

EFFAS CESG Conference
22nd November 2019, Paris

Towards ESGI?

An Intangibles Perspective on Corporate Information

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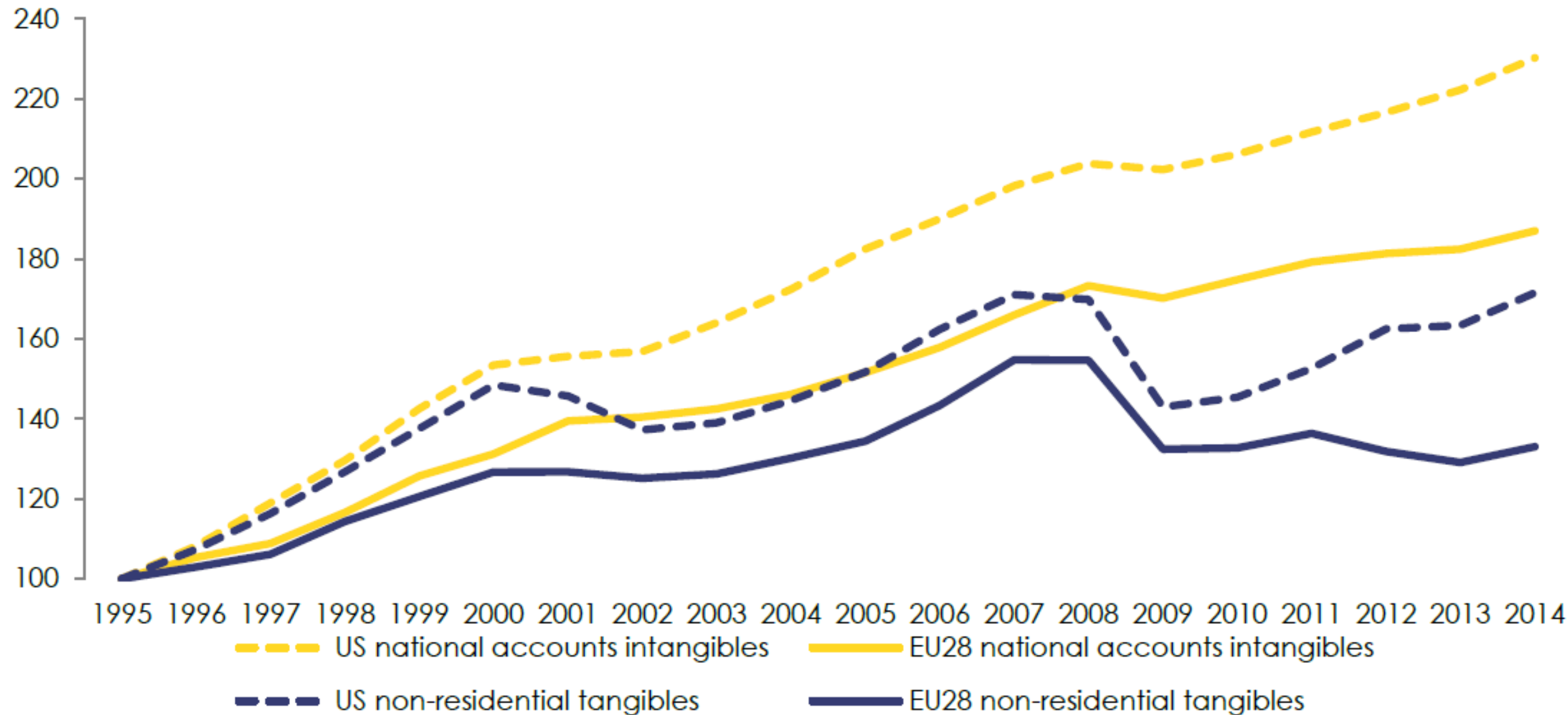


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EFFAS CESG
Commission on Environmental
Social & Governance

