



# The AMBACHTSHEER Letter

Sustainable Pension Design • Effective Pension Management

April 2023

## FROM INTEGRATED REPORTING TO VALUE-CREATING ORGANIZATIONS:

### HOW THE MEDIUM IS (SLOWLY) BECOMING THE MESSAGE

*“The medium is the message is a phrase coined by Canadian communication theorist Marshall McLuhan. He asserted that a medium is not something neutral....it does something to people. It changes scale or pace or pattern in human affairs.”*

Wikipedia

*“I was present in St. James Palace in December 2009 for a bold announcement by Global Reporting Initiative (GRI)’s Mervyn King in front of Accounting for Sustainability (A4S) Founder, the then Prince of Wales. It was to connect financial and non-financial information in organizational reporting through the creation of the International Integrated Reporting Council (IIRC) - an initiative that eventually led to the **Integrated Reporting Framework.**”*

Alan Willis, FCPA, FCA

*“The **Integrated Reporting Framework** has been tested over the last ten years and its efficacy and resilience as an overarching framework connecting the financial and non-financial in organizations has been proven.”*

Mervyn King, Chair Emeritus, IIRC and GRI

### A Proven ‘Overarching Framework’

This publication began to sing the praises of the *Integrated Reporting Framework* as a medium with a very important message almost nine years ago, in the [August 2014 Letter](#).....and we have done so six more times since then. The return to the topic here once again was triggered by reading two very different articles related to the integrated reporting topic. Both, in their own ways, offer powerful insights:

1. Adapted from Alan Willis’ recent article [“The Connectivity Conundrum: \(How\) Will Integrated Reporting Fulfill Its Promise?”](#) in the *Think TWENTY 20* publication for financial professionals. As his article indicates, Alan has been involved with integrated reporting since before that landmark event in St. James Palace in 2009, helped develop the *Integrated Reporting Framework* and has closely followed its evolution to this day. His article documents the creation and implementation of the *Framework* which helps organizations explain how they create value for stakeholders through narratives that flow from purpose, to governance, to business model, to strategies that will create value tomorrow. At the end of his article, he poses important questions about its future.

2. [BlackRock Chair Larry Fink's Annual Letter for 2023](#). I read the Annual Letter by the Board Chair of the globe's largest asset manager (\$8.6 trillion at 2022 year-end) out of simple curiosity. Reading through the Letter, it began to dawn on me that its narrative closely followed the spirit of the *Integrated Reporting Framework*, if not exactly all the rules. I show that by reorganizing and editing the Letter, it becomes an even stronger example of the communication power of the medium of integrated reporting than the original version of the Letter.

### **How Has *Integrated Reporting* Evolved Since 2009?**

In the complex worlds of organizations in general, and of corporations and pension funds in particular, we should acknowledge the importance of understanding the connectivity of things. This requires integrative thinking and information. Those were the accepted realities that led to the formation of the *IIRC* in St. James Palace in 2009, and the release of the *Integrated Reporting Framework* in December 2013. The purpose of the *Framework* is to create forward-looking narratives that flow from an organization's purpose, to how it is governed, to the business model required to achieve its purpose, to the value-creating outcomes it has been achieving, and finally, to the strategies it intends to deploy to create value in the future.

So how have things unfolded since the *Framework's* release in 2013? In his article, Alan Willis notes that, despite some notable successes, the uptake of using the *Framework* for organizational reporting has been slow. An important reason for this has been a flurry of more recent micro disclosure initiatives/requirements that have focused on climate/sustainability-related related disclosures. Examples are the creation of the *Sustainability Accounting Standards Board (SASB)* and the launch of the *Taskforce on Climate-Related Financial Disclosures (TCFD)* and its subsequent recommendations. Happily, all of these initiatives are now being consolidated under the umbrella of the *International Financial Reporting Standards (IFRS) Foundation*, which oversees the work of the *International Accounting Standards Board (IASB)* and a newly-created *International Sustainability Standards Board (ISSB)*.

However, Willis points out there is more to be done. As an example, both the *IASB* and the *ISSB* profess to be strong believers in the value of integrated reporting, but it is unresolved what that means in practice. Will the *Management Discussion and Analysis (MD&A)* sections of traditional Annual Reports be subjected to some kind *Integrated Reporting Framework* standard? Or will that standard be set as part of a new Annual Sustainability Report as set out by the *ISSB*? These are important questions still requiring resolution. It would seem that Willis' question in the title of his paper "*How Will Integrated Reporting Fulfill Its Promise?*" still does not have a clear answer from the *IFRS* Foundation.

### **Chairman Fink's Message and Its Medium**

Fortunately, *BlackRock* Chairman Fink's Letter to the world demonstrates there is no need for wait for the *IFRS* Foundation to sort things out. Here is my abbreviated version of his 16-page 2023 message to clients, shareholders, and the world at large:

#### Organizational Purpose

- Deliver value to clients as a fiduciary asset manager, acting and speaking on their behalf, mindful of their best interests, and at the same time deliver a satisfactory return to shareholders.
- Understand and respond to clients' financial needs in such contexts as retirement and wealth management in general.
- Be mindful of the broader evolving socio-economic context (e.g., environmental and corporate governance issues) in which we operate.
- Foster innovation in financial markets structure and investment technology.

