



Arabesque Partners



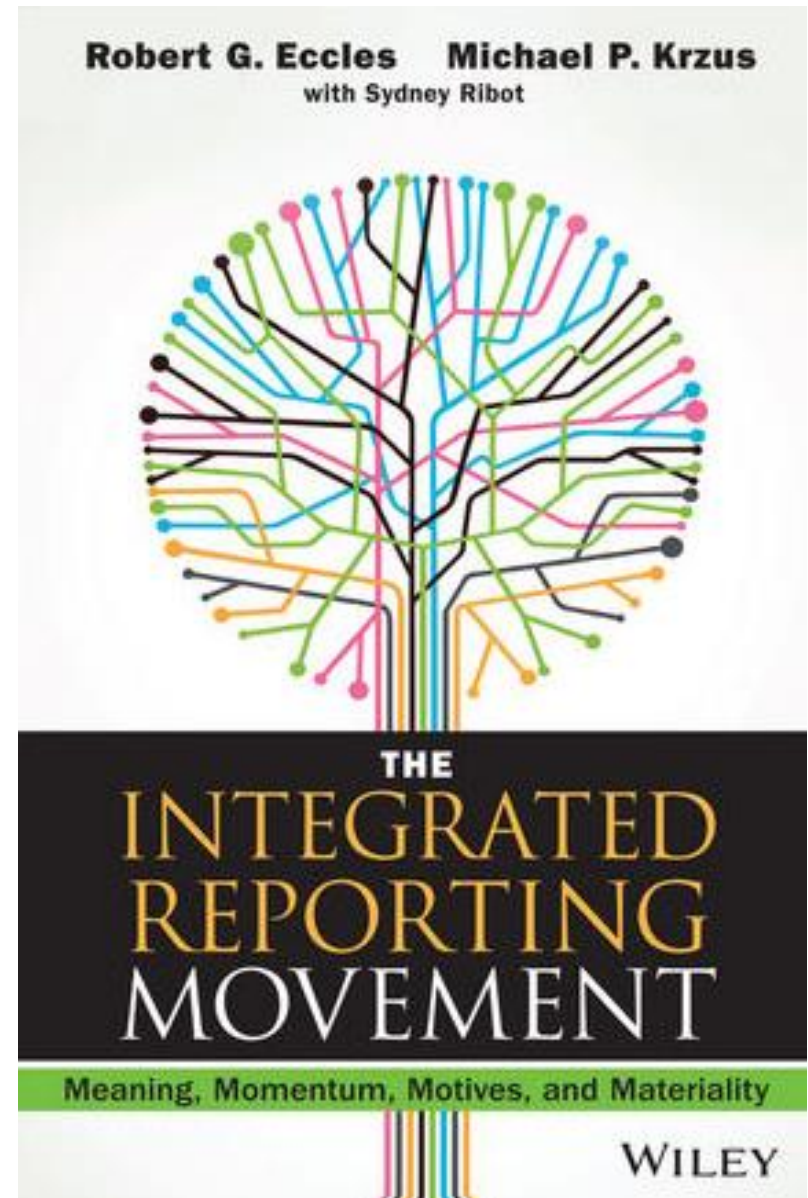
HARVARD | BUSINESS | SCHOOL

Integrated Reporting: Status, Recent Developments, Fiduciary Duty, and the Statement Campaign

Prof. Robert G. Eccles

Professor, Harvard Business School
Chairman, Arabesque Partners

Professional Accounting Centre
Inaugural Conference
May 4, 2016
Toronto



Content

1. [Trends in the Capital Markets](#)
2. [Some Numbers](#)
3. [Growth in GRI Reporting](#)
4. [ESG Regulation in G20](#)
5. [Battling Short-Termism](#)
6. [Integrated Reporting – Definition](#)
7. [Integrated Reporting – Value Creation Framework](#)
8. [Integrated Reporting – IIRC Framework Guiding Principles](#)
9. [Integrated Reporting – IIRC Framework Content Elements](#)
10. [Integrated Reporting – Building the Social Infrastructure](#)
11. [GE's First Integrated Report](#)
12. [Materiality](#)
13. [The Statement of Significant Audiences & Materiality](#)
14. [The Urban Myth of Shareholder Primacy](#)
15. [The Statement of Significant Audiences & Materiality Campaign](#)
16. [Fiduciary Duty in Canada](#)
17. [Atlas Copco Integrated Approach](#)
18. [Atlas Copco : The First Board-Level Statement](#)
19. [Atlas Copco's Materiality Mapping Results](#)
20. [Sustainable Value Matrix](#)
21. [Sales vs. GDP](#)
22. [Pax Americana](#)
23. [A Map of Hubris & Humiliation](#)
24. [Concentration in Assets under Management](#)
25. [How You Can Support the Movement](#)

Trends in the Capital Markets



Some Numbers

1

- 15 countries from the G20 have implemented regulation or guidelines on sustainability reporting, exclusions and ESG considerations in the business process.

2

- 4,730 companies have published a sustainability report in 2014, up from 294 in 2004

3

- 86% of studies show that stock price performance is positively correlated with sustainability.

4

- 80% of studies show that stock price performance is positively correlated with sustainability.

5

- \$21.4 trillion is invested in sustainable products.