In cooperation with



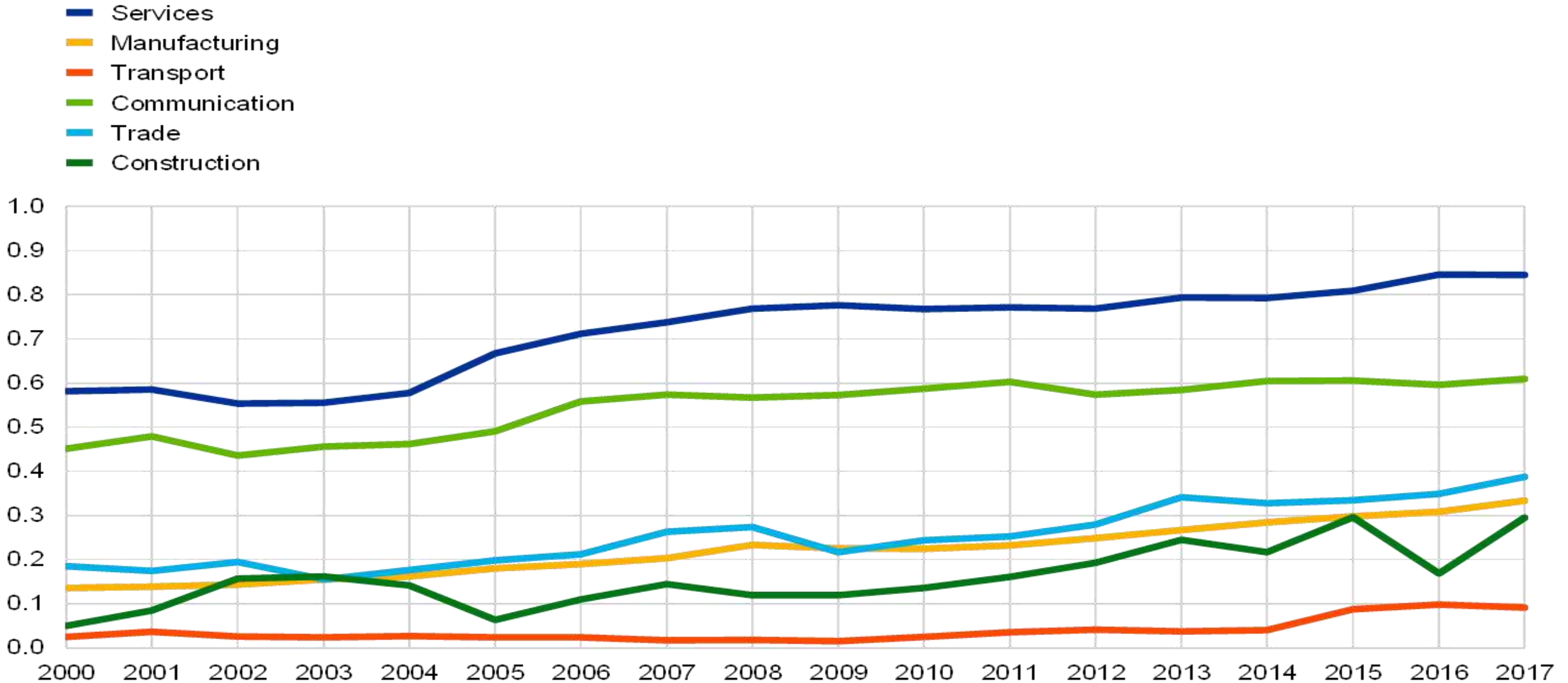
**Graph 1: Non-residential intangible and tangible investments in the EU-28 and the U.S., total economy;
Chain linked volumes, index 1995 = 100**



Source: Thum-Thysen et al., European Commission, 2017, p. 12.

EUROPEAN CENTRAL BANK, 2018

Intensity of investments in intangibles per sector in the euro area (median values)



Source: Worldscope (listed euro area firms).

Note: This chart shows the ratio of intangible fixed assets to tangible and intangible fixed assets at book value.

