This House believed that corporate sustainability reporting should be mandated, and standardised by FASB and IASB, for it to be most useful for investors.

A debate of the Oxford Union

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Chair: **Lady Lynn de Rothschild** (LR)

Proposition: **Paul Druckman** (PD)
Ian Mackintosh (IM)
Sir Callum McCarthy (CM)
Anne Simpson (AS)

Opposition: **Jonathan Bailey** (JB)
Bob Herz (BH)
Harvey Pitt (HP)
Tom Quaadman (TQ)

LR: This house believes that corporate sustainability reporting should be mandated and standardised by FASB and IASB for it to be most useful for investment. That's the proposition and to start the debate on the pro side I'm happy to introduce Anne Simpson who's Director of CalPERS, the largest pension fund in the United States of America.

AS: Well thank you very much it's a great honor to be here. This must be the first time this Oxford Union has had a battle of the acronyms and I'm amazed that anyone showed up because if you love your FASB and you know your IASB and you worry about ESB I mean really it's just one big alphabet soup. So what are we really arguing about today is what sort of information do companies have to provided, in other words what matters and I know we have some of the members of the MBA class. So if we think about sustainability I want to give you a few examples of what that's meant to include. And this is from State Street which is a very big thumping great investment management house and this is what they think this acronym includes. Climate change, greenhouse gas emissions, resource depletion including water, and just for good measure deforestation. Social examples, that's the S in ESG, working conditions, health and safety, employee relations and diversity. The G examples include executive pay, small matters like bribery, corruption, political lobbying and donations, board structure and also tax strategy. So this was all cited in the Journal of Investment Management if you'd like to go and bone up on your references afterwards. So, the question for my MBA people here, how many of you think any of those issues are important to corporate performance? Think about yes, yes it matters. The question's then, why don't we measure what matters? Let me give you another example. In the 1970s when I was your age, seriously, bell bottoms, platforms, yeah it was that kind of flower power time, I'm just saying. The SNP Index, you know these big American Companies, eighty five percent of their balance sheet was what's known as fixed assets, and that was stuff, you know land, machinery, inventory and so forth. Look at that same group now, the SNP

500, eighty five percent is intangibles, so what does that mean? It means your employees, your reputation, your intellectual property. Everything about your reputation as a corporate citizen and your ability to employ people and keep them. So all of this is to explain why CalPERS, which is this stonking great pension fund in California, three hundred and fifty billion dollars which we can't hide, we've actually got to deploy this in to the market. Why? Because we've got to pay pensions, pensions have to be paid probably for the best part of a century, even if you start counting now, so we're very very long term and because we're very big our investments are everywhere. They're in all markets, all geographies, all sectors and what we have found is that those issues that we've just been talking about, that's financial capital, human capital, and natural capital are the three things that create value in a company and the things that bring risk. So for us to say that we don't report on these things, or we do them an ad hoc or a best practice manner without, I'm sorry…

TQ: Point of information. Isn't the CalPERS pension fund underfunded?

AS: Yes, when we lost in the financial crisis, which is a governance failure, which is ESG. So if we'd done something better on governance I think the financial crisis might not have happened. I think it has preventative as well as value creation aspects to it. So the reason that CalPERS supports this proposition, and we want the standard setters to pick up all of these important issues, is you can't manage what you can't measure.

JB: On a point of information…

AS: You have to have metrics which matter to quote Lady Rothchild's project on inclusive capitalism. Yes sir…

JB: According to KPMG three quarters of the…

AS: Another acronym by the way…

JB: three thousand of the largest companies in the world already provide sustainability reporting so why do we need these people to get involved from FASB and IASB?

AS: well, that's a fair question. There's a lot of it about. The problem is that because there are no standards you can't compare one company to the next, you can't compare one company over one time period to the next and for most part that information is not integrated with the financials so neither are there any standards, it's also not audited, and it doesn't come out at the same time so you can't go to the AGM and start voting on things like the Board of Directors with that information in front of you. Yes sir, Bob, sorry I should call you…

BH: Aren't there a set of standards that were just recently issued by the sustainability accounting standards board that in fact produce, provide specific metrics on the material issues industry by industry so that if those were adopted investors could compare

AS: Yep it's a great question. It's another acronym everybody hope you're taking note, this is SASB. CalPERS is a strong supporter of this initiative and it's basically saying OK well while the regulator standard setters are sitting on their hands, dear gentlemen you are, err the market can't wait so SASB was founded by a coalition of investors and companies and others to say well let's get started, and if we win this vote tonight and blushing with shame but also secretly thrilled and enthusiastic, FASB and IASB decide to start doing their job which is to set standards on all information that's relevant and useful and important to investors there's a useful body of work there to get them started, it's like a starter pack, they won't have to begin at the beginning. Thank you.

LR: I call on Tom Quadman who is the Executive Vice President of the Chamber of Commerce in Washington DC for Capital Markets and Competitiveness.

TQ: Thank you Madam Chair, thank you members of the Oxford Union, ?? my fellow participants, and ladies and gentleman. Erm, is anybody her concerned as you're all MBA students that the public company model is in steep decline, that in the United States we have half the number of public companies today that we did twenty years ago? And that part of the reason for this is that we have a lack of disclosure effectiveness. The last two SEC Chairmen have decided that a 1930s style disclosure system no longer works in a 21st century economy.

AS: Point of information…

TQ: As an example…

AS: If I may sir…

TQ: As an example in the age of the iPhone it is still necessary to have an historic stock price. Yes…

AS: Thank you. Err I would like to say from CalPERS point of view these are issues that matter in private…

TQ: What is the most effectual point of information?

