



# The AMBACHTSHEER Letter

Sustainable Pension Design • Effective Pension Management

April 2022

## THE FUTURE OF STAKEHOLDER COMMUNICATIONS:

### WHERE DO PENSION ORGANIZATIONS GO FROM HERE?

*“In June 2022, the Value Reporting Foundation— home of Integrated Thinking Principles, the Integrated Reporting Framework, and the SASB Standards— will consolidate under the International Financial Reporting Standards (IFRS) Foundation, which is establishing the new International Sustainability Standards Board (ISSB).”*

Value Reporting Foundation  
March 2022

*“Many organizations are already doing good work which will help them prepare for when the new ISSB Standards are published. They should continue to do so and not wait. As we develop the Standards, feedback will be welcome and essential.”*

Emmanuel Faber  
Chair, ISSB  
March 2022

### Reporting Standards Processes Finally Consolidating

The *Value Reporting Foundation (VRF)* announcement cited above signals the end of many years of proliferation in the number of entities (and acronyms!) involved in modernizing the world’s organizational reporting rules. The announcement indicates:

- After integrating and consolidating the work of the *International Integrated Reporting Council (IIRC)* and the *Sustainable Accounting Standards Board (SASB)*, the *VRF* itself will further integrate and consolidate its work with other organizations in the field (e.g., *Carbon Disclosure Standards Board (CDSB)*, *Taskforce for Climate-Related Financial Disclosure (TCFD)*, and the *World Economic Forum (WEF)*). All this will be done under the umbrella of the *International Financial Reporting Standards (IFRS) Foundation*, home of the *International Accounting Standards Board (IASB)* and the just-created *International Sustainability Standards Board (ISSB)*.
- The goal is adoption of the *IASB* and *ISSB* standards through common legislation, regulation, and financial markets practices around the world. This will lead to comprehensive views of organizational performance and prospects through improved connectivity between financial reporting and sustainability disclosures. The result will be a shift away from increasing reporting complexity towards much needed simplification and clarity.

To that end, the ‘don’t wait’ advice expressed above by Emmanuel Faber, the just-appointed Chair of the new *ISSB* is critically important. We agree, and show in this *Letter* that much ‘good work’ is indeed already possible and will simplify the eventual adoption of the new *ISSB* Standards when they are promulgated.

## Other Views

In their Feb. 2022 *Harvard Business Review* (HBR) article titled “[We Need Universal ESG Accounting Standards](#)”, Profs. Robert Eccles and Bhakti Mirchandani heartily endorse the view that the world needs a uniform set of organizational reporting standards for non-financial factors aimed at investors and other organizational stakeholders, and that the *ISSB* offers the best hope for achieving this. Interestingly, while the article generated a lot of positive feedback, it also generated some highly personal negative blowback. The views of the radical right were predictable: the entire *ISSB* initiative is a ‘do gooder’ waste of time and money and should be abandoned immediately. Those of the radical left were equally extreme: the *ISSB* initiative is simply a ‘greenwashing’ smokescreen designed to divert attention from the ‘doomed planet’ trajectory we are on.

We ran our own mini-survey on the ‘where do we go from here with organizational reporting?’ question. Seven knowledgeable respondents provided universally positive and thoughtful feedback, which fell into two broad categories: Legal and Managerial.

- **Legal:** Fiduciary Law is principles-based and evolves over time through updated thought-processes, arguments, and court cases. A key principle currently ‘in play’ in the corporate world involves a steady shift from a narrow shareholder/owner primacy focus to a more broadly-based stakeholder primacy focus, which in turn leads to a broader concept of systemic stewardship. The creation of the *ISSB* is a logical consequence of this shift. Through its creation, the *ISSB* will require organizations to look beyond their own micro context to the broader macro context of how its actions (on carbon emissions, water management, labour practices, etc.) impact the physical and social environments. Even without a finalized set of *ISSB* Standards, the ‘legalization’ process for sustainability-related disclosures is already well-underway in the UK and the EU, with other countries (e.g., Australia, Canada, New Zealand, Singapore) working to catch up. Even the *SEC* in the USA has just issued a comprehensive rule-change proposal covering corporate disclosure requirements for sustainability-related matters.
- **Managerial:** organizations such as pension funds should be proactive participants in the transition process towards the development and implementation of the *ISSB* Standards. There are at least three good reasons. First, there is growing demand from pension plan members and other plan stakeholders for their pension organization to be actively involved in addressing sustainability challenges. Second, integrating sustainability issues into the organization’s investment model and investment decision-making processes is no trivial matter. It likely means attracting and retaining governance and technical talent that was not perceived to be required in the ‘old’ investment model. Third, it would signal managerial incompetence to be seen a laggard in addressing the organization’s sustainability challenges. For example, on the one hand, it would not look good for the fund to end up being the owner of a large portfolio of ‘stranded assets’ down the road. On the other, it would also not look good to end up being the owner of a large portfolio of materially over-valued low-emission assets with poor return prospects.

Additional feedback that did not neatly fall into the ‘Legal’ or ‘Managerial’ categories included:

- **ISSB Implementation Timeline:** It will likely take the *ISSB* most of the rest of 2022 to get staffed up and organized, with the first draft of the Standards out for comment by the end of 2022, and the final version published by mid/late 2023.<sup>1</sup>
- **The TCFD disclosure framework:** It will eventually be rolled into the emerging *ISSB* Standards. Meanwhile, organizational take-up of this reporting framework will continue to be monitored and reported.

