does not take account of the depreciation of natural capital and that nature needs much more focus in economic thinking.



The report indicates that society needs to intervene. The pandemic has been interesting in that society has intervened, but it has been governments that have had to make it happen. An example of where society has intervened is in the formulation of the European football Super-league and the fans objected and did not allow it to happen. When society doesn't move, things don't actually move as fast as they need to.

My transformational challenge to us all is do we want to go back to where we were?

- If we want to have growth in our economy, how do we decouple this from what it does to our planet and our people?
- If we want economic growth, we are going to have disproportionately more damage to our planet and our people if we continue the way we are.
- If we are going to transform, what would the world look like where GDSP growth is not a necessity?
- Are we able to envision a society that values the success of business by what it contributes to society?
- If we do have a society that values business success by what it contributes to it, how do we do that?

Prof Mervyn King talks about reporting being the lifeblood of accountability and at the World Benchmarking Alliance, we are striving for an accountability mechanism for the SDGs. This, of course, cannot be done without corporate reporting being fit for purpose. Where we are today, the corporate reporting standards are holding back such accountability.

Is the time right for business to save the world?

The Edelman Trust Barometer 2021 shows 2021 as “Declaring Information Bankruptcy”. The previous year about competence and ethics and prior to that it was about trust at work. Going all the way back to 2010, performance and transparency were essential to trust. It is interesting that 2010 and 2021, although described differently, are identifying the same issue.

The barometer also shows that it is only business which is seen as both competent and ethical. The NGOs for example are seen as ethical but not competent and government as both less competent and less ethical.

Therefore, we have to conclude that business is the only trust institution and therefore business **must** step up to the challenges presented by today’s existential threats.

Business must step up as climate change has no vaccine

and we cannot socially distance from equality.

It Starts at the Top!

Helle Bank Jorgensen, Chief Executive Officer, Competent Boards

When Professor Mervyn King last spoke at the ESG Competent Boards Certificate and Designation Program, he spoke about the Future of Good Corporate Governance and how boards of directors are the accountable hearts, minds, and souls of companies.

ESG competency is no longer a nice addition to bring to the boardroom, but a necessary one. However, ESG competencies are not enough – the **Competent Boards Future Boardroom Competencies Survey** **[Report](#)** found that in order for a board to be future-prepared, it must contain directors who are global citizens; who use their brain, heart, and all their competencies to make truly informed decisions.

We need to have leaders who are looking at today's critical issues –

ESG, climate risk, cyber-security, diversity, equity, inclusion and more –

with clarity, competence and a strategic view.

The feedback from the alumni of the **ESG Competent Boards Certificate and Designation** **Program**, and the success the alumni have enjoyed in achieving board positions as a result, clearly demonstrate that an ESG mindset is critical for boards in the 21st Century.

The September Cohort of the ESG Competent Boards Certificate and Designation Program (GCB.D) will once again prepare leaders for accelerated change and increased resiliency. Participants will learn from global leaders on strategic topics including:

ESG • Climate • Diversity, Equity, Inclusion • Human Rights • Supply Chain • SDGs • Anti-Corruption • Responsible Data Use • Cybersecurity • Tax • Investment • Pay • Engagement & Disclosure • Good Corporate Governance

This international, online, global ESG Certificate [Program](https://competentboards.com/) is designed by and for board members, executives, investors, and those who advise them.

Faculty members include:

Emily Waita Macharia
Public Affairs Director,
Coca-Cola Africa

May Siew Boi Tan
Independent Non-executive
Director, CLP Group

Kathleen Taylor, CM
Chair, Royal Bank of Canada (RBC)
Vice-Chair, The Adecco Group
Director, CPPIB and Air Canada

Mervyn E. King
Chair Emeritus, King
Committee on Corporate
Governance

Claudia Sender
Non-Executive Director,
Telefonica S.A, LafargeHolcim
Gerdau, and Embraer

Shailesh Haribhakti
Chairman, Blue Star LTD,
Larsen & Toubro Finance

Learn more about the program or download the Future Boardroom Competencies Survey Report:

https://competentboards.com/

Summation

Professor Mervyn King SC

The Value Reporting Foundation and the International Sustainability Standards Board are stepping stones in the stream of sustainability reporting framework providers.