AS: The point of information is that we're taking this agenda on reporting in to private equity markets. We don't see this just as a public markets agenda. And you'll see that the big private equity firms are pushing on this and they're also members of initiatives like these sustainability and planning standards boards…

TQ: Yes, but it's also true if you report in a private company space it's much much more narrow, and it's not subject to the same third party influences that is true with public companies as well. We at the chamber [*AS trying to speak*] we at the chamber have felt very strongly that ESG reporting is a very important and vibrant area. We earlier this year decided to go out and meet with all different types of internal and external stakeholders to determine what the state of ESG is. And what we have found is that a markets based approach is the best way forward. And I would have to say that I appreciate the work that has been done by the authors of the Green Paper however I think that they have missed the boat on a few different areas. One, is that they've made the fatal supposition that we should only look at this through the eyes of the investors. Agreeing with Anne Simpson that there are a number of different stakeholders that are out there. We are also in an area of unprecedented dialogue between companies and their investors and other stakeholders which was not the case when financial reporting was developed in the 1920s and 30s, and disclosure effectiveness is also something I have raised. ESG is a vastly different world than the investing public. We have many different stakeholders, we have investors, we have employees, we have consumers, we have vendors, and we even have NGOs who like to have certain information. Sustainability is used to communicate with all of these different stakeholders, yet FASB and the IASB only work within the strict constructs of investment, of investment language. Therefore we have to look at it, what are the different interests of all these different groups? A college student may look at sustainability reporting to decide if they should work for a company, a consumer may look at certain information to decide if they want to buy products, and NGO may want to look at a company to see what their water usage is. These might all be very viable pieces of information but they don't fit with an alignment or they don't align with the interests of the long term stewardship of the assets of a corporation or of it's finances.

PD: Point of information…

TQ: Yes sir…

PD: Erm, do you think that employees and others are disinterested in the financial information as well?

TQ: Not at all, but …

PD: What's the difference?

TQ: But very often that the information that they are looking for is vastly different to the one investors are looking for, MDNA management discussion and analysis has been proffered by err the authors of the Green Paper as an alternative, yet even they have recognised that management discussion and analysis is boiler prate and, boiler plate and rote. Why is that? Because of third party influences such as the trial bar and at the same time FASB and the IASB have no role with err, with err management discussion and analysis.

IM: Point of…

TQ: Yes sir…

IM: What's the relevance of the comment that they're not involved at the moment with MDNA?

TQ: Because MDNA is where the management is supposed to express it's opinions about the financials and it's supposed to be a very free flowing discussion. Yet because of concerns about class action law suits, that has not been, that has not taken off in the way that it has. We would, we would actually that there should be a market brased... a market based approach. One of my colleagues is going to talk about SASB, but if you take a look at the Edison Electric Institute in the United States they have, because of some of the pressures on climate change and greenhouse gasses, they went out and met with all the various different stakeholders for over a year, decided to construct standards that were material to each of the different stakeholders and that has allowed for a dialogue to continue. That is the approach that we feel should be taken, if it should be noted erm that with the different types of information that are looked at it is not comparable industry by industry. Financial reporting is comparable amongst all companies. So therefore if we have an industry market based approach that is something that will allow for industries to construct information that would be comparable across an industry. This is why we need to have a segmented approach in the development of an evolution of ESG.

AS: But if it's err voluntary reporting you only have good news. When we looked at our portfolio on climate change, we could only find data for forty percent of the ten thousand companies we invest in, in public markets, erm and we had to guestimate estimate for the rest, and because that information is not audited, err, we can't really put investment confidence behind the decisions that we're making. And the suggestion that you're making, that we with ten thousand public companies, eight thousand private companies, go to each individual company to get a little tailor made disclosure is very inefficient and it's also not trustworthy, and you're also assuming this information…

TQ: So if I can, if I can reclaim my time what's important

AS: … is not err financial, it is…

TQ: If I can reclaim my time, what is important to look at with the EEI's approach is that they went out and talked to investors and other stakeholders. This is done as a partnership, this is not just something that they did on their own, or that this was something that was done in the light of day. What is also important, I think it's important to realise during these discussions that we had when we came, when we developed the institute report that we released last month, we talked to institutional investors, various different internal stakeholders, chief sustainability officers and the like, and one of the institutional investors got up and said 'look, we are not an NGO and we don't expect business to be an NGO. We expect businesses to go out and make a profit but to be a good corporate citizen in doing so'. We couldn't agree with that statement more wholeheartedly and that these discussions and these development of information will allow for companies to be good citizens. Thank you.

LR: I now call on Paul Druckman, the second speaker for the proposition. He is the former CEO of the International Integrated Reporting Council.

PD: Thank you. Erm, what a great, err, dialogue to follow. Erm, do we realise how special this week is? And I'm not using the B word, OK, I'm using the C word. We're in the middle of COP24 in Poland, and we, erm, we need to make sure that we understand the world that we now exist in. I'm not talking about corporations as NGOs, but I am talking about the capital market and what it means to society. Erm, David Attenborough, who spoke as the people's representative at COP24 last week, said that the continuation of our civilisations and the natural world on which we depend is in your hands, and that includes the capital market players that are there. Even the, we have my erm honourable colleague Anne Simpson talked, sorry my honourable colleague talks about how the investment community are involved with this. Erm, the Schroeders who have twenty three trillion dollars erm, talk about twenty three, but erm, sorry, talk about twenty three trillion dollars of global economic losses due to climate change. We need to make sure that climate change, biodiversity, and inequality are capt.., are dealt with in the future. We need, with the IPCC report of last month, at one point five degrees C, where are we going to be, where are these capital markets actually going to be when we have those sorts of problems and we have the sustainable development goals as part of the route to get there. There is an urgency, that is what I'm talking about. This is not something that we can leave alone, there is an urgency and the capital markets in its current form could be accused of failing society over the last few decades. And my honourable opponent talked about market based approach. How long will that market based approach take for us to reach something which is actually to the benefit of all of us, not just those that benefit from the capital market society itself. Ladies and gentlemen, perfect can be the enemy of the good. The IASB and FASB are by no means the perfect places for these things to go. There are all sorts of problems with them and what they do, and with how they're constituted and governed, but currently there is no alternative. They have creditability and they have process and that means that we can do things with urgency rather than with delay.

JB: Point of information. When those organisations themselves have said they don't want to take on this responsibility, why would you foist it upon them?