6

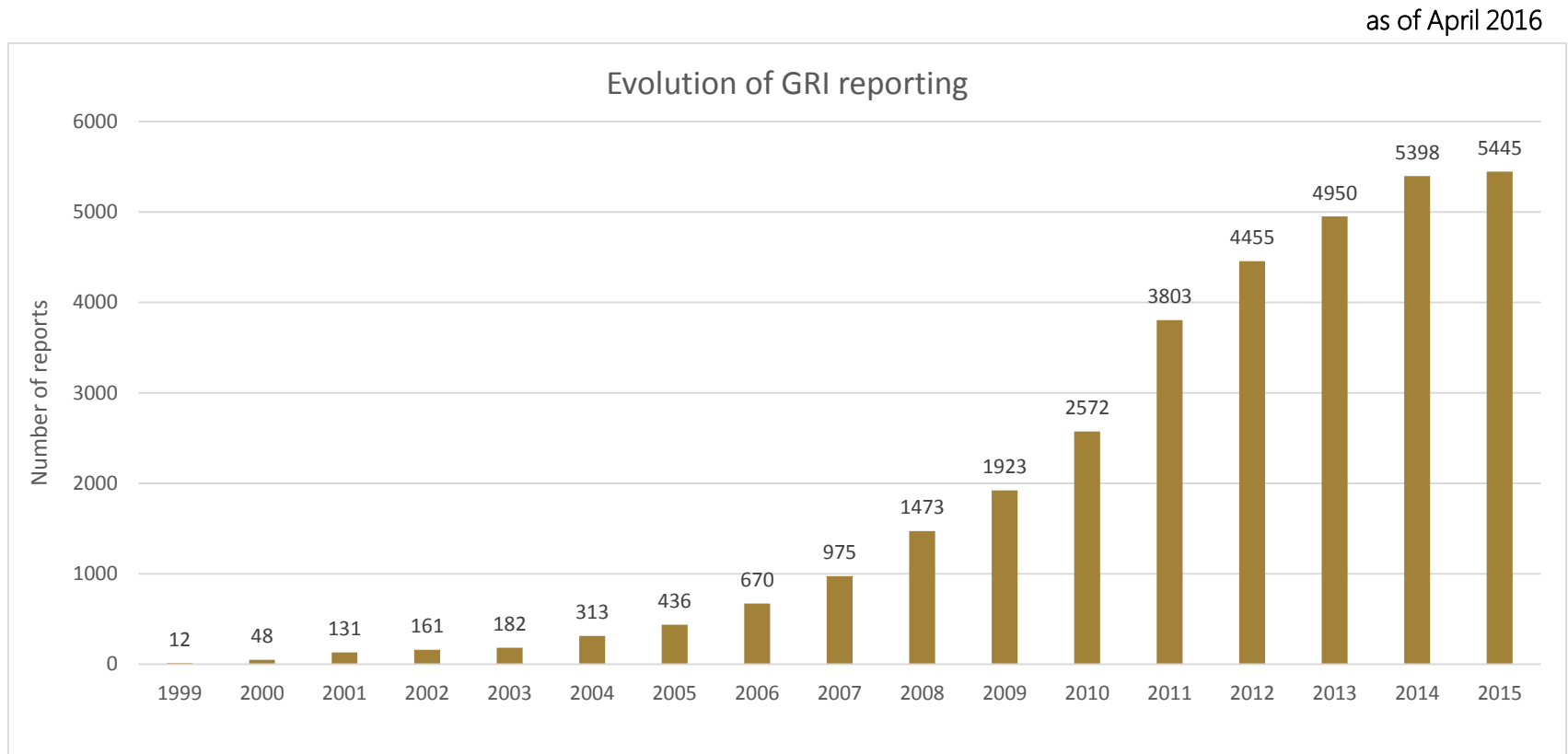
- 73% of the 50 largest pension funds globally have made a public commitment to sustainable investing.

7

- 79% of CEOs see sustainability as a route to competitive advantage.