- **National Initiatives:** A lot of the sustainability reporting-related actions (e.g., legislation, regulation, standard-setting) will continue to take place at the national levels, or multinational in the case of the EU. These developments too require active engagement and monitoring.
- **Benchmarking:** The mantra of ‘what gets measured gets managed’ is alive and well. Benchmarking of ‘best practices’ in reporting and stakeholder communications will help raise reporting quality standards both nationally and internationally.

All this leads to the final part of this *Letter*. What does all this mean for the stakeholder communication strategy of pension organizations today?

### **The *Integrated Reporting Framework* to the Rescue**

Longtime readers of this publication know we have been a long-time advocate for the *Integrated Reporting Framework (IRF)*. Properly used, the *IRF* leads to a clear, concise, compelling narrative about a pension organization’s purpose, governance, business model, look-back performance, and look-ahead strategy. So we were delighted that three of this *Letter’s* seven mini-survey respondents volunteered (unsolicited!) that the global shift to a single *ISSB* Standard makes the *IRF* even more valuable. Why? Because that shift requires the successful integration of the financial and non-financial drivers of value-creation in pension organizations in the years and decades ahead.

This *Letter* closes with some thoughts on how each of the five *IRF* components can capture the transition from the historical ‘micro-only’ reporting focus to the broader ‘micro plus macro’ focus currently underway:

- **Organization Purpose:** while the ‘micro’ purpose of a pension organization to deliver adequate pensions at a reasonable cost must remain front-and-center, a broader multi-dimensional focus on sustainability must now be added to the purpose mix. For example, such a broader focus requires giving thought to issues like intergenerational fairness in risk-bearing and reward-sharing within the ‘pension deal’. As another example, how does the organization’s investment program contribute to the sustainable long-term wealth-creation processes required to generate adequate pensions in aging societies at affordable contribution rates?
- **Governance:** what is the process for selecting Board members for pension organizations? Is there a mechanism for ensuring the Board has the requisite skill and experience to provide expert oversight not only in traditional areas such as pension plan design, but also in emerging sustainability areas such as designing and implementing an effective Net-Zero investment program? Is there a mechanism for evaluating Board effectiveness over time?
- **Business Model:** how does the pension organization ensure that it has, and properly uses, the tools needed to achieve its stated micro and macro goals? This will require the successful integration of establishing target pension payments, designing adjustment mechanisms to steer a sustainable path between inevitable bouts of over- and underfunding, designing and implementing an effective Net-Zero investment program that reflects the risk appetites of plan members and other possible plan risk bearers (e.g., tax payers), a compensation philosophy that attracts and retains the people needed to make all this work, and finally, a stakeholder communications program that elicits trust that the organization is being competently managed in the best interests of its stakeholders.

- **Performance:** how are actual outcomes performing versus organizational targets? This question should be regularly addressed throughout the organization's full value-creation chain. So, following the key components of the Business Model set out above, metrics need to be defined for actual pension payments vs. target payments, actual funding status vs. target funding status, actual investment results vs. target results (e.g., rates of return, costs, carbon emissions), actual compensation vs. target compensation, and actual benefit administration and stakeholder communication quality outcomes vs. target outcomes.
- **Strategy:** while it is essential to report on backward-looking performance metrics, it is equally essential to report on forward-looking plans from here. Once again, the organization's full value-creation chain is fair game. What are possible plans for further clarifying organizational purpose? For improving governance? For improving plan benefit design? For improving and expanding the Net-Zero investment program? For compensation philosophy? For improving benefit administration and stakeholder communications?

All this confirms it would be a really bad idea for pension organizations to wait for the publication of the ISSB Standards to integrate 'sustainability' into their governance structures, business models, stakeholder reporting protocols, and forward-looking strategies. That process should already be well-underway. For example, APG's Hannie Bovens just sent us her organization's [2021 Annual Report](#). It is very much designed and written in the spirit of not waiting for 'the final answer' on reporting standards. The Report carefully integrates organizational purpose, value-creation and strategy (23 pages), with a multi-dimensional explanation of organizational performance (25 pages), with its evolving business model to deal with an uncertain future (17 pages), with a detailed exposition of its governance structure and organization design (23 pages). Only after all this do its financial statements appear (50 pages). The Report ends with a number of appendixes that delve more deeply into a number of specific topics (25 pages).

For those organizations that have not yet started to update their stakeholder communication practices, there is a lot of catching up to do!<sup>ii</sup>

Keith Ambachtsheer

Endnotes:

- i. *The ISSB has just delivered two proposals that would create a comprehensive global baseline for sustainability disclosure. One focuses on general sustainability-related disclosure requirements, the other specifically on climate-related disclosure requirements. The deadline for comments is 29 July 2022.*
- ii. *The 'pension organization' in this Letter has control over all of the key elements and functions involved in pension design, governance, and investing. We are well aware that actual pension organizations in the real world are often not that lucky. Many are constrained to operate within legal/regulatory confines not of their own making. The challenges involved in changing those legal/regulatory confines are outside the scope of this Letter, and a worthy topic for a future one.*

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