The Importance of Finance

In a provocative piece "Why Finance Is Too Important To Leave To The Bankers and Hedge Fund Managers," published in *The Huffington Post,* Georg Kell (Vice Chairman of Arabesque Partners and Founding Executive Director of the UN Global Compact) argues that "As of today, only a small fraction of the financial system is truly geared towards sustainable companies and much needed green infrastructure and technology investment.

The global financial juggernaut continues to chase short-term returns, irrespective of environmental or social consequences, and remains detached from the real economy." In order to shift from a financial system focused on its own ends rather than serving the real economy and society, he calls "for everyone to ask their bankers and their money managers how their investments are being put to use. That includes those whose pensions depend on sound investments and who want to know where their money is being invested and why. And those who care about whether their savings are being used to feed the gradual destruction of the planet, or whether they are invested in companies that can contribute to a cleaner, safer, more sustainable future."

The Missing 60%

Another provocative piece in *The Huffington Post*, "The Missing 60%: ExxonMobil, Forceful Stewardship and the 2CB Business Model Imperative," (by Bill Baue, Bob Eccles, Julie Gorte, Carolyn Hayman, Stephan Lewandowsky, Thomas O. Murtha, Naomi Oreskes, Rich Pancost, and John Rogers) begins with the observation that "The Spring 2016 proxy votes supporting the 2°C stress test resolutions at last week's Annual General Meetings of ExxonMobil (38.2%) and Chevron (41%) give cause for both celebration - and concern."

While these percentages are notable, they are far below the 98.3% at BP and 99.8% votes at Royal Dutch Shell for similar resolutions. Since it is highly unlikely that the shareholders of the U.S. oil firms are a completely different set than those of the European oil firms, this raises a serious question regarding "the fiduciary responsibility to consider the potential implications of current fossil fuel business models functioning to undermine legitimate public policy and the interests of asset owners to address climate risk." The authors call for " *Forceful Stewardship* by investors in order to leverage their ownership positions to address climate risk. This stewardship approach combines scientific evidence (i.e. IPCC Assessment Reports and science-based targets for sector-wide emission reductions) with financial evidence on material risk (both systemic and transition risk for companies) to provide a path to a vibrant low carbon economy while keeping planetary warming below 2°C. " You can learn more about Forceful Stewardship at Preventable Surprises where you can read about its three principles and become a signatory by sending your name and title to missing60@preventablesurprises.com.

Populism and Nationalism

Georg's most recent article, "Populism and Nationalism—What Does It Mean For The Climate Agenda?" was published yesterday on Thomson Reuters' *Sustainability* website edited by Timothy Nixon.

In this sobering piece Georg points out how the disturbing global trend of populism and nationalism, especially virulent in the U.S. with Donald Trump's candidacy, has extremely negative implications for the kind of global collaboration that is necessary in order to combat climate change. However, he goes on to note that even without the support of government, the private sector (both companies and investors) can and is playing a significant role. He also notes three important ways in which individual citizens can combat this political trend and support climate change:

"First, by embracing more sustainable lifestyles and by demanding that the products and services we consume are produced by companies that are serious about reducing emissions and environmental footprints, while also treating their employees well. Second, by ensuring that money is invested not in speculative instruments or unethical practices but rather in sustainable corporations that foster the transformation towards low carbon activities. Third and lastly, by using social media to spread science-based facts and to reject dogmas of hate and divisions."

Greenhouse Gap

Tim Nixon has a piece of his own, "Mind the Greenhouse Gap," that was published by *The Economist Intelligence Unit*. He begins by noting that in order to stay below 2°C the world needs to reduce its greenhouse gas footprint by 1.4% annually.

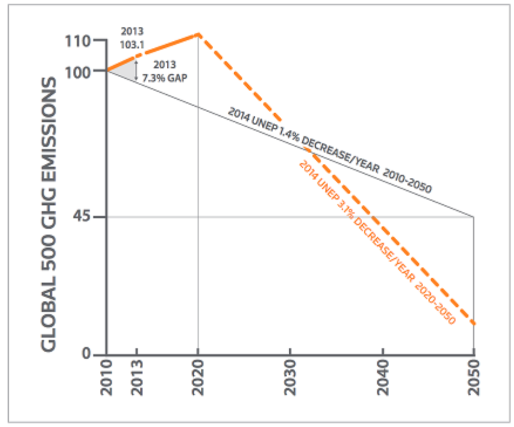

Figure 1. Global 500 GHG Emissions

In order to accomplish this he calls for accurate and transparent reporting by companies (the Global 500 Fossil Fuel Sector alone accounts for 30% of greenhouse gas emissions), the appropriate policies of nation-states, and, like Georg notes the importance of individual responsibility: "Individuals must also bear responsibility for their actions over the course of their lifetimes. How much water, energy and GHG are emitted through cars, air travel, consumer products and food?"

