

FINANCIAL CAPITAL FOCUS AREA

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Co-chairs	Company	Country
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We are in the process of establishing a steering group of Council Members for this area. For more information, please contact Rodney Irwin (Irwin@wbcSD.org).

CONTEXT

Financial Capital

Financial Capital plays an important role in our economy, enabling natural and social capitals to be owned and traded. But unlike the other types, it has no real value itself but is representative of natural, human, social or manufactured capital; e.g. shares, bonds or banknotes. Although it has no real value it has a disproportionate significance in how a corporation's performance is measured and plays a material role in driving the behavior of business leaders.

The sustainability crisis facing the world because the human population is consuming the planets stocks of natural and social (including human) capital faster than it is being produced. Unless these capitals are effectively managed the current rate of consumption will result in depletion of vital life sustaining resource stocks in the long term.

The WBCSD's work in the Natural and Social Capital needs to be complemented by a work program in Financial Capital which focuses on educating the managers of financial capital on the sustainability issues implicit in their decisions and to change the "rules of the game" by bringing natural and social capital into balance with financial capital allocations.

Reporting for the Future

WBCSD believes that what get measures get managed. In the space of reporting there are many initiatives – mostly non-business – underway to determine the future of reporting by business. The time for a new approach, often referred to as integrated reporting, has come.

Members have indicated that business needs to lead the reporting debate, that there is a need to cut through the "noise" of the various initiatives that are underway, and bring leadership to the issue. WBCSD is uniquely positioned to consolidate the business voice.

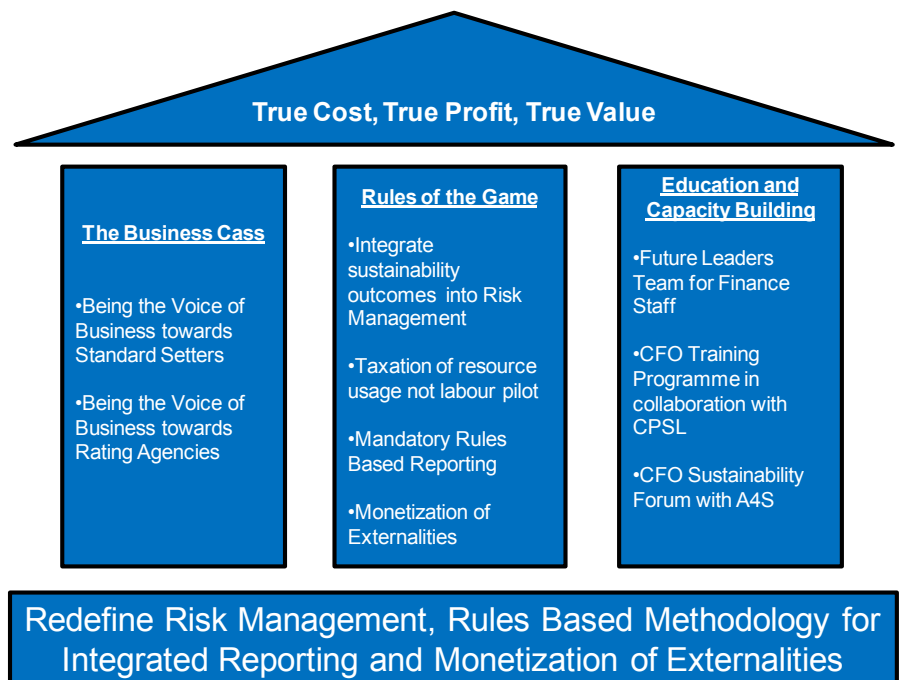
The program remains in development stage but good progress has been made in scoping the content of the various projects within the program and in gaining credible partners to collaborate with. The scoping discussions have resulted in identifying three areas of focus for a WBCSD project on reporting, these are:

- **The Business Case** – Objective is to identify, from a CFO perspective, why a new definition of corporate performance is needed; how it will enhance investor understanding and accelerate sustainability and identify how a new reporting framework will change behaviors in business, investment allocation and consumer behavior.
- **Reporting Architecture ("Rules of the Game")** – Objective is to collaborate with key partners to: identify what metrics are material (and how to define); to identify how this information needs to be presented to investors to unlock financial capital (e.g. valuation); to identify the required framework for reporting and the guidelines or rules needed. This work stream will examine mandatory reporting, scope and reporting boundaries, taxation and incentives for behavior change, risk management and corporate governance and monetization of externalities.
- **Education and Capacity Building** – Objective is to build the capacity within companies, the investment community and regulators to implement a revised reporting framework; building the skills needed for future corporate financial professionals to understand sustainability as key to performance and assessment (e.g. developing a "CFO of the Future" program similar to the WBCSD's Future Leaders program); engaging with university programs in order to educate emerging professionals on how to integrate sustainability into their business thinking.

Vision 2050 Outcome

Three Pillars of Work Effort

Build a Solid Foundation



RECENT DEVELOPMENTS

The Business Case.

There are a significant number of established reporting initiatives working on different aspects of reporting with new initiatives emerging frequently. The GRI, Global Compact, IIRC, TEEB for Business Coalition, The B-Team, SASB, the EU, national governments and stock exchanges are all engaged in this space with little cross fertilization and limited collaboration. A point many businesses are getting increasingly frustrated with.

There is also a clear delineation between the principles based approach of IIRC and GRI for example and the rules based approached advocated by law makers and SASB. Businesses have been sidelined in the development of many of the guidelines and they are losing track of which organizations is working on what initiative leading to reporting fatigue and cynicism.

2013 will be a significant milestone in reporting with the launch of the GRI G4 Standard and the roll out of the consultative Integrated Reporting Framework. In this regard WBCSD and our regional network partners are finalizing with the IIRC a plan to gather feedback from member companies on the Draft Consultative IR Framework which the IIRC will formally launch on 16 April 2013. WBCSD will target a number of European, South American, Asian, African and Oceanic countries as well as some sectors to gather constructive feedback as the 'Voice of Business' by their due date of 15 July 2013.

In an attempt to provide an understanding to our members of the existing landscape we are being asked by members to develop the 'go to' document which defines the existing reporting, ranking and investment related legislation, frameworks, guidelines and metrics. WBCSD is in discussions with other organizations such as A4S and CSR Europe to collaborate on this document's development and seeking resources from the accounting firm members to create it.

Reporting Architecture

There are four project areas under this umbrella which focus on

1. Risk Management
2. Mandatory Rules Based Reporting
3. Taxation as an Incentive for job creation and Resource Usage
4. Valuation of Externalities

Risk Management

The disclosure of enterprise risk management processes and key risks is a reporting obligation in many corporate governance regimes and is a key driver of sustainability initiatives. However the current definitions of risk being the combination of impact and likelihood can result in sustainability risks not being prioritized due to the remoteness of the issue or the short term view taken in identifying risks.

WBCSD is collaborating with COSO (Committee of Sponsoring Organizations of the Treadway Commission) in the US, to develop a framework for integrating sustainability issues and outcomes into the COSO Enterprise Risk Management Framework. We have already provided detailed input into a draft position paper commissioned by CSOS and developed by US academics and E&Y. We have participated in a working session with COSO on 31 January 2013 in Washington DC. WBCSD and COSO are now developing a project plan for approval by both the COSO Board and WBCSD which will include a) the development of a concept framework and b) the development of a pilot program of leading WBCSD member companies to road test.

WBCSD members will be invited to take part and a fee will be asked to cover costs. This still needs to be determined.

Mandatory Rules Based Reporting

During the Seoul meeting members agreed on the need for a Principles Based Rules approach to reporting with members expressing a need for more defined guidance on what to report and how. As a pilot project WBCSD is working with companies in the Chemical Sector (Solvay, BASF, Evonik, SAFIC, DSM, Akzo Nobel, Syngenta, Henkel, Kemira and Borealis) to develop a common understanding of what the must have metrics for the sector are and to agree on the methodology on which they are calculated and disclosed thus moving to a position where these companies compete on performance and not on methodology.

A one-day workshop involving these companies has already taken place and actions are in place to move this sector initiative forward.