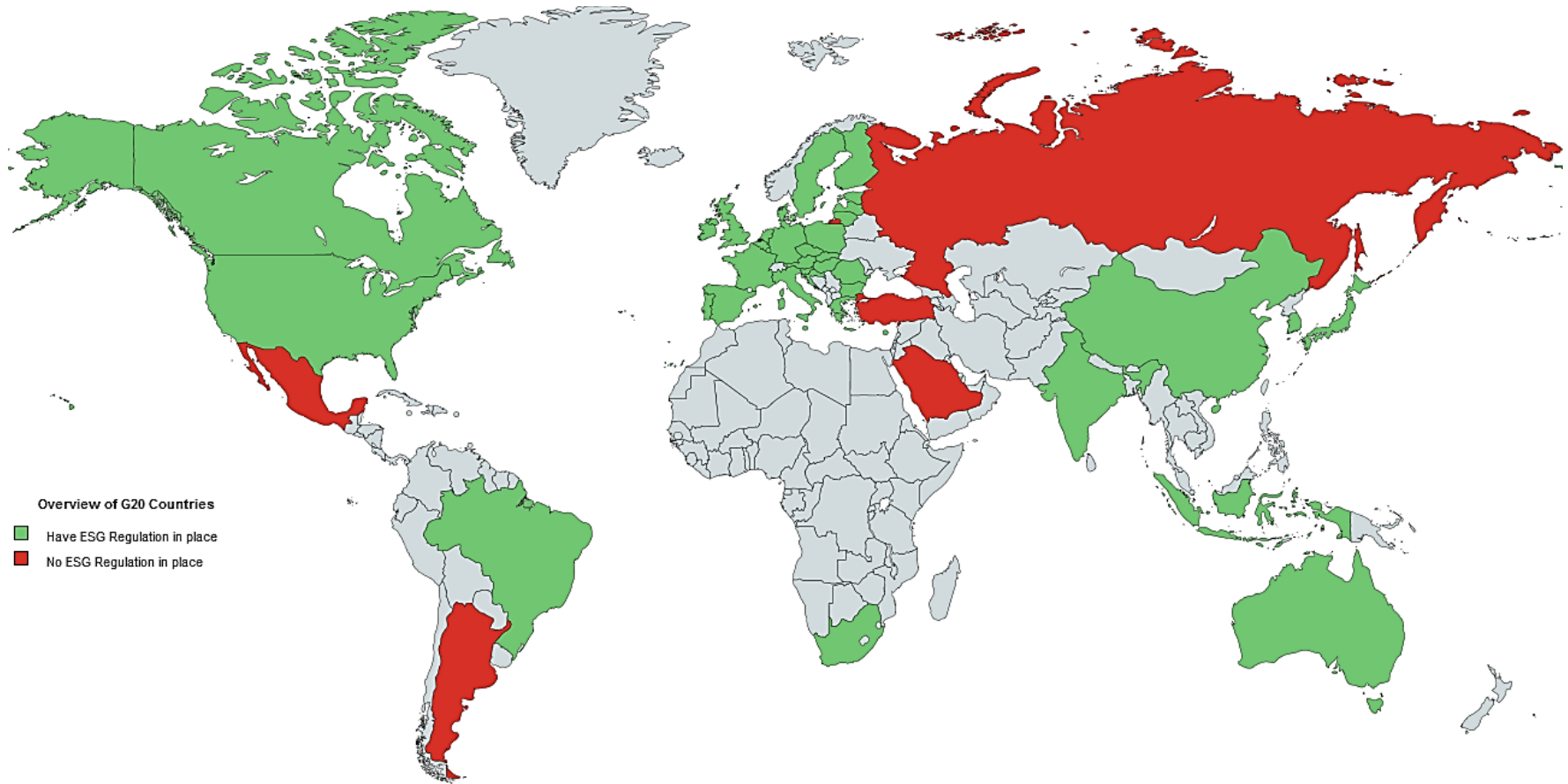
Growth in GRI Reporting



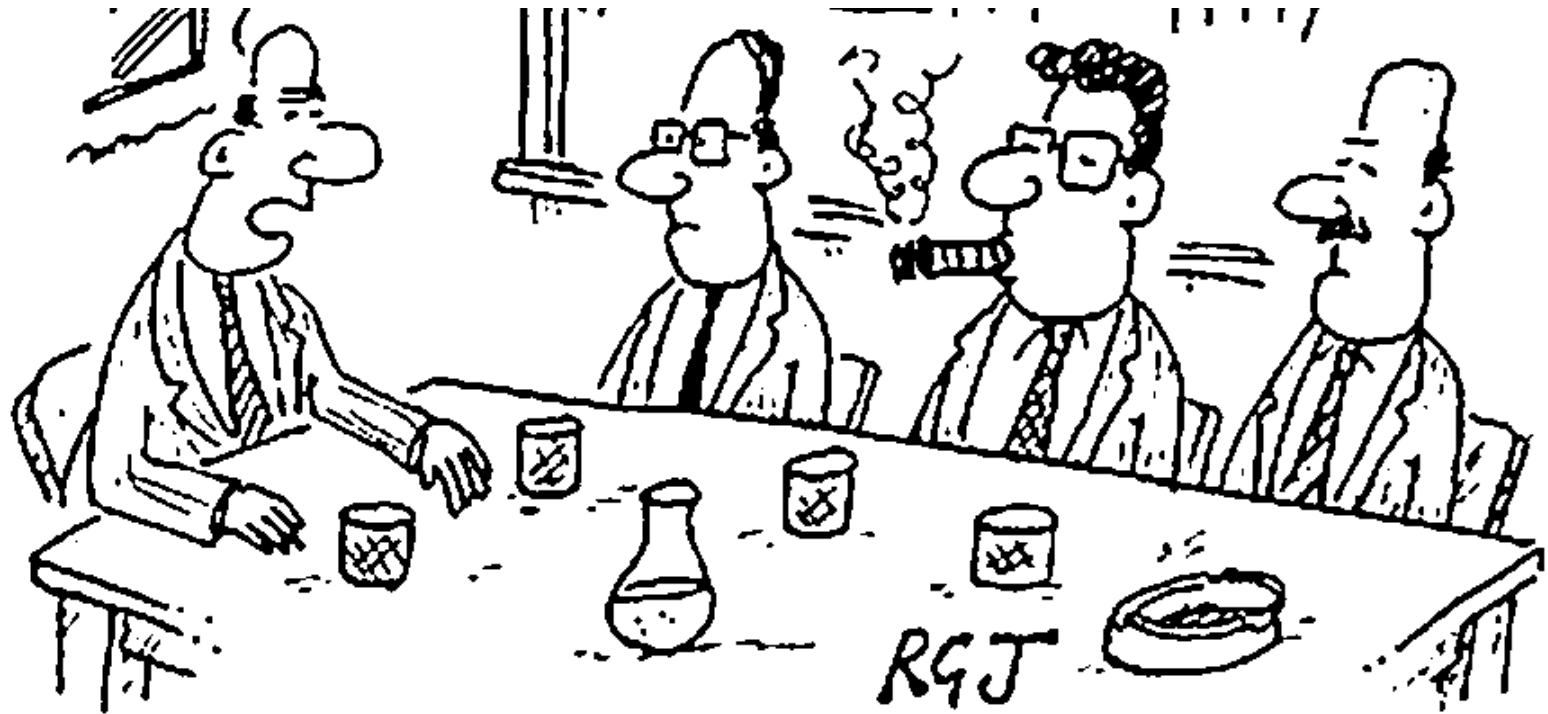
Note: The 2015 numbers are being updated

Source: <http://database.globalreporting.org/search>

ESG Regulation in G20



Battling Short-Termism



"We need an end to short - termism ... at least until next week."

Integrated Reporting – Definition

“An integrated report is a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term”