Importance of intangibles

Instagram at time of \$1B purchase

No revenue

Virtually no assets

12 employees



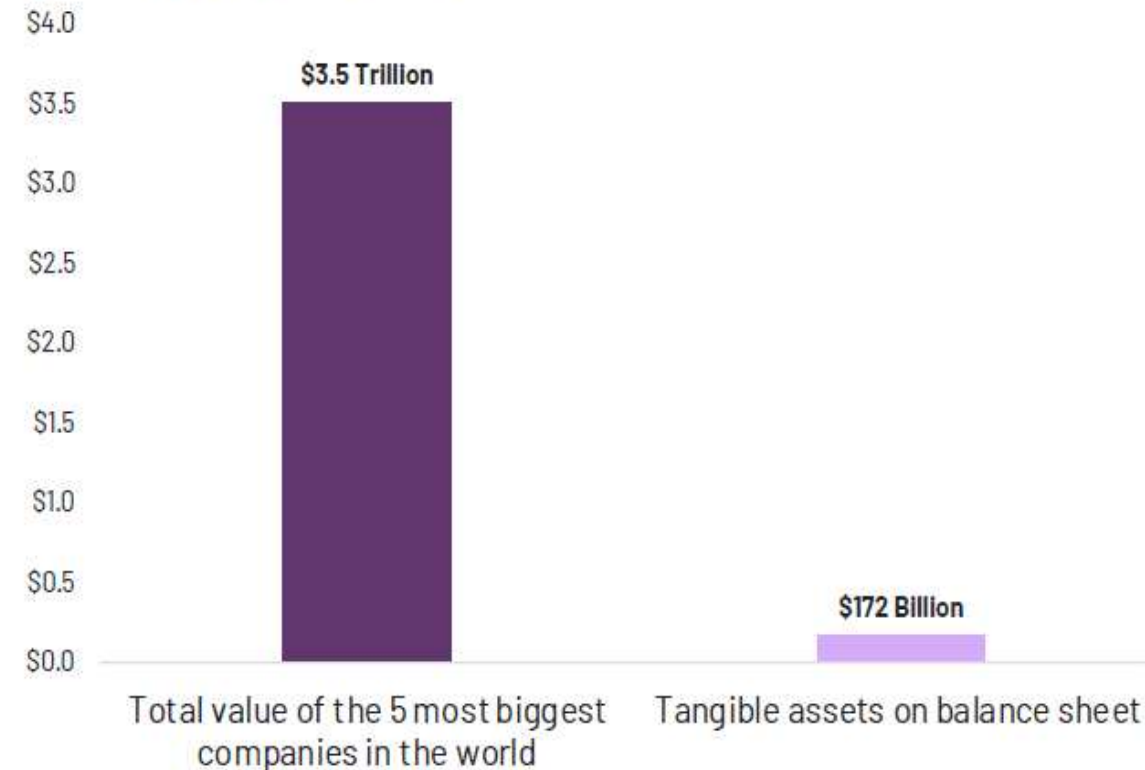
Estimates of Instagram's worth today

\$100B

COMPONENTS of S&P 500 MARKET VALUE



Tangible vs. intangible assets



The Information Gap on Intangibles

- IAS 38 is very restrictive → only development expenditures under certain circumstances can be recognised in the balance sheet. All other intangibles-related numbers are treated as cost rather than an investment → only exception for M&A intangibles
- Wide range of unaccounted and unaccountable intangibles remain outside financial reporting → internally generated brands, R&D and patents, but also human capital competences and skills, customer satisfaction, reputation, customer list, organisational capital, and business model
- Lack of transparency on the most important and durable value creation drivers → need to find information on these resources outside traditional accounts → deteriorating value relevance of financial reporting

BALANCE SHEET ON JANUARY 31, 1399

FRANCESCO DI MARCO DATINI & Co. IN BARCELONA

ASSETS

Explanation	Barcelonese Currency			Per Cent. of Total			
	£	s.	d.	£	s.	d.	
CASH AT BANK AND IN HAND							
Cash in hand	18	17	2			.1	
Deposit accounts	1,242	9	8			8.2	
Special account	440	0	0			2.9	
				1,701	6	10	11.2
RECEIVABLES							
Local tradesmen for goods sold	4,841	14	10			31.9	
Local customers for exchange	2,192	19	4			14.5	
Local customers for insurance	99	17	11			.7	
				7,134	12	1	47.1
BALANCES WITH FOREIGN CORRESPONDENTS							
Venice	1,305	5	9			8.5	
Genoa	9	7	7			.1	
Avignon		6	0			.0	
Montpellier	854	15	1			5.6	
Paris	19	5	2			.1	
Pisa	980	12	7			6.4	
Bruges	1,036	2	7			6.5	
Florence	520	10	10			3.8	
Perpignan	118	18	5			.8	
				4,845	4	0	31.8
DATINI BRANCHES IN OTHER PLACES							
Majorca	88	9	0			.6	
Venice	224	16	10			1.4	
Florence	211	16	0			1.4	
				525	1	10	3.4
INVENTORIES							
Goods in stock				288	0	9	1.9
FIXTURES							
Office furniture	95	0	0			.6	
Martha, our slave (<i>Marta, nostra schiava</i>)	30	0	0			.2	
				125	0	0	.8
MISCELLANEOUS							
Sundry deferred charges and supplies	112	1	10			.7	
Drawing account Simone d'Andrea	25	0	2			.2	
Shortage in cash	38	13	0			.3	
Sundry adjustments for errors	17	18	6			.1	
				193	13	6	1.3
BAD DEBTS				384	7	3	2.5
UNTRACED ERROR IN CASTING THE BALANCE							
				11	9	1	.0
Total				15,208	15	4	100.0

Wiley Finance Series

The End of Accounting

*and the Path Forward for
Investors and Managers*

BARUCH LEV
FENG GU

WILEY

In July 2016, Professors Baruch Lev (NYU) and Feng Gu (Buffalo) publish an important and controversial book, where the problems with today's accounting are analysed and a new way forward is proposed

Consequences of the Intangibles Information Gap

Mismeasurement of intangibles has adverse economic consequences in terms of:

- Level of **information asymmetry** on a firm (volatility of share prices & insider trading)
- **Accountability of management** for actions/decisions in managing the firm's resources
- Lack of data for analysis and rational **external resource allocation and investment**

Hence, this situation has negative effects on

- value measures (e.g., market-to-book ratio) that are biased,
- performance measures (ROE, ROA, EVA) that are deceiving, and
- the prediction of future earnings and cash flows, that is largely flawed.

Also, and even more seriously, internal corporate resource allocation are seriously distorted.