Taxation as an Incentive for job creation and Resource Usage

WBCSD is working with the Ex'Tax foundation in the Netherlands to pilot in several European countries a new concept in corporate and employment taxation with the objective of shifting the tax burden from the employment to natural resource usage. WBCSD has connected Ex'Tax with BCSD organizations in Spain and Portugal who will run the national level project directly with Ex'Tax whilst the reporting and investment project will pilot the taxation implications at a corporate level with some member companies via a group project as part of the 2013 Future Leaders Team. The outcome will be presented at the Council Meeting in Istanbul in November 2013.

Valuation of Externalities

This work stream is currently on hold awaiting the launch of the B Team Consortium in February 2013 lead by Jochen Zeitz and Sir Richard Branson which will road test the PUMA EP&L in other sectors. WBCSD is in conversation with the B Team on a strategic partnership.

Education and Capacity Building

There are three project areas under this umbrella which focus on

1. Participation as the Voice of Business on existing Reporting Initiatives
2. Development of a CFO Sustainability Forum
3. Education on Sustainability for finance staff, CFO's and Future Leaders

Participation as the Voice of Business on existing Reporting Initiatives

WBCSD has met with all groups except SASB. We have committed to fully support the business evaluation of the draft IIRC framework gaining feedback on draft framework at Montreux (18 April 4 hour workshop) and TBA workshops around the world including BCSD involvement; Resource limitations do not permit more at present but we are considering how to support the GRI in a joint project on Internal Control over non-Financial Reporting and a paper on assurance.

Development of a CFO Sustainability Forum

WBCSD in collaboration with the Prince of Wales Accounting for Sustainability (A4S) Initiative launched a CFO Sustainability Forum to bring CFO's from both organizations member portfolios together to discuss and progress issues pertinent to sustainability reporting and performance and investor relations and engagement.

The first meeting took place in London on 13 December and WBCSD and A4S are planning the work program, membership criteria and meeting schedules and agenda in the coming weeks.

Education on Sustainability for finance staff, CFO's and Future Leaders

There are two work streams active in this area

Future Leaders Team

The 2013 WBCSD Future Leaders Program will focus on Finance, Reporting and Investment and will take place in New York (March), Amsterdam (May to coincide with the GRI Global Conference) and Istanbul (November). 25 participants with finance backgrounds and/or current roles are registered for the program and another 9 companies are holding options.

The program is designed to educate finance staff to understand the sustainability risks and opportunities their organizations face and how they can support the identification and management of these challenges.

CFO / Finance Training

WBCSD in association with the Cambridge Programme for Sustainability Leadership and the Prince of Wales Accounting for Sustainability Project is developing a training programme for CFO's and senior finance staff. The program although not developed yet has had strong endorsement from HRH the Prince of Wales and from WBCSD. The inaugural session will be in Cambridge on 11th and 12th July 2013 with an optional visit planned for the participants to the British Antarctic Survey at Cambridge University on 10 July. A second session will be offered in November in Istanbul (before and after the WBCSD Council Meeting) or Singapore.

- WBCSD branding on all program materials (positioned as a CPSL and A4S program, designed and delivered in association with WBCSD).
- WBCSD will be on the program's Advisory Board, which will provide advice on: the program design and positioning, wider alumni and network engagement, and the longer term development plan for the program.
- There is a significant role for WBCSD and its members in the delivery of the program.

OUTLOOK

WBCSD members are invited to join any of the above education initiatives. The CFO training we believe is innovative as a CFO centric forum like this has not been anywhere else. We encourage CEO's and council members to incentivize their CFO's to join this training and to engage with the CFO sustainability Forum going forward.

WBCSD members are also strongly encouraged to attend the WBCSD led feedback workshops on the IIRC draft consultative Integrated Reporting framework which will be run from April 16 through to the end of June 2013. The IIRC have asked WBCSD to be the voice of business, and workshops will be held in Europe, Asia, Indian Subcontinent, China, North and South America. The exact dates of the workshops will be communicated mid March.

WBCSD will launch the risk management project in Montreux. Members are encouraged to participate in this project in a) helping to develop a revised risk management framework based on COSO ERM, and/or b) road test the revised framework as part of the risk management cycle within member companies.