High-Level panel
Impact of sustainability and the 2030 Agenda on Sustainable Development on financial and non-financial enterprise reporting

Presented by

Jonathan Labrey
Chief Strategy Officer
International Integrated Reporting Council
Tragedy of the horizons

“The more we invest with foresight, the less we will regret in hindsight” Mark Carney, Chairman, Financial Stability Board

“I believe that integrated reporting can serve as a catalyst for long-term financial stability” Bertrand Badre, former Chief Financial Officer, World Bank Group

“Firms that report more information about the different forms of capital or follow more closely the guiding principles as described in the International <IR> Framework of the IIRC exhibit a more long-term oriented investor base” Integrated Reporting and Investor Clientele, Harvard Business School
“We find that integrated reporting is positively associated with both stock liquidity and firm value...”

“...When we decompose the firm value into an expected future cash flow effect and cost of capital effect, we find that the positive association between integrated reporting quality and firm value is driven mainly by the cash flow effect, consistent with investors revising their estimates of future cash flows upward as a result of a better understanding of the firm’s capitals and strategy or future cash flows increasing because of improved internal decision making by managers.”

Mary E. Barth, Stanford University; Steven F. Cahan & Li Chen, University of Auckland; Elmar R. Venter, University of Pretoria
A Nanyang Business School study looks at the association between <IR> and company valuation.

A score was constructed based on the level of disclosure of and the market valuation of equity by investors was also measured.

Findings show that firms with a higher score have a higher market valuation.
"We are asking that every CEO lay out for shareholders each year a strategic framework for long-term value creation. Additionally, because boards have a critical role to play in strategic planning, we believe CEOs should explicitly affirm that their boards have reviewed those plans. BlackRock’s corporate governance team, in their engagement with companies, will be looking for this framework and board review."

**Larry Fink, CEO, BlackRock**

"Efforts by the International Integrated Reporting Council to develop a framework for reporting value creation seem very much in-line with what Mr Fink is suggesting."

**Sandra Peters, Head of Global Financial Reporting Policy, CFA Institute**
EY have found that 70% of over 200 respondents to their institutional investor survey see integrated reports as essential or important.
And...

61.5% of investors consider wider information to be relevant to all industrial sectors today.
In a survey completed by Edelman of 158 investors:

- 87% said qualitative information helps them evaluate forward-looking information and guidance.
- 86% said qualitative information helps them validate an existing investment thesis for a particular company/security.
India, USA, Malaysia

1. “Integrated reporting may be adopted on a voluntary basis from the financial year 2017-18 by the top 500 companies”, SEBI Circular, 6 February 2017

2. Marc Panucci, US SEC Deputy Chief Accountant addresses IIRC Council meeting as part of ongoing dialogue, New York City, April 2017

3. “Shareholders and potential investors require access to regular, reliable, comparable and integrated information for them to assess the stewardship of management, valuation of the company and the ownership structure”, Malaysian Corporate Governance Code 2017, Securities Commission Malaysia
Principle 16 of IOSCO Principles and Objectives of Securities Regulation

“There should be full, accurate and timely disclosure of financial results, risk and other information which is material to investors’ decisions”
“[T]he IASB knows that financial reporting in the narrow sense has its limitations. There are many elements of value creation which are important to the investor but which are not adequately captured in the financial statements. Investors need to understand a company’s business model and its strategy for long-term value creation. They need to understand the intangibles that are vital to their business model... 

“There is an increasing interest in integrated reporting with its focus on long-term value creation and a greater emphasis on connectivity, for example on how external developments affect a company’s strategy. Several important documents have been produced that have further developed thinking on integrated reporting—for example the <IR> Framework by the IIRC.”

Hans Hoogervorst, Chairman, IASB, November 2017
Capital markets system
From ‘financial only’ to broad ‘value creation’ model:

**MEASUREMENT & MANAGEMENT**
- What you measure will be managed
- Do you have silo-based or integrated thinking?

**INCENTIVES & BEHAVIOURS**
- Behaviour will follow incentives
- Are your incentives aligned to your purpose and your strategy?

**OUTCOMES**
- Macro: climate, inequality, broad prosperity
- Micro: skills, productivity, financial literacy
- Outcomes determine resilience of business model

**DISCLOSURE**
- INTEGRATED
- RELEVANT
- CONCISE