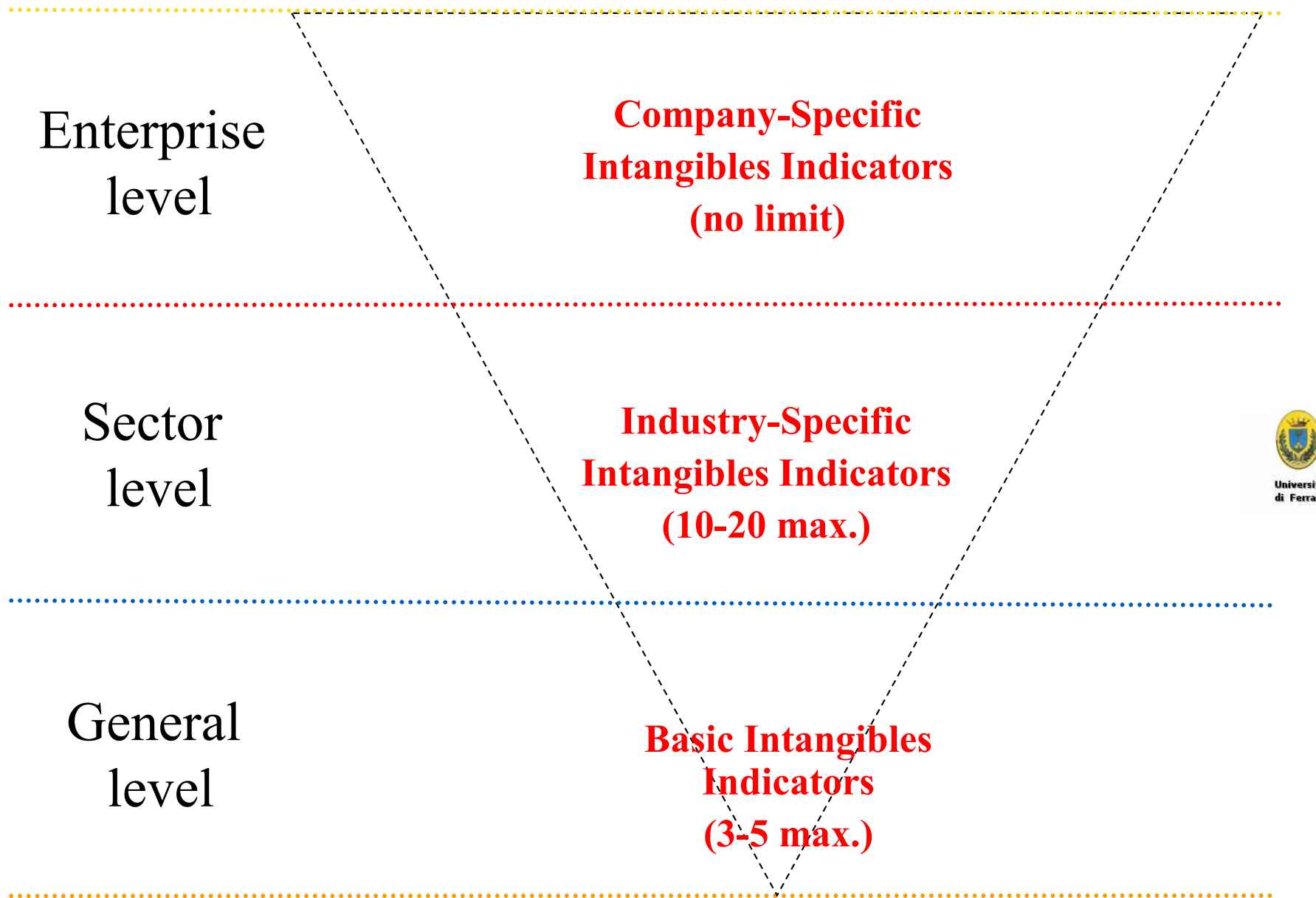
Information on Intangibles: A New Deal?

Several ongoing initiatives:

- IASB Project on the revision of Management Commentary Practice Statement → a principles-based approach to information on Intangibles
- FASB Project on «Identifiable Intangible Assets & Subsequent Accounting for Goodwill»
- SEC proposed regulatory change regarding wider disclosure on Human Capital
- EFRAG Project on Better Information on Intangibles → academic literature review on intangibles and imminent creation of focus groups of preparers and users of this type of information
- WBCSD Project on «Redefining Value» → largely based on Intangibles
- Autorité des Normes Comptables (ANC-French accounting standard setter) → Study on Extra-Financial Information for the French Minister of the Economy
- New ICAS research interest in Intangibles → what are the information needs of users on intangibles? What are the difficulties of CFOs in prucing this information?