AS: Erm, point of information to support my honourable colleague. Erm the SEC is the overarching body for FASB, the F A S B, the US standard setter, and on Thursday morning I sit on the investment advisory committee, we are holding a, err a whole round of hearings on precisely this topic. The SEC has received three petitions in as many years asking for this information, and the advisory council to IFRS, which oversees the other acronym, the IASB, voted on err last year, calling on these issues to be put on to the work programme. So the request is there, the response is awaited.

PD: I think, I, I cannot add to that other than as we go, thank you. Erm, can I just say, erm to close if I can, that I do think that they have, to repeat myself, they have the credibility and the process to do this whether they want to or not they must, err so that we can address things with urgency. As Victor Hugo said, erm, "All the forces in the world are not so powerful as an idea whose time has come." And I'll finish with David Attenborough, again at COP24, representing the people. Representing us. Don't forget that's why he was there. He was not there in his own capacity. And he said "the world's people have spoken. Their message is clear. Time is running out. They want you the decision makers to act now". Thank you.

LR: I now call upon Bob Herz, the second speaker for the opposition. He is the former Chair of FASB.

BH: Thank you Madam Chair, err and let me apologise to you and the audience for my executive footwear here, err, I'm nursing in injured err left foot so if you see me fall over err please pick me up. Erm, you said as a former Chair of the err FASB, err for many years, that I was also one of the original members of the IASB, err, I love those organisations, they do a great job in accounting standard setting err so why would I oppose this err proposition? Err, two reasons. Err, first they're just not the right bodies to do this, and then secondly err, the market has already moved on with urgency. There already is some good standards that have recently been promulgated after over six years of intensive research, extensive engagement with thousands, literally thousands of stakeholders and investors and the lot. Let me just get this point and I'll recognise you sir. Err and those are the SASBY standards, and that's by another strong standards setter that is gaining lots and lots of recognition as Anne Simpson said, her organisation strongly supports the work err of the SASB. But let me tell you why IASB and FASB are just not the right bodies. Err the first thing is that their mandates currently are by law and regulation and in their constitutional documents. Changing any of that takes a lot of time and it would be opposed by many many people who just want them to stick to what they do, do now as accounting standard setting which is very, very important. They also do not have the bandwidth right now, or expertise to do it. They don't have people who are steeped in sustainability issues and the like, and more over they don't err, just right now thirty projects, let me, let me just quote the current Chair of the err IASB. The current Chair of the IASB said recently "I do not think the IASB is equipped to enter the field of sustainability reporting, widening the audience's scope of our work would most likely lead to a loss of focus and identity". In other words it would mess up both financial reporting and sustainability right. Yes Paul.

PD: Could I just ask as a point of err information, how many companies are actually producing in full, err in a full way, the sas.. using the stats as the standard

BH: Well that's interesting, the, the finalised standards were…

PD: A full, a full compliment…

BH: I will, I, let me answer it. The finalised standards were, err, formerly introduced at a big event at the London Stock Exchange in November. But even before the finalised standards were, err, launched, err, there were a draft set of standards, and many companies were already disclosing the information using those draft standards. Both, both…

PD: How many, how many please sir.

BH: Oh I think it was over fifty.

PD: Oh wow…

BH: Well, many, err… Many companies, we know that many companies, now that the standards have been finalised, will be adopting them in the coming year. More importantly, investors support the i.., the SASB standards. They wanna see them happen right now. Err and they are actively going out and encouraging companies to adopt them. So, my point is that there are a good set of standards, the market place can't wait, it can't wait. I agree with you on the urgency, but the set of standards from a good standard setter, which has the same governance procedures, robust due process, but are specifically dedicated to this purpose and is fit for this purpose, they exist. You should rally around those for those who really wanna see advancement of reporting on an urgent basis. Thank you.

AS: Erm, we would like the SASB example of the fifty companies, and we applaud this, this needs to be integrated in to the IASB and the FASB so that all companies have to report on these things, and my point of information is, I want to read to you from the mission of the Financial Accounting Stability Board because you were concerned that this may not be relevant, and it says "The mission of FASB is to establish and improve" emphasis added by me "financial accounting and reporting standards to provide decision useful information to investors and other users of financial reports"

BH: Yeah, and the key word is financial reporting standards

AS: It says…

BH: Not, not sustainability reporting…

AS: No no no, but you misunderstand. You are assuming that issues like climate change are not relevant to the financials, and on that point as an investor we have to disagree.

BH: I, we totally agree on that but their mandate by law, both in the US and in many jurisdictions that use IFRS, it does not extend to sustainability reporting.

AS: Are you therefore arguing, sir, that climate change is not relevant to the financial…

BH: No, no it is…

AS: … wellbeing…

BH: …it is absolutely relevant

AS: In which case it needs to be on your work programme.

BH: The law would not view it that way. Thank you.

LR: Thank you. I now call upon Ian Machintosh, the third speaker, erm, for the proposition. Ian is the former Vice Chair of IASB and the current Chairman of the Corporate Reporting Dialogue.

IM: Thank you Madam Chair. Good evening ladies and gentlemen. It's a real delight to be in this wonderful room with so many people, and I'm really looking forward to having a bust like that made of me. How long does that take? So, before I begin on what I was going to say, err primarily, I'd like to talk about some of the comments made by my honourable opposition members here. Erm I mean, I think the first honourable opposition member called Tom, err, made the point that the market is working on this and that a market based approach would work. It's working very slowly. It's working in a very diverse way. It's working with, with a lot of err organisations providing input, err, my honourable opponent, the second one. Yes, you may go. I'm not like him, I wish to speak.

BH: Point of information. Is the, is my, is my colleague saying that the rise of 29% of companies err reporting sustainability reports in 2015 an eighty five percent in the SNP 500 today slow?

IM: It's slow, it's confused, it's not comparable, and it's being done in a lot of different ways. You can't just count the numbers and say that's success. Erm. It's only through, you made the point earlier that it's only through the eyes of investors. That's a very interesting point and it's true, erm of IASB and FASB. And, I might say, a vast majority of the other organisations including SASB, who are involved in this area. So the debate about whether it should be in the eyes of investors or whether it should be much broader is a very genuine debate but one that's not going to be shaped by the fact that this being debated within the IASB or FASB. It's a debate that's legitimate wherever you're going to have it. Erm, and you say it was needed industry by industry and SASB have done a wonderful job. I think seventy nine industries that have err

TQ: seventy-seven

IM: seventy-seven

TQ: and covering the whole economy.

