Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

35th SESSION
24 - 26 October 2018
Room XVII, Palais des Nations, Geneva

Wednesday, 24 October 2018
Morning Session

Keynote address
Aligning corporate reporting: a system for long-term value creation

Presented by

Richard Howitt
Chief Executive Officer
International Integrated Reporting Council

The future of corporate reporting, alignment and the SDGs. Laying the path to the global adoption of integrated reporting.

By Richard Howitt, Chief Executive Officer, International Integrated Reporting Council

Note: This is an abridged version of Richard Howitt's keynote speech to the 35th UNCTAD Intergovernmental Working Group on International Standards of Accounting and Reporting (ISAR) at the United Nations in Geneva, 24 October 2018.

When the I spoke at ISAR 30, five years ago, it was to emphasise the importance of non-financial reporting, representing a growing view amongst governments and civil society at the time that corporate transparency was and is a key driver towards business which is long-term, sustainable and which serves society as well as the economy.

The difference, at ISAR35 five years later, is that this belief is much more clearly held by those within business and investment as well as outside of them, because companies understand how the inter-relationship between business, society and the planet contributes to the aim of long-term value creation for business itself.

And that today, we are not simply talking about the importance of non-financial reporting, but describing how we are well on the pathway towards integrating financial with non-financial reporting - or, should I say, so-called non-financial reporting.

Because that realisation encompasses the fact that non-financial outcomes are now perceived as having very financial consequences for the company itself.

There are three things in particular that reflect this:

First, the corporate reporting landscape is changing fundamentally.

Second, that the financial reporting of today will become the integrated corporate reporting of tomorrow - and that it will do so through a process of aligning current reporting frameworks, not creating winners and losers, but one of genuine integration.

Third, that the research, core indicators and guidance on business reporting of the Sustainable Development Goals being discussed here in the United Nations this week, is a crucial driver of this integration. This is not least because the clock is ticking on achieving the SDGs themselves.

The landscape for integrated reporting

Remember integrated reporting is not a new, different set of metrics for companies to report. It is a set of principles designed to allow businesses and all organisations to understand the risks and opportunities that arise in a multi-capital world, to use this to define their business model and business strategy, and thereby to explain how the company creates value over time.

It is about helping businesses meet the challenges of the future.

The importance of sustainable development at its heart, a long-term horizon and a focus on outcomes not just outputs, are what makes this approach particularly relevant to the SDG agenda.

Current Adoption

Five years ago 72% of the S&P 500 were producing what have been called ‘emerging extended reports’ - integrated, CSR, sustainability, governance and other reports. Today that is 84 per cent - the ‘new normal’.

And it is true that only a minority so far are genuinely integrated reports. But the number is steadily growing. The UNCTAD research paper published at this year’s ISAR 35, quotes a KPMG report from two years ago estimating the figure at 11%. The same report two years later has now been published, putting it at 14 per cent. It is steadily growing and it shows it is possible.

That’s over 1,600 companies who are adopting integrated reporting in 67 countries, including every G20 economy, every BRICS country, already the leading practice in Japan and South Africa. Sales Force in America, French insurance company AXA, big conglomerates Ayala from Philippines, Mahindra Mahindra from India, are just a few of the many companies who have adopted integrated reporting for the first time in the last year. And it also being cited in stock exchange guidance, corporate governance codes and endorsed by regulatory authorities around the world.

Different Strategic Phases

This is an upward path with a destination.

Global financial reporting standards have taken around 20 years to become established.

We plan to achieve the global adoption of integrated reporting in 15 years, not because it is less complex, but because we don't have the same time to do it.

Moreover, we have a clear global strategy on how this will be achieved.

The IIRC's Momentum Phase

This year, all the key indicators of our 'breakthrough phase' which we set ourselves, have now been achieved. This has led us to be able to announce the transition to a new global strategic phase towards the global adoption of integrated reporting - the Momentum Phase.

The focus is now on 'scale and pace', in order to achieve a 'step change' in adoption.

There is a clear perspective that this is not just about numbers, but about making integrated thinking a mainstream business practice and integrated reporting the global norm.

Integrated thinking doesn't just impact on reporting but on management, on strategy, on people and also on systems.

It is an essential part of the 'new normal'.

This is an era when companies are fundamentally being asked not just what they do, but why do they do it?

When the way companies communicate their purpose, is crucial to filling the trust deficit in business itself.

What is new about the Momentum Phase?

If we are shaping the future, what are the different things we need to do in the next phase, if we are to succeed?

To make sure this new corporate reporting works we will need to meet the aims of business in developing country markets, and for the aims of international development.

We must contribute to the transition towards a sustainable financial system for the world.

We address the technological challenges together at the same time, in a world where information - not just reporting - will be radically different to what it is today.

The landscape has changed and will change ever-faster. It is our ability to shape it, which is under question. But we can.

An aligned system

Next year we want to say more about the IIRC's 'theory of change', and how this can be achieved?

But our current thinking is based on a belief that a patchwork of competing frameworks is confusing for the market and self-defeating for those who provide them.

Just as we say to businesses that doing the right thing and being economically successful is not a zero-sum game, we have to apply the same logic to ourselves: to reject the idea there must be winners and losers in the corporate reporting space too.

Our vision is that we will achieve a genuinely integrated approach to business reporting - and to business - by encouraging an alignment of the different frameworks we have today.

As Harvard Business Review put it: collaboration is the new competition.

International Accounting Standards

In that context, I want to strongly welcome the commitment in both the core indicators and the guidance which UNCTAD is presenting this week, to make them integrated in financial reporting, to reflect good accounting practices and to be verifiable to the same quality as financial data in company reports.