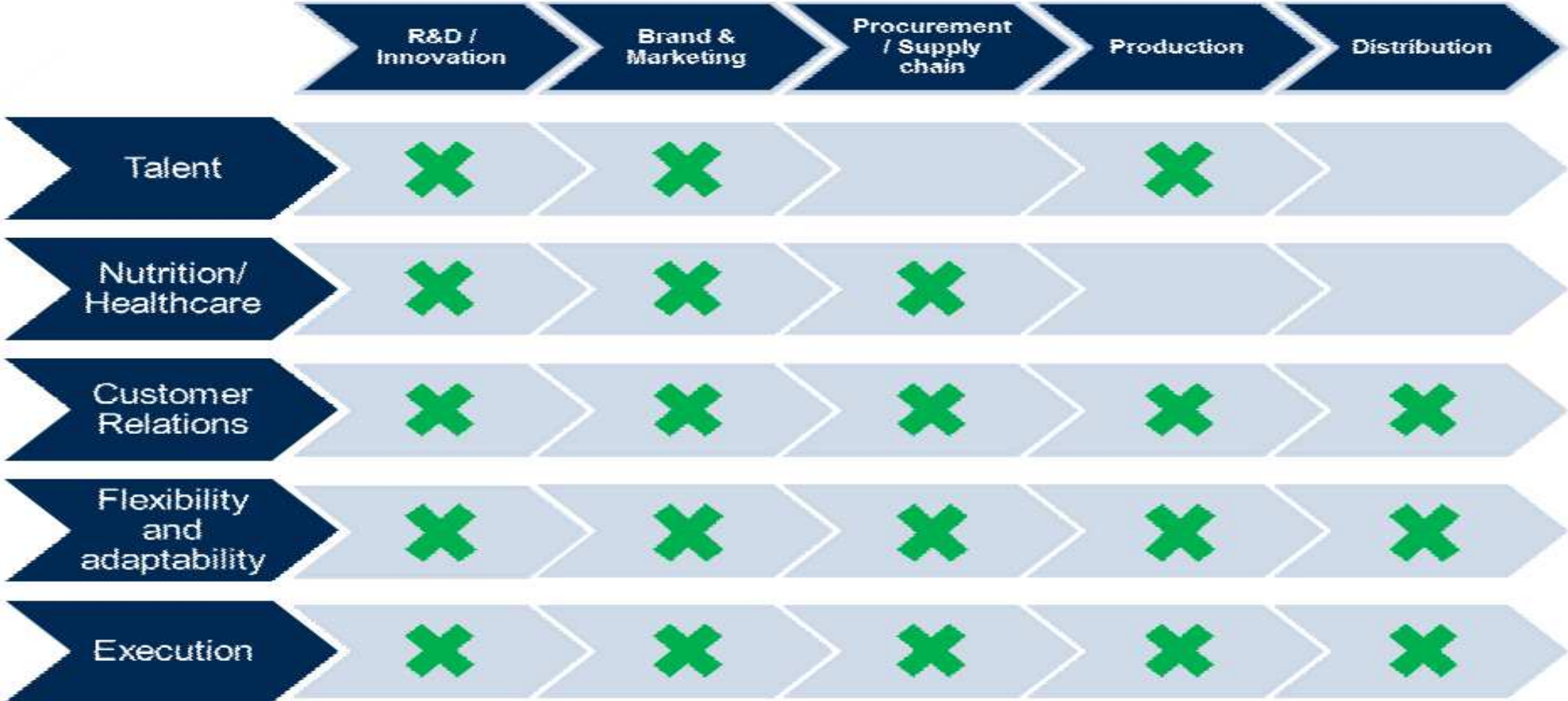
WICI Network's Recent Activity

- **WICI-KPIs** per industries centred on company value creation → latest example is the KPIs for the **Food and Beverage industry** (free download at: www.wici-global.com/kpis/) → WBCSD Project called «Reporting Exchange» collecting all the KPIs for sustainability → ca. 25% of KPIs collected come from WICI-KPIs
- **Joint Position Paper WICI-IIRC on «Intangibles and SDGs»** presented at the last B20 meeting in Tokyo → Intangibles are crucial for the achievement of several SDGs such as «Good Health and Well-Being», «Quality Education», «Gender Equality», «Decent Work and Economic Growth», «Industry, Innovation and Infrastructure» (free download at: www.wici-global.com) → Integrated Reporting, including intangibles
- **WICI CFO Guidance on Intangibles** → going to be released in the next few weeks
- Possible convergence between **WICI, WBCSD and the «Capitals Coalition»** → comparison of respective Frameworks
- **3rd WICI Europe Conference on «Intangibles: The European State of the Art» held in Brussels on 7 November 2019** → 55 amid Institutions and stakeholders, including the European Commission, IASB, ESMA, EFRAG, ANC, GASB, EFFAS CESC, Universities, EY, professionals, corporates, asset management funds (free download of the presentations at: <https://www.fondazioneoibr.it/members-login/>)
- Many activities in WICI national jurisdictions (France, Italy, Japan).....→ for example....



WICI Intangibles Reporting Framework: combining comparability & specificity

FOOD & BEVERAGES VALUE CHAIN- MAIN FOCUS



HUMAN CAPITAL (13 KPI'S – 7 “MUST HAVE” + 6 “NICE TO HAVE”)

	KPI's	FOCUS	KPI's Formula	Risk/ Opportunity	Suggested relevance	Bloomberg coverage (%)
1	Employee commitment index	Execution	Existence of a global and regular employees survey? Yes/No Employee survey results (Key drivers, % of participation and dynamics)	Risk	Frequently used	0%
2	Absenteism	Execution	Average absence hours per employee./year	Risk	Frequently used	0%
3	Staff turnover rate among employees, new employees & high potential employees	Execution	Number of employees who left the company during the year on the total workforce at the beginning of the year	Risk	Frequently used	42%
4	Glass Ceiling reduction	Execution	Share of women in top mgmt vs general	Opportunity	Frequently used	50%
5	Glass Ceiling reduction	Execution	Remuneration ratio between CEO and median pay in the firm (only european employees data for european corporates)	Risk	Frequently used	100%
6	Employability	Execution	% of trained employees	Opportunity	Frequently used	58%
7	Working accident (frequency and severity)	Execution	Lost time accident/ 1 million worked hours and lost days /1000 worked hours), including contractors.	Risk	Frequently used	67%
8	Attractivity	Talent	Position in students and managers annual employer ranking survey	Opportunity	Nice to have	0%
9	Mngt/Employee share ownership	Execution	Percentage of stocks of company owned by employees/ management; % of employees having shares	Opportunity	Nice to have	100%
10	Employability	Execution	Average age	Risk	Nice to have	33%
11	Attractivity	Talent	Nb of adequate CV received	Opportunity	Nice to have	0%
12	Annual career review rate	Talent	% of employees having received an annual review	Opportunity	Nice to have	0%
13	Internal mobility	Talent	Share of positions filled internally (Executives, intermediary management, global)	Opportunity	Nice to have	0%