IM: Erm, and that's fine, but again moving towards the IASB and FASB doesn't need to change that, they don't do that at the moment, I totally concede. It's not to say they can't do that for these purposes in the future. So…

PD: A point of information…

IM: Are you allowed to interrupt me… OK

PD: I was just gonna say that part of the issue that's being talked about by my honourable opponent is information that's potentially in silos and what we need to do is to make sure that that information is integrated and therefore within one organisation. Erm, and I do think that that's an important point.

TQ: Yes, I totally agree with Paul and I'm also very much in favour of integrated reporting but integrated reporting…

AS: You can come and sit on this side with us if you like

TQ: Integrated reporting is a broad framework. It needs specific comparable content and that is what SASB has developed so they go hand in hand.

PD: Sorry.

IM: Last point.

PD: I think we're talking about exactly the same thing. I did not say the integrated reporting replaces it. I'm saying the danger is that these things are seen as silos, and therefore it doesn't give the true understanding of the whole.

LR: I think we should give Mr Mackintosh his time back…

IM: I agree…

LR: …so he can finish making his comments

IM: My honourable colleagues and my honourable opponents are taking all my time and I've got so many important things to say. So let's talk about the organisations themselves because there's been very little discussion on IASB and FASB. Not it's, I think it's not actually IASB and FASB, it's the FAF Financial Accounting Foundation, and the IFRS Foundation, which is the body of trustees, that govern, in both cases govern and just oversight these things. Now there's precedent for them extending beyond private sector financial reporting, so FAF for instance already oversights GASB, the governmental accounting standards board, and there's an area of diversity. When I was in Australia we, erm, we set up the public sector accounting standards board in 1983 and in fifteen years later we merged it with the Australian Accounting Standards Board. It didn't happen overnight. There was a lot of discussion. There was a lot of public sector specific discussion. Err, but it eventually got together and functions very well as one board. I would put it to you that if you were going to advance this notion that you wouldn't do it overnight. You've got laws, you've got constitution, I totally agree. I don't think they're all that hard to fix or change. You've got a current chairman of the IASB who's saying he's not sure that they have the capacity to do it. It doesn't need to be done by those two boards, IASB and FASB, immediately, could…

JB: On that point, your colleague earlier told us that it was urgent and we needed to deal with it in a pressing and immediate fashion so is it urgent or is it slow and steady?

IM: It's urgent, and you, but you wouldn't have to do it as a joint ward urgently. You could set up the separate board, you would take in of course lots of the contributors like SASB and all the other ones that are working on this. You would set up a separate board possibly, under the trustees, of each of the foundations. You would employ other expertise. You would reach out to the market. You would listen to the investors. You would do all the normal due process matters informing standards and yes that might take time. You have to be careful about due process because there's no doubt it takes a lot of time. But it's got it's place. Not you again.

TQ: Point of information to my good colleague. And I might even agree with you on that but the way the motion is actually worded it says FASB and IASB, it does not say another board under the foundations.

IM: Well, I think if you read, if you read the Green Paper. I know what the motion says but I think if you read the Green Paper they're putting the, the oversight and the boards themselves together. I have one minute to go so I'd just like to sum up that I think this is entirely possible, it's able to be done urgently, and it could be achieved under the proper structure. Thank you.

LR: I now call on Harvey Pitt, the former Chairman of the Securities and Exchange Commission in Washington, to be the third speaker in opposition.

HP: A gracious good evening to all of you. Err, I have to say that erm listening to this debate is something akin to watching the television show The Twighlight Zone. Err, we're told that we should err err compel disclosure of what matters and of course what is meant is what matters to Miss Simpson. Now, I may agree with her as to what matters, but you may not. She knows what she wants. She knows what she wants to hear and other people know what they want to hear and the question becomes what are we talking about? The fact is, nobody has tried to define that. Even though most of you here are students and academics, the issue we're talking about is not an academic issue. It's a very real world issue with pragmatic consequences. If we require, err as a form of financial disclosure, sustainability information, which nobody yet has defined here, the fact is that all of you in your various roles, will pay the cost of that requirement. You will have to develop procedures to figure out what people wanna here. You will have to meet standards that at present don't exist, and you will have to deal with the liability when people claim that you didn't provide enough information to tell people that some of your workers are disaffected. Those are serious issues for every one of you and they haven't at all been dealt with in this proposition.

PD: I'm just trying to understand the difference between what err you as the honourable opponent, and your predecessors honourable opponent talking about SASB and their standards. How do they erm, how does, how does, does that not a complete conflict in what you're talking about that there are no standards?

HP: What I'm talking about is very simple. If we are talking about what is financially relevant there is a world of standards. Financial materiality guides the disclosure of any information that relates to sustainability. What is not available is a definition for example of what the term sustainability requires. In fact the err, in the conceptual statement that the IASB issued they conceded that the key term there can't be translated in to the languages of all of the member countries that utilise IASB standards. Imagine that if you can't define the term you're trying to create regulations for how are you going to create regulations for them? The answer here is much different. What is needed is to come up with a set of standards and have companies disclose sustainability information that does not purport to be financial reporting. That is the crucial difference and it's the one difference that the proponents haven't said. Maam.

AS: Thank you. Thank you very much. I think you just made the argument for me which is you said we need to have standards on sustainability and, err, taking climate change because it is the example that's important this week. Err, in 2015 the world's governments agreed that we need to reduce the temperature and hold it to less than two percent warming and as an investor CalPERS needs this because our investments will be inundated. Never mind the impact on society and people. We can measure scientifically what that means by way of emissions from these companies that we own. However, we have no way to have a standard or regulated way to receive that information and factor it in to our investment.

HP: At the present time… at the…

AS: We have two standard setters with that as their day job because we view these as financially important issues. Thank you.

HP: At the present time the IASB's chairman said that the IASB is not well equipped to address sustainability reporting, and so, to use a phrase or an affirmism that the British like to use, what the proponents are suggesting is that we attempt to get blood out of a turnip.