Our vision is not one where today's financial reporting is seen as 'broken', but one where it can be helped to evolve to meet the new challenges.

Including here are some of the IIRC's own Guiding Principles - which are good accountancy principles - of materiality, of reliability and completeness and - as the ISAR is discussing this week - of consistency and comparability.

We cannot afford to lose the rigour from today's financial reporting.

This is why the IIRC was delighted to be appointed to the consultative group of the International Accounting Standards Board (IASB), to contribute to and to oversee, its own review of the Management Commentary Practice Statement.

Integrated reporting can potentially play a major role in the future of narrative reporting too.

The IASB Chair Hans Hoogervorst came to our global IIRC Council and specifically talked about the 'common ground' which exists between financial reporting and integrated reporting and that integrated reporting 'provides the context' in which financial reporting is undertaken.

These are very important signals - I don't say more than that - that integrated reporting can be the future of corporate reporting.

The global accountancy profession has gone further, in the IFAC position paper which says integrated reporting is ***the*** future of corporate reporting.

Corporate Reporting Dialogue

One further big difference in the past five years is that the advent of the International Integrated Reporting Council has enabled us to convene for the very first time at the global level to the 'Corporate Reporting Dialogue.'

For the first time, the IASB and its equivalent in the States - US FASB - agreed to sit down with what we regarded as the four most comprehensive and global sustainable frameworks:

• **The GRI** - who have led some ground-breaking work on business reporting of the SDGs with the UN Global Compact.

• **The Climate Disclosure Standards Board** - who have launched a knowledge hub for business to apply the recommendations of the TCFD Task Force.

• **SASB**, who are about to release codified standards for sustainable business reporting by industrial sector.

• And **CDP** who are currently updating their approach on water, on forests, on supply chain and on cities.

Individually, hey are all doing fantastic work.

But together in the Corporate Reporting Dialogue (CRD), we are jointly doing even greater work.

We have the common commitment to bringing greater coherence, consistency and comparability between reporting frameworks.

Already we have a common landscape map, a common founding principle of materiality, a common position on the TCFD Task Force.

Last week the Corporate Reporting Dialogue was endorsed by seven major investor umbrella organisations in the world, led by the UN-backed Principles of Responsible Investment.

Next, on 7 November, we will announce a major alignment project between frameworks. The detail of which will be revealed then, but it will be a major step towards enhancing comparability.

If the market is confused by what is perceived as a proliferation of frameworks, this is the single biggest message back to give confidence to the market that the major frameworks are committed to alignment.

Sustainable Development Goals

The UN's Agenda 2030 is the context which makes all of this more possible.

The World Inequality Report this year shows that inequality is still rising in nearly all countries of the world.

The Inter-Governmental Panel on Climate Change two weeks ago, says we have just twelve years to prevent irreversible climate change at 2.7 degrees.

The IMF says global private debt is at levels higher than the 2008 financial crisis, and warns of the risk of a second global financial crisis.

The urgency which provides the imperative to our work is stark.

But there are reasons for optimism.

Investor support

The IIRC believes stakeholder relationships are integral to a new understanding of value creation for the company. But, as the UNCTAD guidance states - we say that this is entirely compatible with the investor remaining the primary user of the company report.

My optimism is that investors themselves are embracing integrated thinking and reporting.

A growing number of private investors are recognising the changing risks which are fundamental to their long-term returns, echoed throughout the World Investment Forum this week.

The IIRC has a strategic partnership with the 135,000 investment professionals worldwide represented by the CFA Institute. Survey results released this week show 73 per cent of financial analysts who are their members, already use environment, social and governance (ESG) criteria in their investment decisions, qualitative as well as quantitative information.

Moreover, when leading U.S. investors Warren Buffett and Jamie Dimon issued a call to pull back on quarterly earnings forecasts and the U.S. Business Round Table and Preside t Donald Trump follow suit, the argument against chronic short-termism in capital markets is really taking hold.

Major forces in the world are backing these moves.

The Climate change financial disclosure (TCFD) Task Force report is a tipping point in the world, that concern for the planet is a financial issue for business.

Both that report and the Business Commission for Sustainable Development - the principal business response to the SDGs - make the same powerful recommendation for alignment of different reporting frameworks.

We have heard that, loud and clear.

Bridge to the SDGs

At the IIRC, we welcome are proud to partner with UNCTAD, to identify opening benchmarks for business reporting of the SDGs.

These are not as a new separate blueprint for reporting, but in line with our philosophy that this new reporting must be integrated, and understood in the context of value-creation for the company, if it is genuinely going to become mainstream.

The new core indicators are not intended to be an answer on their own.

We welcome the term used in the papers: ‘a prototype.’ The emphasis on human capital and in governance also reflect the IIRC’s multi-capital thinking, going beyond some of today’s ESG definitions.

The core indicators spring from a multi-stakeholder Round Table we held jointly with UNCTAD, at UN headquarters together in April.

It showcased for example, our work to bring integrated reporting to twelve African countries, together with the World Bank and the Pan-African Federation of Accountants.

UNCTAD has exciting plans to promote this not simply in Africa, but around the world in the next year, with the IIRC's support.

There is much work to be done. But the SDGs are driving that work, providing a new impetus and creating the new momentum.

My conclusions to all this are quite simple.

Business is ready to embrace this. The answer is better reporting, not more reporting.

We have a pathway to change. Collaboration is the new competition.

And, the SDGs provide the context in which this can happen.

Today, we have just 4,086 days to achieve the SDGs. This is only a little over the time it took Leo Tolstoy to write the 1,300 pages of 'War and Peace.'

For integrated business reporting of the SDGs, we cannot afford to spend the next twelve years writing another 'War and Peace.'

Instead, let's write a better world.