Linee Guida sul Reporting delle Società Benefit



Integrated Reporting for SMEs: Implementation Guidance

in collaboration with the World Intellectual/Assets Initiative – WICI Global Network

Preface by Richard Howitt, CEO, International Integrated Reporting Council (IIRC)

Presentation by Stefano Zambon, Chair, WICI, and Secretary General, NIBR



NIBR
Network Italiano
Business Reporting

INTEGRATED REPORTING <IR>: FOCUS ON INTEGRATED THINKING A HANDBOOK FOR THE CHANGE JOURNEY STRATEGY, GOVERNANCE, CULTURE, ORGANIZATION

Foreword by the IIRC, International Integrated Reporting Council

Business Model Representation in Integrated Reporting: Best Practices and Guidelines

Foreword by Richard Howitt, CEO, International Integrated Reporting Council (IIRC)



NIBR
Network Italiano
Business Reporting

WICI: Intangibles reporting different from Sustainability Reporting

Corporate Reporting

Financial
Reporting

Intangibles
Reporting

Sustainability
Reporting

Financial
Capital

Manufactured
Capital

Human
Capital

Intellectual
Capital*

Social and
Relationship
Capital

Natural
Capital

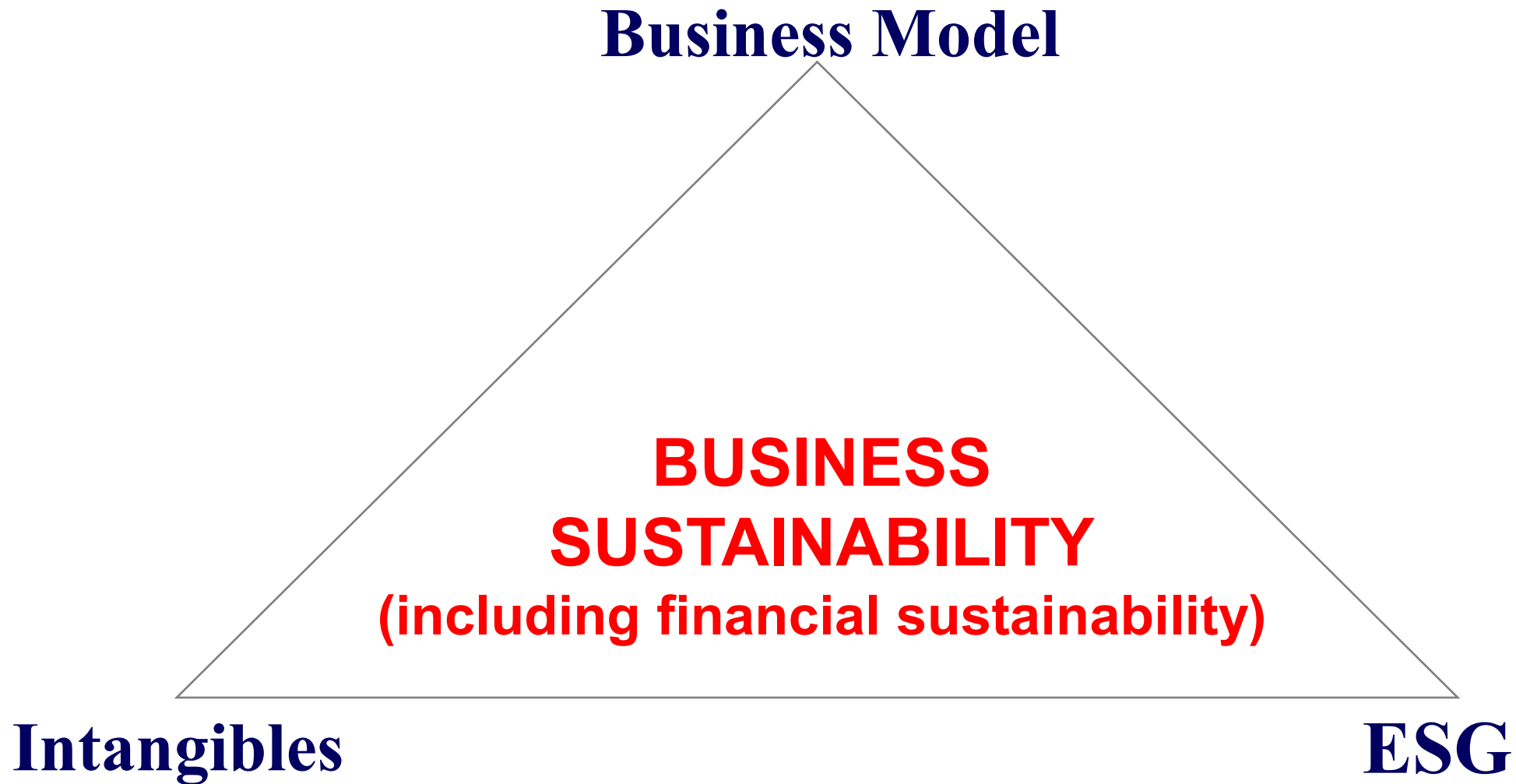
Six capitals as defined by IIRC

Source: WICI Framework, 2016

* Organisational Capital according to WICI Framework¹⁵

Towards the Concept of «Business Sustainability»