HP: That isn't conceivable here. There are bodies devoted to sustainability reporting, and the fact that some people would like to see this done immediately in no way, shape or form excuses the question of whether or not we do it correctly. Doing something rapidly makes absolutely no sense if all it would do would be to confuse err everyone as to what must be disclosed, how it must be disclosed, when it must be disclosed. There is a real time and place for getting people interested in sustainability disclosures to formulate workable concepts but not to try to transmute financial reporting in to sustainability reporting. Thank you.

IM: Thank you. Just a new point on the chairman of the IASB and the readiness to undertake such a task. Genuine point, erm, the chairman is the chairman of the financial reporting board. Err, he has a very firm view on that and that's fine. The suggestions we're making are that it wouldn't be under his chairmanship that this was done.

HP: In which case of course it wouldn't be the IASB's financial reporting standards which is exactly what we have been arguing all along.

LR: Alright. Before we go to the closing propositions we're going to open the floor for speeches or questions. Are there any speeches or questions? Yes, the gentleman in the bow tie and the blue coat.

Questioner 1: Thank you madam speaker. Erm, in response to a point that's been made repeatedly, several people on both the proposition and opposition have said that the FASB and the IASB have legitimacy. Erm, as I understand it, and reviewed in the Green Paper, as I understand it the IASB gets it teeth from the SEC, which is established in the United States and has the power of law behind it. But the IASB has been adopted by consensus by a number of countries around the world. Is there not a risk that if they tried to take on more than their current remit and things that they're not equipped to do, we've already heard how accountants are not equipped to make rules regarding environment, social, and governance, they could lose that legitimacy. We've heard from both sides that the SASB has been gaining legitimacy erm and been adopted by companies around the world. Well if it wants the legitimacy that the IASB and the IFRS standards have, it should build it.

AS: Bring it in.

Questioner 1: Well no, it should build it with governments, with agencies that have teeth, and not try to piggy back on an unrelated agency. Thank you.

LR: We have a comment from the proposition, for the proposition.

IM: If I could address those issues. Yes, there is a reputational risk to both the IFRS Foundation and the FAF in taking on these sort of roles. But for the IASB, for the IFRS Foundation there was a huge risk right from the beginning. My honourable opponent here was involved with that risk and formulating complicated good, well prepared standards, and trying them, to sell them to the world and get the world to adopt them was high risk. Very high risk. And ran a good chance of total failure, so, you don't avoid risk. You keep on working, and you use the expertise around the world that exists.

TQ: One needs to look no further than the example used in the Green Paper of conflict minerals. A well intentioned legislative and regulatory initiative that had an audit component that cost companies billions, err courts have decided it is not a constitutional disclosure and if you talk to people in the Congo as well as read the New York Times and Wall Street, and err Washington Post, have actually made the problems in Congo worse.

AS: Err, point of information sir, that was not generated by SASB or any of the other groups, it came through Congress.

TQ: No, but it was, it was passed by Congress. SEC had to write a rule, it has to be audited …

AS: And it came from politicians.

TQ: …and the SEC at this point is not even enforcing the rule because it is unworkable.

AS: Understood, but it came from politicians and that's not what the proposition is erm…

TQ: Correct, but it shows how an IASG disclosure is almost impossible to work through the current system of securities laws.

PD: I'm sorry, I can't, I can't let that go. An ESG disclosure. There are many ESG disclosures that are perfectly valid and that erm, yeah we use in the example of SASB, but there are many from GRI and from other organisations that are perfectly valid. We can always pick out individual things, there are many things that the FASB and the IASB do that are not particularly efficient for markets so let's be careful about just choosing one particular example.

LR: Alright. Do I see, I see a second speaker. Please come forward or we can give you… is this mike working? Is it working? That's working. Here you go.

Questioner 2: Madam speaker thank you very much err for the opportunity. I, I listen to this debate with a, with a little bit of concern really, We've had financial reporting in place for about a hundred years. Err, the gentleman on the, on this side of the floor don't seem to want to change it. Err, it seems inadequate for the world that we live in and that's the point that I understand that you're making. I do wonder if we ask people who are not interested and who don't get it really, if we ask them to change to do something because the rest of the world needs it are they the right people to do it? Erm, we have got a system where even when we talk about ESG we then say OK what's the E factor, and we've got a list of, of err of issues, and what's the S stuff and we've got a list of issues. And, is there some G stuff, and we add in bribery and corruption just for good measure. But I wonder actually, do we need to rethink how this works so that we consider value rather than just the F factor or the S factor and the E factor. Do we need to tie them together, and I, I, and I hear the integrated err idea coming through. I do if perhaps actually just asking yesterday's groups and yesterday's ideas to be the right thing for tomorrow, or even today, is perhaps not gonna serve the purpose that we need. We need a world where capital markets understand, and the people who participate in it understand the values being created every day as being destroyed every day and it's being done across financial, economic, social, human, all these factors together. Let's not waste any time. Thank you very much.

LR: OK, we have two comments from the opposition

BH: Thank you, I, I applaud that speaker's comments and his thrust but that's exactly why we do in my view need to measure what, what matters, and that's why more and more of, of the investor community and financial analyst community are using the SASB standards to do exactly that.

TQ: I would also like to point out that erm, the opposition here is not saying that there cannot or should not be changes in our required disclosures. What we are saying is, if you have disclosures designed to promote financial materiality, and you are now looking at disclosures designed to promote a lot of additional and very important issues, you ought to treat those issues separately, and work on that, which is what SASB is doing and what other organisations are doing. They are trying to first define what the issues are what that should be disclosed and second to create standards. They're not trying to use a shoe horn to squeeze this in to an existing structure that doesn't work for sustainability disclosures.

LR: Mr Druckman for the proposition.