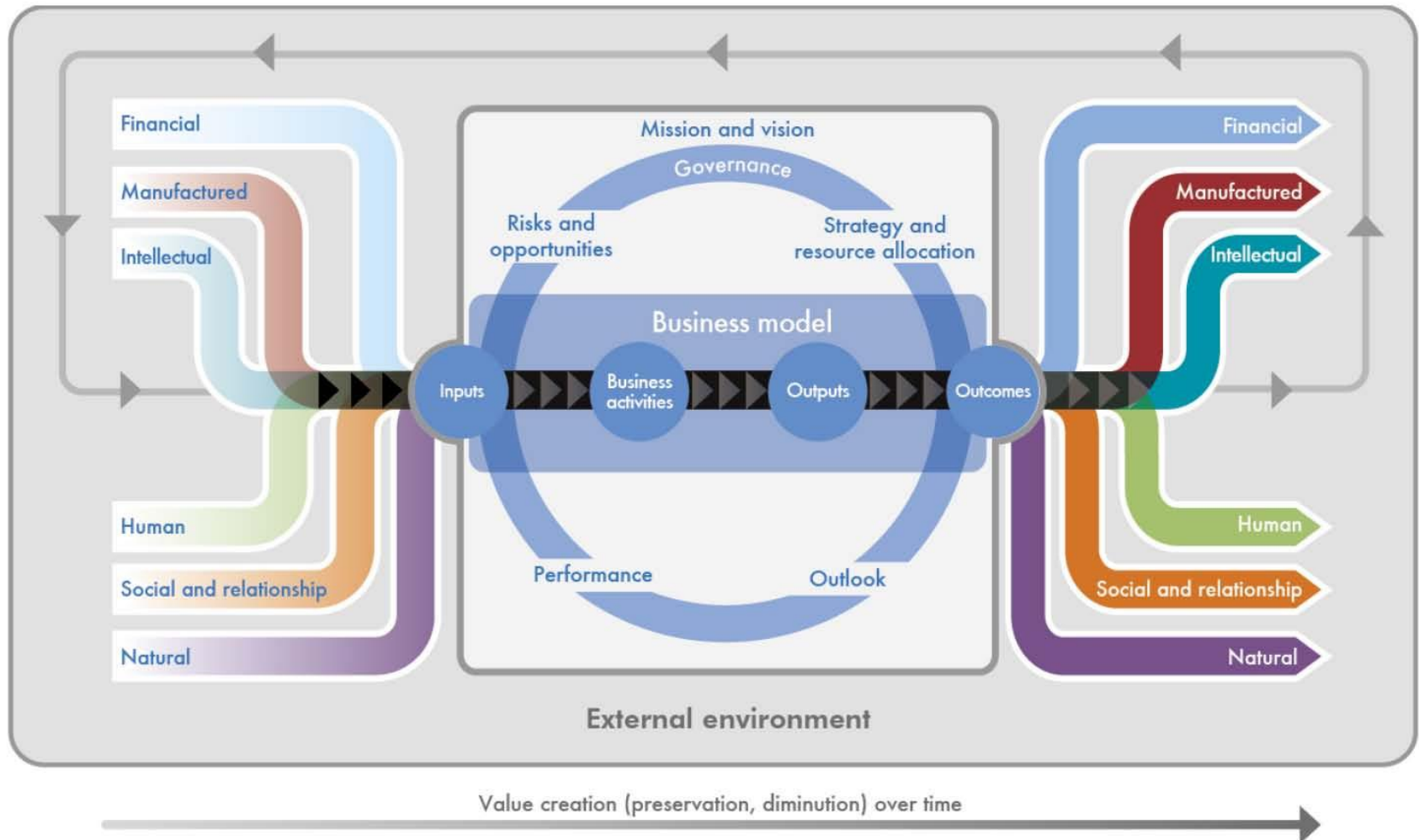
Source:



INTEGRATED REPORTING <IR>

Integrated Reporting – Value Creation Framework

Figure 2: The value creation process:



Integrated Reporting – IIRC Framework Guiding Principles

The following Guiding Principles underpin the preparation and presentation of an integrated report, informing the content of the report and how information is presented:

- Strategic focus and future orientation
- Connectivity of information
- Stakeholder relationships
- Materiality
- Conciseness
- Reliability and completeness
- Consistency and comparability

Integrated Reporting – IIRC Framework Content Elements

An integrated report includes the following eight Content Elements, answering the question posed below for each:

- Organizational overview and external environment
- Governance
- Business model
- Risks and opportunities
- Strategy and resource allocation
- Performance
- Outlook
- Basis of preparation and presentation and in doing so, takes account of:
- General reporting guidance

Integrated Reporting – Social Infrastructure



GE's First Integrated Report



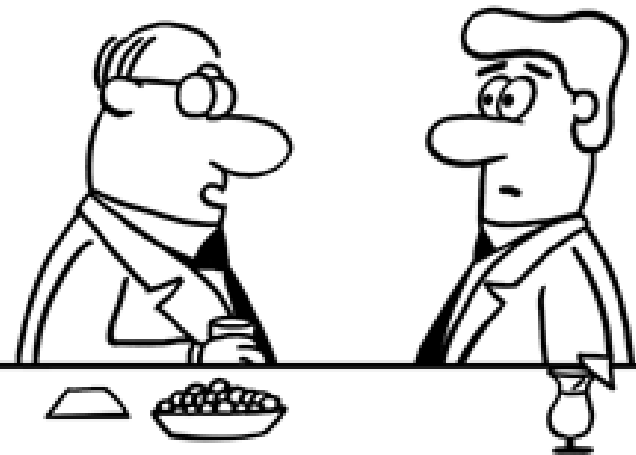
Materiality



- US Supreme Court
- SASB
- GRI
- CDP
- AccountAbility
- IIRC
- IASB
- FASB

The Statement of Significant Audiences & Materiality

meanwhile...



This "fiduciary" thingy really complicates pillaging a corporation.

The Urban Myth of Shareholder Primacy



The Statement of Significant Audiences & Materiality Campaign



ABA Sustainable Development Task Force

Sustainable development has its origins in the conservation and environmental movements in the US and parts of the world, and in the laws that were adopted because of those movements.

Fiduciary Duty in Canada

The directors' duties are owed to the corporation, but directors may take into account the interest of shareholders, employees, creditors, consumers, governments and the environment.

Directors owe the following duties: The duty to manage; the fiduciary duty of loyalty and good faith; and the duty of care, diligence and skill.

Neither incorporation nor listing on the TSX or TSXV require recognition by the corporation or its directors of a duty to society, nor do they impose any legally enforceable obligation to take into account the corporation's social or environmental impacts.

Prepared by Stephen A Pike and Kathleen M. Ritchie of gowlings

Atlas Copco Integrated Approach

**THIS IS OUR STRATEGY
FOR SUSTAINABLE
PROFITABLE GROWTH**

PRESENCE

INNOVATION

ETHICS

SAFETY

INNOVATION

COMPETENCE

RESOURCES

Increase market presence and penetration and expand the product and service offering in selected market segments

Invest in research and development and continuously launch new products and services that increase customers' productivity

VALUES AND BUSINESS CODE OF PRACTICE

INTERACTION

We interact with and develop close relationships with customers, internally and externally, as well as with other stakeholders. While we interact in many different ways, we believe that personal contacts are always the most efficient.

INNOVATION

Our innovative spirit is reflected in everything we do. Customers expect the best from our Group and our objective is to consistently deliver high-quality products and services that increase our customers' productivity and competitiveness.

Our core values reflect how we behave internally and in our relationships with external stakeholders.

Atlas Copco: First Board-Level Statement

STATEMENT OF MATERIALITY AND SIGNIFICANT AUDIENCES

Atlas Copco is registered in Sweden and is legally governed by the Swedish Companies Act (2005:551). This act requires that the Board of Directors governs the company to be profitable and create value for its shareholders. However, Atlas Copco recognizes going beyond this, extending it to integrating sustainability into its business creates long-term value for all stakeholders, which is ultimately in the best interest of the company, the shareholders and society. The significant stakeholder audience, as outlined in the Atlas Copco Business Code of Practice, includes representatives of society, employees, customers, business partners and shareholders.