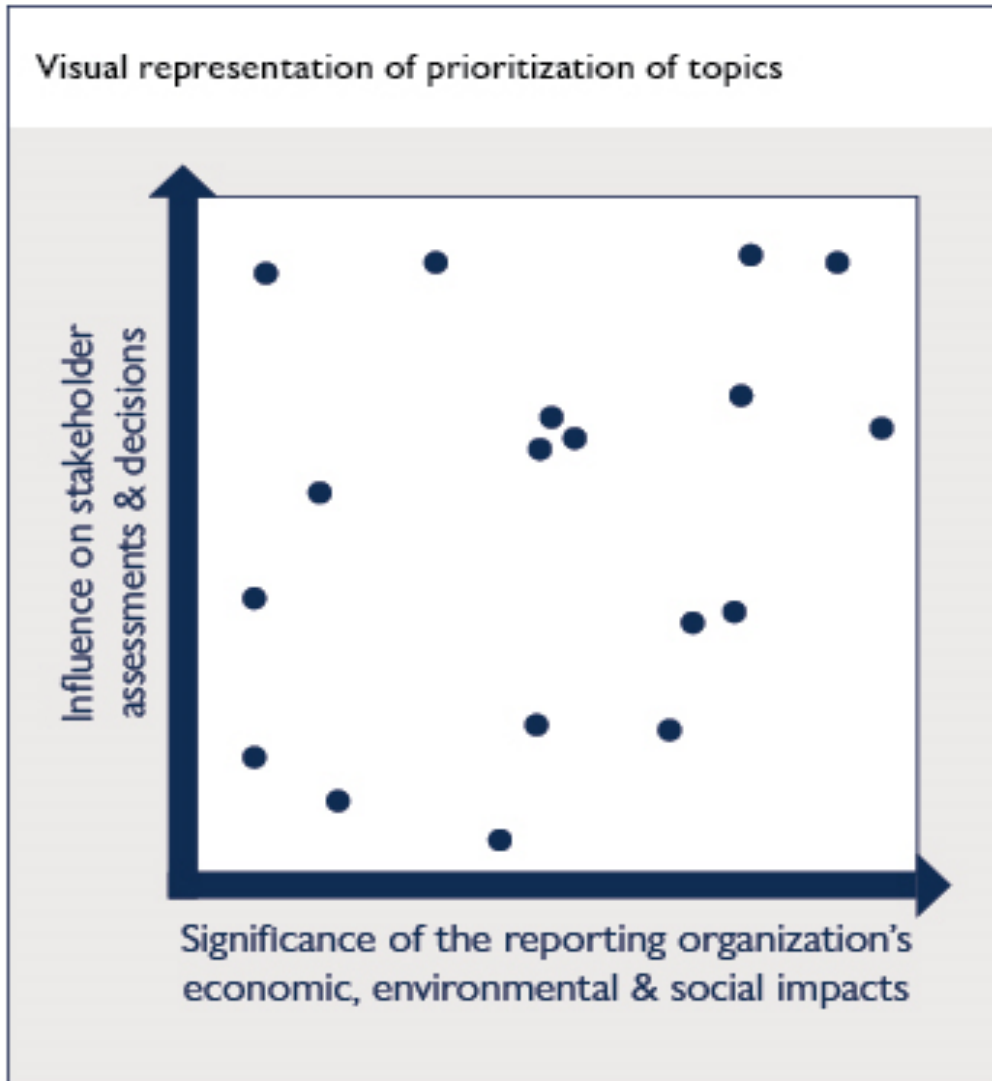
(WICI Intangibles Reporting Framework, 2016)



The Materiality Principle (IIRC vs. GRI)

Materiality according to GRI

Materiality according to IIRC



Activity	Evaluation of the impact	STAFER	
A - Customer satisfaction	6	85%	1
B - Optimization of the logistics/operating flexibility	6	70%	2
C - Training and satisfaction of the collaborators/organizational climate/corporate reputation	6	80%	2
D - Width and adequacy of the product range vis-à-vis market needs	6	90%	1
E - Quality and diversification of the products	5	65%	1
F - Increase in company value (tangible, intangible)	5	55%	3
G - Suitability and quality of the post-sale technical assistance	5	75%	1
H - Value creation for the territory	4	80%	3
I - Reduction and recycle of waste material (packaging)	4	55%	3
J - External growth (strategic alliances with technological partners)	4	65%	3
K - Downstream integration with clients	2	20%	3

MAGNITUDE of the IMPACT

Evaluation of the impact:
Scale from 1 to 6 (highest)

Level of imminence:
● 1 = low imminence
● 2 = medium imminence
● 3 = high imminence