PD: I, I, I, I, I once again hear exactly what my honourable opponent is saying and his, and their ability to put in to a silo sustainability as against sustainability as it impacts value, that the honourable gentleman who came to speak talked about. What I would disagree with the comment of the erm, the, the, the questioner is that actually this urgency that we need is something that needs to override erm the ability of an organisation like SASB with fifty companies using it. I mean my honourable opponent here is a great advocate and a great proponent of SASB. Let's be clear, if you went to most parts of the world they don't, never, they've never, they've never heard of it and they won't know what you're talking about. There's a very big curve to get it accepted. You could talk about GRI, CDSB, IRC, SASB, erm err I could go on, erm the honourable ch.. that erm, honourable chair talked about that right at the beginning. There, we, we, we have acceptable, we need an organisation that has credibility and process, and those organisations exist. Let's make sure that they adapt to what is needed for our society and our capital markets.

AS: Mr Herz.

BH: I, I will try to be polite but with my partially English upbringing all I can say is rubbish.

LR: Miss Simpson.

AS: Thank you. Err, that was a little rude. Erm, the point about these standard setters is they cover every market. The IFRS cover China, Europe, Canada, and over time as Ian said it was not easy. The US has it's own standards. Now, the day job for these standard setters is changing because the world around them is changing and their argument, these gentlemen are making, is that they shouldn't be asked to do work differently. They shouldn't be asked to acquire new skills. They shouldn't be asked to expand their teams so that they can understand this world, which does involve climate change and diversity, and inequality, and actually all of these issues that CalPERS has put in to it's own definitions are based on the impact these issues have on the financials. So look at what's been happening at Uber. We have a private equity investment in Uber. Look what's happened at Uber because of culture, of sexism, of culture, and disrespect. Look what happened at BP. It was a lack of health and safety, an employee consideration, that led to a huge loss at that company. Look at what's happened at Volkswagen. If you want to understand a culture of corruption. So we've got many examples with companies as to why these issues are relevant to our financials. We can't one day be thinking about financial and then somehow swivel the next to look at the rest of the world because do you know what, it's all connected. And understanding the world is connected is what the standard setters have to expand their thinking. So it's not getting blood out of a turnip, it's probably a new turnip.

LR: Mr Quadman

TQ: Madam Chair, I think I can talk, I could speak on behalf of my colleagues to say that we both, we acknowledge that Manchester United and the Philadelphia Eagles play football but we wouldn't ask them to play against eachother.

LR: Oh my goodness, very good. The lady in the beautiful turquoise.

Questioner 3: Listening to this interesting debate, both sides, err the point which I would like to make is from multiple reports it's found that this urgency of ESG is something around five years down the line if you do not begin now on an urgent way we are going to doom. And that was five years back, and now the report says we just have two years left to do something else we are in for a big shock. So I would like to say if there are certain set industries, set err organisations who can really make a band, who can really make a change, why are we just looking at some financial, err, implications of it in the short run or why are we considered about what it would have impact on the members, on the employees. Why aren't we looking at the long term which is twenty three trillion losses because of not looking in to these factors. We should definitely look in to these as this is really urgent and it's just not important and cannot be catered to in a slow and steady way. That's my point.

LR: Thank you. Err, my goodness, OK, Three more. Three more. That's OK? OK, alright. The gentleman err with the glasses come up.

Questioner 4: Cool. So err, I just want to synthesise quickly what we're talking about and then get in to why I feels this falls towards proposition. Erm, so, when we're talking about sustainability or we're talking about ESG, we can talk about it in the broad sense and then in the narrow sense of this debate. It'd like to remind us about the broad sense right. So when we talk about sustainability in the broad sense, you've got governments who are making, I'm mean companies that are making disclosures. You've got governments who want to know who's paying tax, how much, and where.

You've got citizens who want to know what human rights violations are taking place before this product ends up on the shelf and in my household. And you've got children who want to know who to blame for the temperature of the earth increasing and for the fact that we're just burying all of our garbage. So that's sustainability in the broad sense. In the narrow sense when we look at investors, we've, we understand that ESG correlates with returns, so essentially we know that if we behave well we're profitable for longer because we're sustainable. Erm, which means that there's an asymmetry because we don't have comparable information. It means we have companies behaving well who aren't being recognised and we have companies that aren't behaving well who aren't being punished. Erm, so I think across the house we generally are in agreement that transparency is a good thing and is the direction in which we're going. In which case this debate has to be about what is going to lead to the fastest adoption across the world to make information comparable across companies. For which I think we have three arguments that build towards proposition. The first one is this idea that the market should take care of it, and we already know that we have hundreds of organisations building these standards, GRI, SASB, all the rest of them, and that this fragmentation is confusing, erm, and difficult in terms of aligning adoption across a broader array of stakeholders. Erm, so that's the first issue. Now, we've heard a lot from this side of the house about SASB and how that's aligning or enabling convergence towards one set of standards, but I would argue that this is very easy to streamline in a place like the US but not necessarily translatable across international markets who are looking for credible voices who aren't endorsed by the SEC, erm, which we see between FASB and the IASB. Erm, in which case we need to ask well for whom do we have credible voices across the world and very neatly we have the IASB for whom the majority of the world looks for guidance in their financial reporting standards. I understand at the same time that you can't disregards the efforts that have been made by people in this direction, it's not good to throw things on the plate of people if they don't want to eat it, erm, but without disregarding the efforts that have been made there is no way that IASB can abdicate or, or, or erm disregards the responsibility they have because they are an international credible voice, erm, they have to take responsibility given the power of influence that they have and therefore, erm, my point is in favour of the proposition.

LR: There was a woman in the back. There was a woman, yes, come, yes, this woman in the black jacket.

Questioner 5: Good evening. Erm, in the late 80s I became a CPA and it was a very very proud moment to become part of a profession and I was, I'm here today because, thinking about what that profession means. And it was held to be such an important role for businesses, for our clients, and for the public, that our work, that my work contributed to where people put their resources for the business decisions that they made. And now I hear about, erm, for example climate change, erm, a company, an insurance company in California is liquidating because they can't make the payouts for all of the fires. We hear about what happen in Porta Rico, is that a good investment? So when I hear about these things and I think about what I was trained to do as a profession I ask are we doing the right thing? If eighty seven percent of the market is now in intangibles are we keeping up? Are we doing our clients a service? Because if we don't step up and do what we were trained to do, and think about our contribution, then we're ceding our profession to others and other professionals will take over. But we are stepping back and saying no sorry that's not us, and I don't think that's what the profession should be about. We should be there for our clients, for our pub.., for the public, and for businesses. That's what our goal and our mission should continue to be. Thank you.