## Organizational Governance

- Our Board of Directors, by design, is diverse in expertise and experience.
- It reviews the risks and opportunities embedded in our strategic business plan.
- It also reviews our human resources plan to ensure we have the requisite management skills and experience to execute our strategic business plan, and to maintain our entrepreneurial culture.

## Business Model

- Create ‘win-win’ relationships between *BlackRock* and both its clients and its shareholders. Client-related examples are scale economies leading to lower fees, tighter bid-ask trading spreads, and an increasingly diverse lineup of investment options. At the same time, those scale economies also lead to better profit margins for shareholders.
- Incorporate climate-related transition finance opportunities into the investment product mix.
- Provide voting choice to clients who want to do their own proxy voting at the AGMs of investee corporations.
- Understand how digital assets might improve national payment systems.
- Manage and further develop ALADDIN, our Asset, Liability, and Debt, Derivatives Investment Network, which is an end-to-end investment management operations platform.
- Manage and further develop LIFEPATH PAYCHECK, to facilitate the provision of lifetime income for retirees.

## Results

- Since the 1999 IPO, our stock has delivered a return of 7700%, #1 in the S&P500 financial services sector.
- While most of our peers experienced net asset outflows in 2022, we experienced a net inflow of almost \$400B.
- User interest in ALADDIN continues to grow, as does participating in the VOTING CHOICE, OUTSOURCED CIO, and LIFEPATH PAYCHECK options.

## Strategy

- Four broad themes in this and future decades will be POLITICAL POLARIZATION, ECONOMIC FRAGMENTATION, ENVIRONMENTAL TRANSITION, AND SOCIETAL AGEING, ....setting the stage for a multiple POLYCRISES environment in the years and decades ahead.
- Inflationary pressures are likely to be a continuous reality, as is the need for asset/liability and liquidity management.
- In the context of this likely POLYCRISES environment, we will continue to emphasize choice for our increasingly diverse client base. This will manifest itself in multiple areas including investment instruments (e.g., iShares, private market funds, transition strategies), proxy voting, lifetime income provision, whole portfolio advice, client-specific customization. At the same time, we will further build our problem-solving/advisory resources to help our clients address the financial challenges facing them.
- We will also continue to strengthen our fintech capabilities (e.g., further ALADDIN development, understanding digital assets).
- Finally, we will continue to strengthen the people and culture side of the organization from Board composition, to executive level strengths, to the skills required to achieve the strategic goals we have set for the years to come.

In short, the medium of Chairman Fink’s Letter nicely carries *BlackRock’s* integrative message to its clients, its shareholders, and the world.

## **Our Own Letters on Integrated Reporting: A Brief History**

With its focus on integrating pension design, governance, and investing since 1985, this publication has been an enthusiastic promoter of the *Integrated Reporting* medium since its inception in 2013. Here are brief summaries of our efforts over the course of the last five years:

- **May 2018:** *“The State of Integrated Reporting in Pension Organizations: The Cases of California Teachers’ and Ontario Teachers”*. Provides an analysis of how close the 2017 Annual Reports of these two pension organizations come to following the *Integrated Reporting Framework* as set out by the IIRC.
- **January 2019:** *“Telling their Value-Creating Stories: Why Asset Owners Should Use the Integrated Reporting Framework”*. Reviews the power of integrative thinking to connect a range of factors that contribute to value-creation, and places it in a pension design, governance, and investment context.
- **March 2019:** *“Rethinking Asset Owner Performance Measurement: Insights from the Integrated Reporting Framework”*. Shows how performance metrics developed by *CEM Benchmarking* for the investment and the benefit administration functions can be used in *integrated reporting*.
- **April 2019:** *“Creating Value for Stakeholders and the Greater Good: How CBUS SUPER Uses the Integrated Reporting Framework to Tell Its Story”*. A Case Study on an Australian pension organization that has been using the *Framework* since its release in 2013.
- **April 2020:** *“A Video Discussion on Integrated Reporting for Asset Owners”*. In this 7-minute video, I explain how *Integrated Reporting* can become the ideal medium to convey a pension organization’s value-creating message.
- **July 2020:** *“Asset Owners and Organizational Reporting Frameworks: Time to Consolidate, Simplify, and Innovate”*. Argues not to treat organizational narratives and standardized, independently audited financial data/metrics as separate topics. It is through the ongoing integration of these two dimensions of organizational reporting that the medium becomes to message.
- **April 2022:** *“The Future of Stakeholder Communications: Where Do Pension Organizations Go From Here?”*. Don’t wait for the world’s reporting standards organizations to cross the ‘t’s and dot the ‘i’s. Start your *Integrated Reporting* journey now! The *Letter* showcases the decision of the Dutch pension services provider *APG* to do just that.

This history confirms that over the course of its decade-long journey, *Integrated Reporting* has indeed become a “proven overarching framework connecting the financial and the non-financial” in pension organizations.

However, that journey is not yet complete. Is your organization ready to join in?

*Keith Ambachtsheer*

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