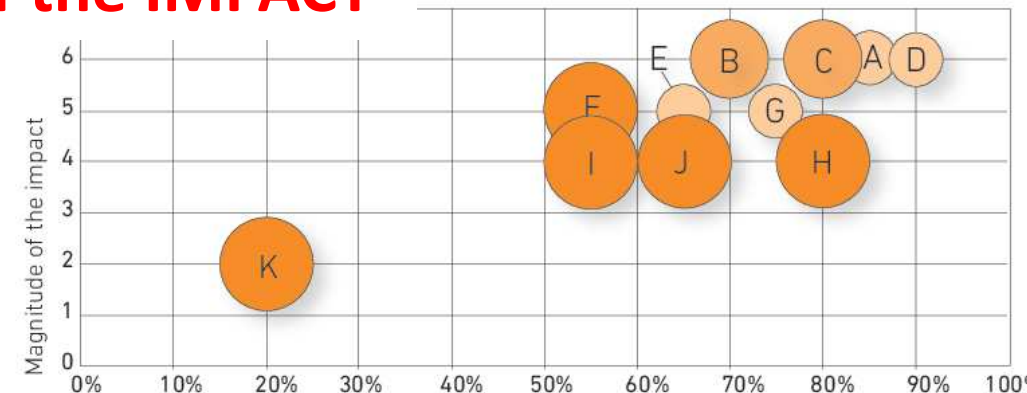


Figure 4.13:
Results of the Materiality
Analysis

LIKELIHOOD of OCCURRENCE

Statement of Common Principles of Materiality of the Corporate Reporting Dialogue

Background

The Corporate Reporting Dialogue is designed to respond to market calls for greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements. The initiative aims to:

- Communicate about the direction, content and ongoing development of reporting frameworks, standards and related requirements
- Identify practical means by which respective frameworks, standards and related requirements can be aligned and rationalized
- Share information, and express a common voice on areas of mutual interest, where possible, to engage key regulators.

The Corporate Reporting Dialogue includes the eight principal organizations chartered with establishing standards and guidance for reporting to investors, creditors and other stakeholders. Regardless of their individual missions, participants share a mutual interest in clarifying reporting concepts based on market demand. *The Statement of Common Principles of Materiality* is one response to this demand.



Published by Corporate Reporting Dialogue in 2016

It aims to compare the DEFINITIONS, SCOPE/BOUNDARIES and COMMENTS of the materiality principle according to the CRD participants standards and frameworks (CDP, CDSB, GRI, IASB, IIRC, ISO, FASB)

Some concluding remarks

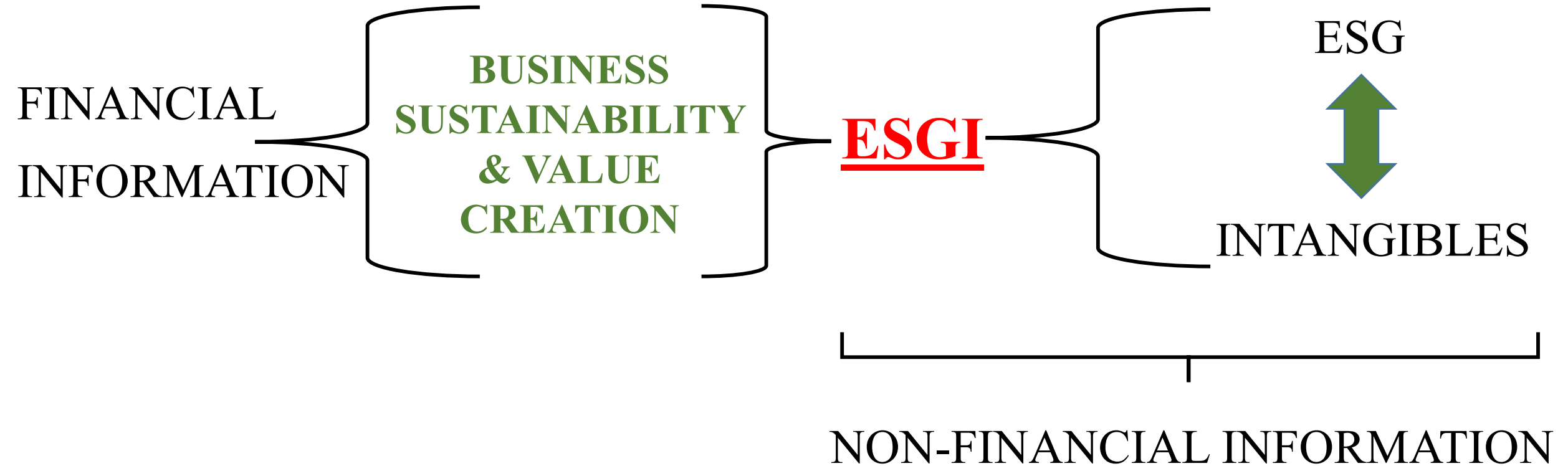
In 2017, Thum-Thysen et al. (2017) from the **European Commission** state that important is an **improvement of systematic reporting of investments in all relevant intangibles** and as a **driver of value creation for individual firms** → This may also **facilitate getting access to finance** (capitalised intangibles might be used as collateral), **improve corporate governance** and **market transparency**

- **ESG is not the same as Intangibles** → various points of contact (e.g., risk profiles, reputation), but also distinct viewpoints and implications for the long standing value creation processes of companies

- Towards a **standardization** of information on ESG & Intangibles → by the European Commission? or by the IASB?

- And above all...

Towards ESGI?



THANK YOU!

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EFFAS CESG Commission

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of Ferrara**