The Business Code of Practice is the central guiding policy for Atlas Copco, and is owned by the Board of Directors. Its commitment goes beyond the requirements of legal compliance, to support voluntary international ethical guidelines. These include the United Nations International Bill of Human Rights, International Labour Organization Declaration on Fundamental Principles and Rights at Work, the ten principles of the United Nations Global Compact, and OECD's Guidelines for Multinational Enterprises.

Atlas Copco has employed a stakeholder-driven approach in order to identify the most material environmental, human rights, labor and ethical aspects for its business. These priorities guide how the Group develops and drives its business strategy, as well as its roadmap to support the UN Sustainable Development Goals.

The strategic pillars and priorities presented on pages 6–7 all aim at continuously delivering sustainable, profitable growth for the Group. This means an increased economic value creation and, simultaneously, a positive impact on society and the environment, thus creating shared value.

Atlas Copco monitors and voluntarily discloses the progress on these material financial and non-financial aspects, through an externally assured, integrated annual report. In addition to the Annual General Meeting, Atlas Copco also creates engagement opportunities so that non-shareholders can address the Group. For example at the annual stakeholder dialogue.



STATEMENT OF MATERIALITY AND SIGNIFICANT AUDIENCES

Atlas Copco is registered in Sweden and is legally governed by the Swedish Companies Act (2005:551). This act requires that the Board of Directors governs the company to be profitable and create value for its shareholders. However, Atlas Copco recognizes going beyond this, extending it to integrating sustainability into its business creates long-term value for all stakeholders, which is ultimately in the best interest of the company, the shareholders and society. The significant stakeholder audience, as outlined in the Atlas Copco Business Code of Practice, includes representatives of society, employees, customers, business partners and shareholders.

The Business Code of Practice is the central guiding policy for Atlas Copco, and is owned by the Board of Directors. Its commitment goes beyond the requirements of legal compliance, to support voluntary international ethical guidelines. These include the United Nations International Bill of Human Rights, International Labour Organization Declaration on Fundamental Principles and Rights at Work, the ten principles of the United Nations Global Compact, and OECD's Guidelines for Multinational Enterprises.

Atlas Copco has employed a stakeholder-driven approach in order to identify the most material environmental, human rights, labor and ethical aspects for its business. These priorities guide how the Group develops and drives its business strategy, as well as its roadmap to support the UN Sustainable Development Goals.

The strategic pillars and priorities presented on pages 6–7 all aim at continuously delivering sustainable, profitable growth for the Group. This means an increased economic value creation and, simultaneously, a positive impact on society and the environment, thus creating shared value.

Atlas Copco monitors and voluntarily discloses the progress on these material financial and non-financial aspects, through an externally assured, integrated annual report. In addition to the Annual General Meeting, Atlas Copco also creates engagement opportunities so that non-shareholders can address the Group. For example at the annual stakeholder dialogue.

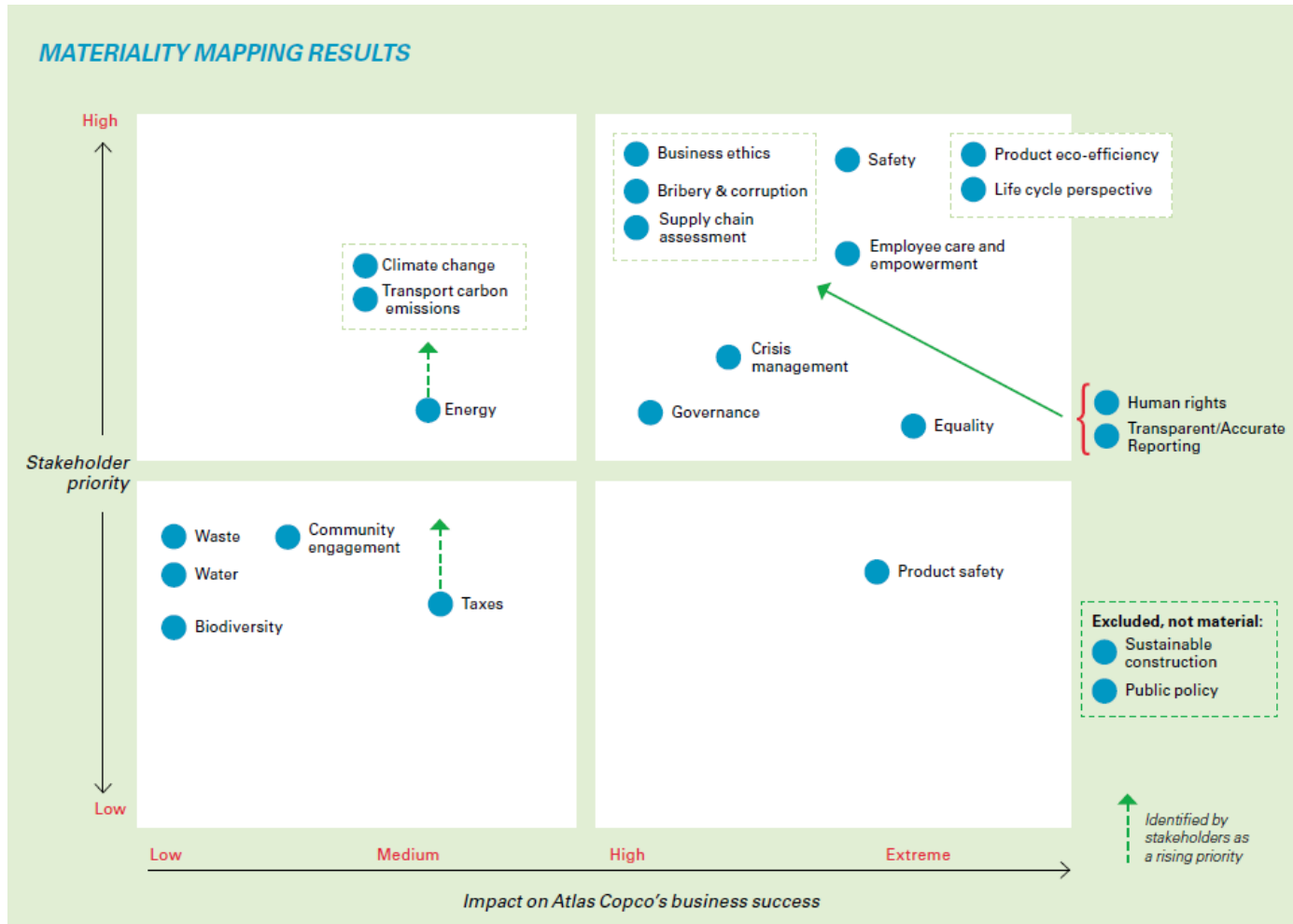


The Business Code of Practice is the central guiding policy for Atlas Copco and also includes:

The ten principles of the United Nations Global Compact
 International Labour Organization Declaration on Fundamental Principles and Rights at Work
 United Nations International Bill of Human Rights
 OECD's Guidelines for Multinational Enterprises

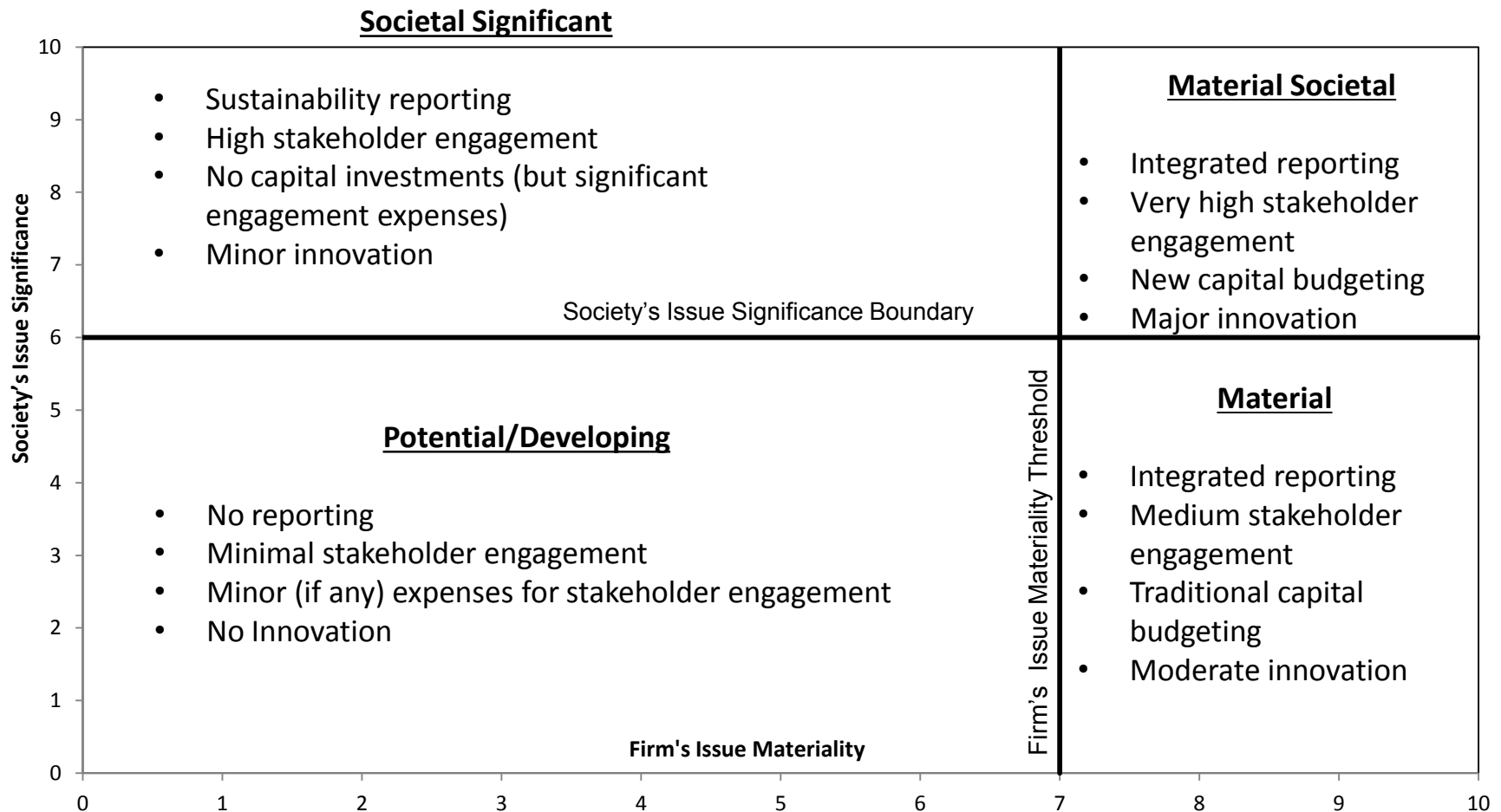


Atlas Copco Materiality Map



Focused and integrated approach & Atlas Copco reduced their reporting by 30%

Sustainable Value Matrix



Sales vs. GDP

	Sales (\$M)	# of Countries with GDP less than Sales	Sales as pct of total GDP
Top 1	485,651.00	164	0.7%
Top 2	918,740.62	172	1.3%
Top 3	1,272,447.63	176	1.7%
Top 5	1,764,869.37	178	2.4%
Top 10	2,868,395.42	183	3.9%
Top 25	5,157,621.56	185	7.0%
Top 50	7,906,621.94	185	10.8%
Top 100	11,820,901.18	186	16.2%
Top 250	18,067,628.48	187	24.7%
Top 500	22,789,462.82	187	31.1%
Top 1000	25,804,054.16	187	35.3%