Report preparers and users are looking across this stream at a host of stepping stones to get to the other side. There are two big stepping stones in this stream. The one is the Value Reporting Foundation (VRF) and the other is the proposed International Sustainability Standards Board (ISSB). The other side of the stream is a globally accepted, comprehensive corporate reporting system.

“Business is a part of society and not apart from society.” *Prof Mervyn King*

Going back to the middle of the 19th Century, the concept of the company was firmly established – an artificial, incapacitated person dependent on the mind and conscience of its corporate leaders. At that time, the limited liability company was formed by society for society. We hear often today that society is the licensor of a company but it was formed by society for society.

The company construct is the instrument chosen throughout the world by both the developed world and the developing world through which to conduct business. It is critical for capital raising and for the creation of jobs among other important matters.

“We must remember that we are not from this planet, we are of this planet.” *Prof King*

Every day we have species extinction. The last chapter of my book, “The Chief Value Officer”, Jill Atkins and I deal with extinction accounting. We, as Homo Sapiens, are at the end of this chain.

The urgency with which we must cross the stream is apparent!
The very existence of human kind is at stake.

We need to get this corporate reporting right – whether from the outside-in or the inside-out, or stated otherwise through a Brundtland lens or an enterprise value lens. We need to get this right to make accountability more transparent and to make this information more meaningful and useful to users. The biggest challenge to getting this right is fragmentation. One of the key complexities that the ISSB technical team will have is to align the legislation and regulation in regard to sustainability issues in the various jurisdictions.

Should there be a separate conceptual framework for the ISSB?

This is a difficult question to which there is currently no answer. However, this is a critical question that the technical teams have to apply their mind to and address.

For years the IASB has used its conceptual framework to help interpret its financial reporting standards. It has also helped directors and practitioners when a transaction exists for which there is no particular standard which is applicable or where confusion exists. In cases such as these, one can go back to the conceptual framework and create an approach for such transactions. The same applies for the ISSB, a conceptual framework is needed against which answers to novel situations can be found.

Corporate reporting is now becoming more informative and comparable.

Professor Mervyn King

Patron

24 May 2021

Ms Carolynn Chalmers

Chief Executive Officer

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Speaker Biographies

Helen Brand

ACCA Chief Executive

Helen Brand is chief executive of ACCA, the global body for professional accountants, a post she has held since 2008.

Helen has built her career within professional bodies and has considerable experience and knowledge of the 176 markets in which ACCA currently operates. She is a founding member of the International Integrated Reporting Council (IIRC) and now serves as a co-Vice-Chair of the IIRC Board. A member of the UK's government's Professional and Business Service Council, she was also appointed to the UK DIT's Trade Advisory Group on Professional Advisory Services in August 2020.

One of the few women to lead a global professional body, Helen is a regular media commentator on the role ethics and the delivery of public value play in business and society. In 2011, ACCA became the first international professional body to publish an integrated report on its performance and Helen remains a strong advocate for the power of wider corporate reporting. She has also driven ACCA's pioneering work in supporting the development of the profession across Asia, sub-Saharan Africa, Europe and the Middle East.

Helen holds a BA in Politics from the University of Exeter. She was awarded an OBE in the Queen's Birthday Honours list in June 2011 for services to accountancy and received an honorary doctorate from the University of Exeter in December 2017.

Jonathan Labrey

International Integrated Reporting Council Chief Strategy Officer

Jonathan is a global expert in corporate governance and reporting with over 16 years' experience in the accountancy profession, regulation and corporate reporting.

He joined the IIRC in 2012 and leads its strategy and global policy work to ensure integrated reporting becomes the norm. Jonathan has particular expertise in Asia, having lived in Singapore and worked across the region, developing a deep understanding of capital market and corporate governance issues, working closely with businesses, investors, regulators and accountancy professional bodies.

Jonathan has a background in government relations, policy and regulation, having headed up the public affairs and policy team at the ICAEW from 2004-10. From 2010-2012 he was head of communications at the UK's Financial Reporting Council.

Kevin Dancey

IFAC Chief Executive Officer

Kevin Dancey, CM, FCPA, FCA became IFAC's Chief Executive Officer in January 2019.