LR: one more. One more speaker. Gentleman in the dark jacket.

Questioner 6: Err, thank you madam speaker and good evening ladies and gentlemen. Thank you so much for this opportunity. So, my points are pretty simple in this matter and even before starting my speech I think my vote goes towards the proposition. The point is, the point is like we have heard so many things about like how it needs a market based approach, yes I agree it does need a market based approach, and then how we are having losses in terms of sustainability and things. OK, but now, the moment I heard sustainability I started reading about this stuff and then it, err, it took me back to Kyoto Protocols. I heard this term I think for the first time during my undergrad, and just to get ten marks in my paper, that's all. Then I started again reading through the things in my accounting class, again to submit my assignment. The point is that you need the check and implementation and this check and implementation can only come through the right guidance. To give you an example of a market-based approach, the organisations like EU, ETS, Euro Trading Systems, where emission systems were created, then we have UNCDP credits were created. But none of them even after twenty years being in to existence, none of them were able to achieve it's goal of decarbonising the sectors. So the thing is are we gonna establish more and more standard, are we gonna establish more and more existing implementation. What is the need of the hour because since after twenty, twenty years, we are still discussing that we are at the verge of extinction. We are going to have a two degrees centigrade threshold, but my point is very simple, that it is not required to set up a kind of and err follow, follow up guideline on the based on the existing implementing standards and implementation standards. What is required is a guideline which can create the shake and implementation stuff, which can give us the energy to you know kind of go on the ground and check the, how these standards are implemented and this is where I think SASB and IASB can play a definitely a great role and bring us the standard for. Thank you so much.

LR: Alright. In closing, I am pleased to introduce Jonathan Bailey, the head of ESG Investing at Neuberger and Berman in New York City, to be the closing opposition speaker.

JB: Thank you madam chairwoman. What I want to start off by doing today is just to point out that the proposition came here for a different debate. They wanted to cast my honourable friends in to the climate denying, scurrilous fiends that we are not. We agree with them. ESG factors are material to the long term performance of companies, we think they matter for society and we think that there should be reporting of them. The question is not whether ESG matters. The question, as laid out in the motion before us today, is specifically whether the Financial Accounting Standards Board and the International Accounting Standards Board should be providing mandatory and standardised regulatory requirements of that disclosure in the context of financial reporting. I'm gonna do three things for you today to explain why you should support the opposition and deny this motion. The first question that we have to see answered by the proposition is firstly do we need to have mandatory required regulated disclosure of ESG data in the financial reporting, and I must say the answer is no. The second thing that they have to show us, that if you believe that, right, if you believe that that is required, that FASB and IASB are the most appropriate bodies to actually implement that work, and clearly as we've shown here this evening they are not. And then finally you have to understand that if we were to allow them to do this work, that there wouldn't be a huge amount of unintended consequences which would actually undermine the very goal that Anne Simpson and her colleagues at CalPERS are trying to promote, of a more sustainable world. So let's start with that first one. Is there really a problem? And the answer to that is we just don't believe so. Voluntary disclosure is growing at an extraordinary rate. Today over eighty five percent of the SN5, SNP 500 is providing that disclosure. Anne Simpson may find it difficult to find some of the CDP findings for some of the companies that they own, but today over six thousand public companies provide carbon disclosure and it's growing every year. Then when you look at it in terms of how is that used, because that's critical, and I'll take you in a second. It's not just about having the disclosure, it's about what are investors doing with that data. And the reality is that we are using that data, and we are finding proxies. CalPERS files, shareholder proposals, to push companies to make changes. We, as an investor, use big data and web scraping to find proxies. We shift our portfolios today without needing to have mandatory, standardised, regulated disclosure in the financial reports.

AS: Thank you. Erm, just a point of information. Err, we have a public portfolio of almost eleven thousand companies and the data that you're referring to on climate change simply are not there. And it's completely unfair to those companies that do report that lots of others don't, because then we get underreporting. So we need a level playing field and we also need reporting that is integrated in to the financials because we're investors. We don't want to be running around looking at surveys and websites and all the rest of it. It should all be in one neat and tidy place, and it should be standardised.

JB: So the question then is, what is the best way of getting to an outcome where there's more disclosure? And our argument is, don't try and create an alphabet soup of additional alphabet acronyms over multiple years of governance and legal changes because this is happening by itself, voluntarily, by companies, because of pressure by investors who look at the state of the world from ten years ago, where there was no Sustainability Accounting Standards Board. Disclosure was much weaker. We've come so far in that period of time that it's not necessary to go down the step and, no thank you I'm not going to take the point. So the second argument then is if you do think it's required, which body should take responsibility. And the problem was is that this side couldn't really give us a good reason why the Financial Accounting Standards Board and IASB should do it, in fact they weren't sure if they were in favour or that, or faffing, or faffing around, or whatever the other acronyms were, because they don't actually understand or disagree with us at heart that the Sustainability Accounting Standards Board and the sustainability organisations are really the better groups because they understand the issues. One simple way of getting this through. SASB is based in San Francisco, in a warehouse with avocado toast. FASB is based in Norwalk Connecticut, and none of you have ever heard of that place or are ever gonna go there. That's why SASB is staffed with the types of people who will actually understand sustainability issues, drive this inter-reporting, and make sure it's current and evolving at the pace that we need in order to build a more sustainable world for people and for the planet. So, so we think that that's one big part of it, just their capability. Secondly, my team explained to you why the leadership at FASB and IASB has no interest in taking this on, and that's because they've got to do things like deal with accounting fraud at companies like Tesco, where people are filing accruals in ways that are really dodgy. They've got to deal with the fact that there isn't a global reporting framework, I'll take one of you in a second, where they've aligned US GAP and IFRS. They've got to deal with the fact that we don't have segment reporting sorted out, so they have plenty of other things that they are already dealing with, don't they?