Source: BofAML's Transforming World Atlas

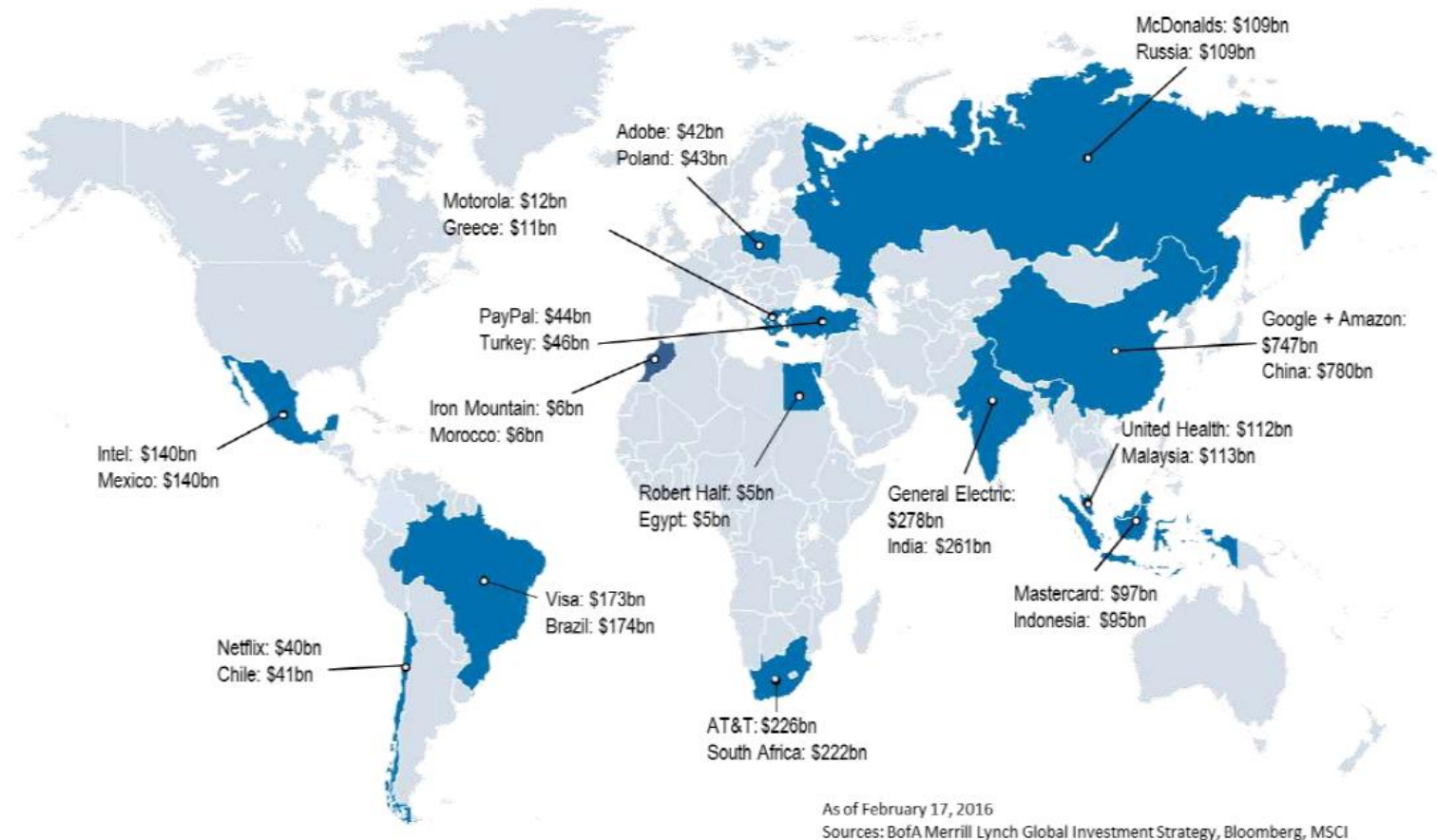
Pax Americana



- This map illustrates the dominance of the US stock market.
- The capitalization of the US market is \$17.9tn (MSCI) as of January 29, 2016, and it currently represents 53.4% of world market capitalization, the highest since November 2003.
- The next largest equity markets are Japan, UK, France, Switzerland, Germany and China.