Kevin has a long history of leadership in the accountancy profession as well as in public service. As Canadian Institute of Chartered Accountants President and CEO, Kevin led the Canadian accountancy profession's unification, becoming CPA Canada's first President and CEO after the merger. His experience also includes serving as the Assistant Deputy Minister, Tax Policy, at Finance Canada (1993-1995), on the Canadian Auditor General Panel of Senior Advisors (2006-2015) and as an Auditing and Assurance Standards Oversight Committee member (2017-2018) and CCAF-FCVI Inc. board member (2008-2013).

Kevin's international accountancy experience includes the Public Interest Oversight Board (2017-2018), the IFAC board (2006-2012) and the Global Accounting Alliance (2006-2016), where he was also Chair from 2008 to 2012.

Prior to joining the Canadian Institute of Chartered Accountants, Kevin was PwC's Canadian Senior Partner and CEO and was a PwC Global Leadership Team member from 2001-2005. He was national tax practice leader for Coopers & Lybrand before the merger with Pricewaterhouse.

Kevin currently chairs Finance Canada's Departmental Audit Committee and is on the Advisory Board of the CPA Canada Martin Family Initiative, which mentors Canadian indigenous youth, having previously served as the National Coordinator for the program. He is also a Senior Fellow at the CD Howe Institute, a Canadian research institute dedicated to raising living standards through economically sound public policies.

Kevin is a Fellow at CPA Ontario, where he first qualified, and a member of CPA Canada. He holds a Bachelor of Arts (Hon.) in Mathematics & Economics from McMaster University (Canada).

Paul Druckman

World Benchmarking Alliance Chairman

A passionate global leader in capital market reform – from corporate governance to reporting & measurement; to sustainability.

He is well known and respected in business, regulation and in the accounting profession worldwide. Following an entrepreneurial career in the accountancy software industry, He has operated as a non-executive chairman and director for companies in a variety of sectors.

He is Chairman of the World Benchmarking Alliance which is building a movement to measure and incentivise business impact towards a sustainable future that works for everyone through free and transparent benchmarks and rankings

In the accounting profession his highlights include being President of the Institute of Chartered Accountants in England & Wales; being on the City Takeover Panel; and as a Board member of the UK regulator, the Financial Reporting Council. The FRC non-executive role was over 2 separate terms, including the post Enron era and then again until 2019. He also chaired the FRC's Corporate Reporting Council which sets UK accounting standards and currently is chairing a major FRC project on the Future of Corporate Reporting.

In the field of sustainability, a highlight was chairing HRH The Prince of Wales Accounting for Sustainability Project (A4S) Executive Board for many years, whilst his last full-time role was at the International Integrated Reporting Council where he helped create and then led the team as CEO for five years from inception.

He has a variety of other roles currently – from chairing Clear Insurance; to being a Board member of the Shift Project, which brings respect for human rights to business via the UN Guiding Principles; to being a Board member of SASB (Sustainability Accounting Standards Board).

Mr. Druckman is an Ambassador for A4S and an Honorary Professor at Durham Business School.

About the Good Governance Academy

The Good Governance Academy (NPC) has been established to collaborate globally to share information on critical governance and business science issues as a public good, in line with the Sustainable Development Goals 17 (collaboration) and 4 (education). The GGA fulfills its mandate with due consideration for, and to the benefit of, the triple context within which it operates: the economy, society and the natural environment.

Patron

Professor Mervyn King (founder and patron)

Board

The GGA Board is comprised of:

- Mr Patrick Kabuya (non-executive director)
- Professor Piet Naude (non-executive director)
- Professor Owen Skae (non-executive director)
- Professor Andrew Corbett-Nolan (non-executive director)
- Ms Carolynn Chalmers (executive director)

Volunteers

The GGA would like to take the opportunity to sincerely thank its volunteers for the tireless hours they have spent contributing to the achievement of the GGA's mission:

Mr Claude Kamangirira

Mr Calvin Hope

Ms Ruth Barnett

Community

- If you are an individual and would like to join the GGA Community, receive notifications of events and access pertinent, curated content, please login to the GGA's Community Portal.
- If you are a professional association, educational institution or member-based organization and would like to discuss collaborating with the GGA, please do get in touch:
  support@goodgovernance.academy.