IM: They have plenty of things but not many of the things you have mentioned. They don't get involved with fraud, err, and their, actually their agenda at the moment is relatively slim.

JB: So, if that was the case I think their head would actually be calling for more work to do but they're not so I think on our side we'd argue that they're the wrong group. So then, so then the question is you, if they're not the right body, and it's not really necessary to shoehorn this in to financial reporting, you know what are the unintended consequences of a vote for this flawed proposition? And these are really serious, because if you care about people and the planet, if you care about sustainability, what you don't want is poorly designed regulatory intervention by people in Norwalk Connecticut undermining the progress that's being made. And why would this happen? The first reason we've explained to you is that at the moment most of this data is voluntary and it's not going through the formal audit process. That protects that data from lawyers, and it protects it from being concerned about class action law suits and all the reasons why a company shouldn't put out things that they're still working through and they're evolving. If you had to give detailed, forward looking assumptions on every possible set of scenarios that you had to, that you think could happen to your company, and then it had to go through legal and compliance, I can guarantee investors would be, would not be getting that information. So there's a risk that if you give them a win this evening, you're going to undermine the very progress that you want to see happen. Secondly, this is changing. The Sustainability Accounting Standards Board has shifted its standards even in the last three years because the types of issues that we care about have evolved. Uber didn't exist fifteen years ago. The me too movement has put issues around harassment front and centre in a way that they weren't given appropriate focus five or ten years ago. So we need a system for sustainability reporting that can evolve at the pace at which companies and society's expectations of companies are evolving. And if you put this in the alphabet suit of acronyms and of these chaps and gentlemen and ladies, that's what will happen. It will slow down, it will ossify, and ultimately we won't get the planet that we want. So on those grounds I urge you to oppose this motion.

LR: I now call upon Sir Callum McCarthy, the former chair of the FSA, to make the closing speech in favour of the proposition.

CM: Madan Chairman thank you very much. I should start by saying that I agree with one thing from the previous speaker. He identified the three questions that matter. The first question is, is it important we have corporate sustainability reporting, something of which incidentally we have never accused the opposition or err denying. It is something on which we are both united. The second question, and where we start absolutely divi.. diverging from the remarkable comments he made, is the idea that leading it to voluntary response, ill defined variety of market demands is the best way of getting unified information that is useful and capable of being interpreted by investors and interested parties. I am absolutely concerned that if we were to adopt the views err advanced by the opposition, we would have an exacerbation of the present major problem in corporate reporting, namely that we have an excess of data and we, which gets in the way of real information. Let me just give some examples of this from the time of the global financial crisis, where I was much concerned with this. If you look at the report and accounts of the major banks at that time, the report and accounts of Citibank ran to two hundred and seventy two pages, that of Deutsche Bank to three hundred and fifty two. That of HSBC, and this should be a great cause of pride for the British members of the audience, ran to five hundred pages, and incidentally was so heavy that there was a health and safety issue about the person being able to deliver it. Now, these cornucopia of data provided very little information. The acute dangers of October 2008, when the world absolutely tottered on the edge of a, of the precipice, arose from a breakdown in mutual confidence and trust as no institution believed it could understand other institutions and didn't even know whether they could understand their own position. Confidence and trust require information on assets that is believable and believed, which in turn requires confidence in the methodology used to identify and measure those assets. Data which is organised in a manner which allows comparison between firms, across national barriers, between years, are data which have a higher information content, are more comprehensible, more useful, better for investors, for counter parties, and all those trying to understand the position of an institution. A lot has been said about the voluntary approach that's been adopted up to now. What hasn't been said is that sixty percent of people asked about the voluntary re.., erm approach, say that they are concerned about the lack of standards. Fifty percent say that they, they are concerned about the lack of comparability. Now, those are problems that are absolutely inherent in the arguments advanced by the opposition. So, my, my, my first point is, let us absolutely address the question of whether we need standards and whether they should be mandated, and my answer to that is undoubtedly. Yes.

BH: I think you're making some of err at least my points, erm. You need to focus on what really matters in this, this area and it needs to be comparable, it needs to be in my view standardised and that is exactly that market need that SASB was created in 2011 and has now spent almost seven years to get to these final standards. The standards that most investors now are rallying around.

CM: I, I now take it from that intervention, that of the three questions we now agree on two of them. We agree that, that corporate, err, responsibility, err err reporting is required. We agree that there is a require for standardisation of it, and the only question then between us, apparently, is whether it should be done by FASB and IASB. Is that indeed the case.

BH: As between as between you and me.

CM: Right

BH: My colleauges have other points…

CM: I'm delighted to report at least one member of the opposition has come round. Err, would you like to just to cross the floor? Let me look at the final question, is whether IASB and FASB should be intrusted with this. And I think there are two fundamental questions why. The first is the need to integrate financial and non-financial reporting. It has been suggested in some of the arguments, that these are completely separate. That is a nonsense. There is an important degree of overlap between them. This is a Venn diagram in which the overlap is essential. So the idea that the importance of one is quite separate from the importance of the other, which is an argument that has repeatedly been made, is just a nonsense. My second, err, point is a rather practical one. IASB and FASB are there. They are the only two properly funded reporting regulators. The only two with sensible corporate structures. They have, despite what has been said, a rather sensible view of reporting, certainly in terms of IASB and IFRS, I should declare an interest, I used to be a trustee of the IFRS. There is a over the trustees there is a monitoring board which takes representatives from major in.. institutions around the world, the SEC, the European Commission, a whole variety of others. They are, they have dealt with some of the most pressing financial reporting issues, such as leasing ish.. insurance and financial instruments, and they have the time and resources at the moment to devote to this. So the idea that they are not capable of doing it, irrespective of the view of what, of the present chairmen err, err, of the IASB, is a nonsense. We could get them to do it if we wanted to and they are well equipped to do it. And for those reasons, no sorry I'll just finish and then you can make any intervention you like. For those reasons, I think the answer to the three questions is first of all we both agree on the question of the importance of this. Second, at least some of us agree that the, of the advantages of standardisation err and mandatory requirement. And I would argue very strongly that the only institutions capable in reality of doing this at the moment are IASB and FASB. Thank you.

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