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IMA on Integrated Reporting

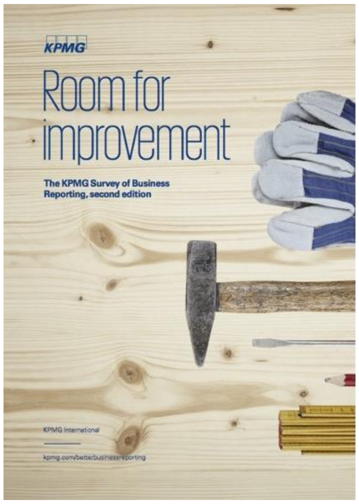
IMA, The Association of Accountants and Financial Professionals in Business, has a series called "Statement on Management Accounting."

A recent contribution to this series is "Integrated Reporting" by Professor George Serafeim of Harvard Business School. In this paper he summarizes the benefits and costs of integrated reporting, explains how to initiate the integrated reporting process, discusses the guiding principles and content elements of "The International <IR> Framework," and provides some very useful company examples for reporting on the "six capitals" in the Framework.

KPMG Surveys

KPMG Japan has recently published a report on integrated reporting in that country. "Survey of Integrated Reports in Japan 2015," is a study of the self-declared integrated reports of 205 Japanese companies.

In the "Introduction," Tsutomu Takahashi, Chairman of KPMG Japan, notes that "major changes were taking place in corporation communications. Specifically, we saw that a single report can have a major impact when it demonstrates that management was deeply involved in communication with stakeholders and leveraged that communication to better manage the company." While the report acknowledges that there is room for improvement, the fact that 205 Japanese companies are declaring their commitment to integrated reporting is a true sign of progress.



KPMG Global has also recently published the results of a study titled "Room for improvement: The KPMG Survey of Business Reporting, second edition." They' studied a sample of 270 annual reports in 16 countries. Here are their main findings regarding the "must dos" for improvement:

1. **Give investors the information they need:** 42 percent of the average report is devoted to financial information but only 14 percent addresses business strategy. Only seven percent of reports provide information to explain how the baseline performance of the business has changed, such as order-book or sales run-rate.
2. **Keep the report content clear and relevant:** The average report is 204 pages. (Recall that GE's "Integrated Summary Report" is only 68 pages.) Financial statements length varies substantially, from 60 pages in Russia to 140 pages in Italy.
3. **Provide a longer-term view using operational KPIs:** Only 11 percent of reports come close to covering performance information on six key areas of business health. Only nine percent of reports provide a five-year track record of operational performance.
4. **Provide practical KPIs that align with strategy:** Only 17 percent of reports say whether the business is winning or losing customers; only 15 percent show how brand or market share is developing; and only eight percent show whether the business is building or retaining its know-how and expertise.
5. **Provide deeper analysis of strategy:** 44 percent of reports do not look beyond short-term initiatives when discussing strategy; 73 percent do not discuss customer-focus as a key business objective; and only 58 percent identify knowledge and expertise as a key part of their business model.
6. **Focus risk analysis on what's important for the future:** Risk disclosures in four countries identified an average of over 20 "key risks," suggesting a lack of focus on the most important matters; only 11 percent show how the risk profile has been managed over time; and less than

10 percent identify risks in relation to each of strategy selection, product relevance, and change management.

SNS Conference

On May 26, 2016 the Swedish think tank SNS hosted a conference on “What Will Future Sustainability Reporting Look Like?” The focus of the conference was on how Sweden plans to implement the EU Accounting Directive on Non-Financial Information.

The entire conference was videotaped. Prior to the conference I also did a short three-minute interview in which I discuss the differences between a sustainable strategy and a sustainability strategy, the relationship between sustainability reporting and integrated reporting, and the related issue of the fiduciary duty of the company’s board of directors.