Source: BofAML's Transforming World Atlas

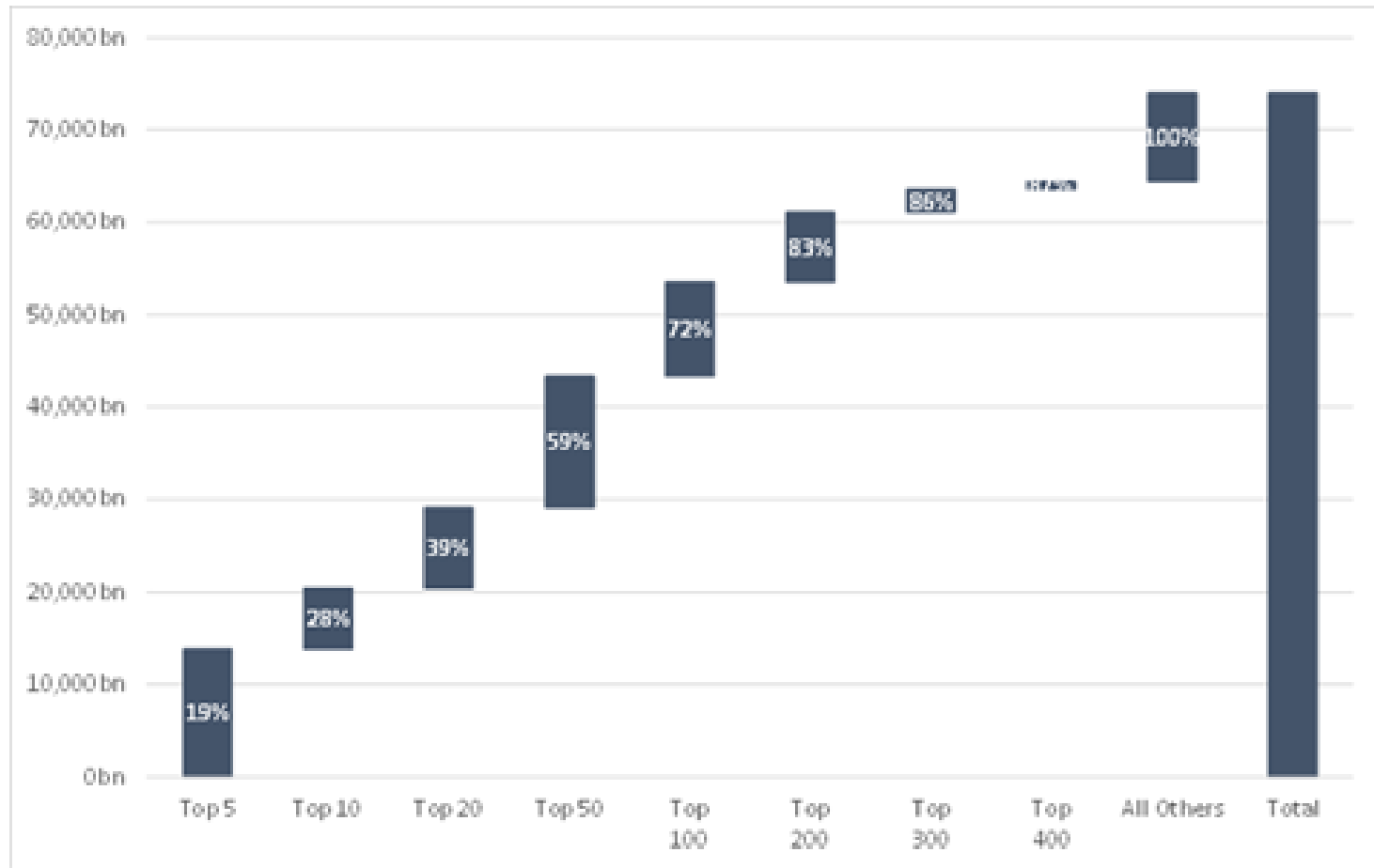
A Map of Hubris & Humiliation



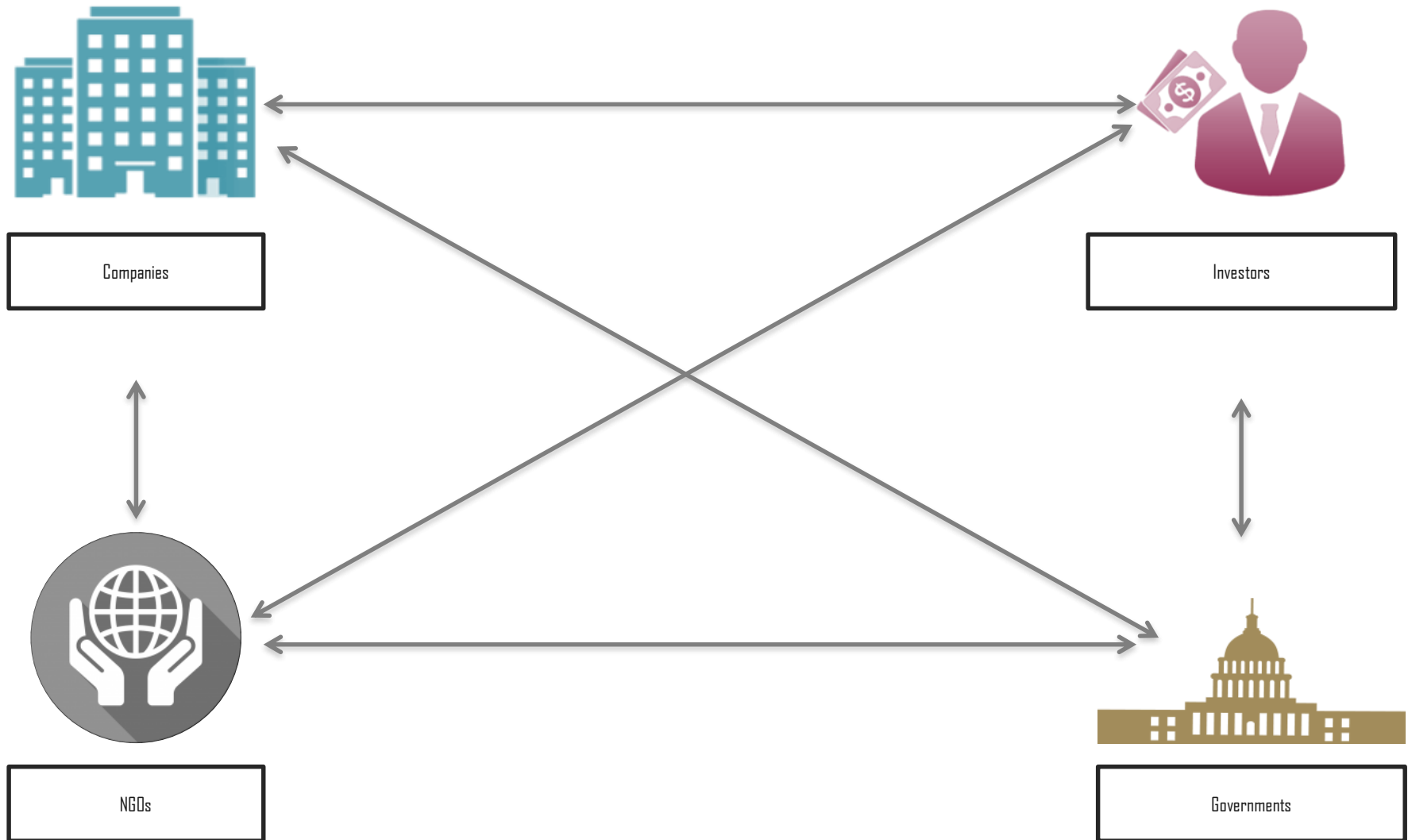
- This map illustrates the “humiliation” of Emerging Market stocks in comparison to “hubristic” valuations of US companies, particularly tech companies.
- The map shows the free-float market cap of many emerging markets (eg. China) barely exceeds the current market cap of individual US companies (eg. Amazon and Google).

Source: BofAML's Transforming World Atlas

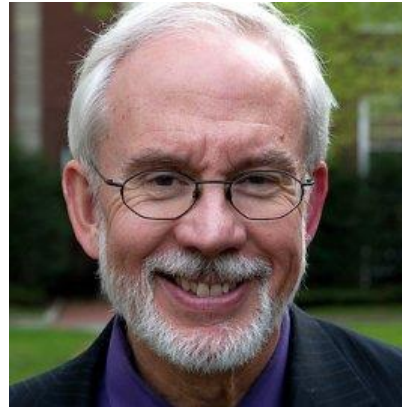
Concentration in Assets Under Management



The International Movement



Thank You!



Prof. Robert G. Eccles

Professor, Harvard Business School
Chairman, Arabesque Partners

Website: <http://www.roberteccles.com>

Email: robert.eccles@arabesque.com