

**A speech by Professor Mervyn King at The Prince's Accounting for Sustainability Forum seminar, St James's Palace**

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The limited liability company is an incapacitated juristic person until individuals act as its directors. It was one of the drivers of the industrial revolution, as entrepreneurs were able to ring-fence their personal assets by placing their businesses into a company. Wealthy families were the providers of capital and the individuals steering these incapacitated juristic persons did so on the basis of the primacy of the shareholder. The milieu in which companies operated was based on the fallacious assumption that there was a limitless supply of natural capital and a limitless capacity of planet earth to absorb waste. It appeared to be limitless, because a hundred years ago there were approximately one billion people on the planet and by 1945 at the end of the Second World War, there were not even two billion people on the planet. Planet Inn was empty. Now there are six-odd billion people on planet earth.

This 100 years of Take from natural capital as if it was a public good without cost, Make and Waste has had a massive negative impact on society and the environment. Natural resources have been depleted, waste accumulated and the waters of planet earth polluted. Companies now operate in a completely different milieu. It is one where we have reached ecological overshoot, namely natural resources have been used faster than they are being regenerated, humankind has caused tonnes of global warming pollution to be poured into the atmosphere as if down a sewer. There are no vacancies in Planet Inn and yet another three billion people are expected to be accommodated by 2045!

The different milieu is one where business cannot be conducted as usual and more has to be made with less. The new economy is one based on factual crises

and not fallacious assumption. We have the financial crisis, the climate crisis and the natural resources crisis, where two-thirds of the planet's important ecosystems have been used beyond capacity. We have had a shareowner revolution, where the major providers of capital to companies today are individuals, as the great shareholders are no longer wealthy families, but financial institutions and pension funds, employing our money in acquiring the equity of companies.

The company has changed its identity. It has become integral to society. It is no longer a mere ringfence tool. Companies have the greatest pool of human and capital resources known to humankind. Of the 100 largest economies in the world by way of gross revenue, 51 are multinational companies and only 49 are governments. The strategic long-term direction of a company operating in hundreds of countries has a huge impact on society and the environment.

The book value of a company, evidenced by its balance sheet, its profit and loss statement and the related notes, according to accepted international accounting standards, does not represent the economic value of a company. The economic value contains intangibles such as the reputation of the company, the quality of governance and management and whether the board has applied its mind to the long-term strategic direction of the company incorporating the sustainability issues pertinent to its business. For example, would it be a responsible investment by a pension fund to invest in a beverage manufacturer that has no long-term plan for the replenishing, re-using and recycling of water? Traditional accounting and reporting emphasise discreet assets, presenting them as additive rather than interdependent. In the new economy, there are five capital assets which are critically interdependent, namely Financial, Human, Natural, Social and Manufactured/Technological. Pension funds investing our money need to be responsible investors, because those of us who will retire in, say 25 years' time,

need to be ensured that our trustees are acquiring equity in companies which will be sustained.

Research at the Global Reporting Initiative has established that stakeholders want a holistic and integrated report, showing both positively and negatively how the operations of the company have impacted on the economic, social and environmental life of the community in which it operates and how it intends to enhance those positive aspects and eradicate or ameliorate the negative aspects. Financial reporting alone cannot give this information. Trustees of pension funds have a duty to make informed assessments of the sustained economic value of companies before investing our money. They cannot discharge that duty purely on financial reports.

Financial reporting is over 100 years old and is backward-looking. To compensate, societies, some governments by way of national legislation and some organisations for the public good, such as A4S and the GRI, have promoted integrated reporting. It is critical, however, that the mindsets of boards change so that there is a connection between sustainability and the strategic long-term direction of a company. If the premises are that we have climate change, that there is finite natural capital and that we will have another three billion people to be accommodated by 2045, stakeholders can only make informed assessments of the sustainability of a company by reading an integrated report or, as Harvard University would have it, "One Report".

And so the leading financial reporting standards setter, the IASB, needs to work with the providers of the most widely used ESG frameworks and who have a broad convening capacity of relevant stakeholders, such as the GRI, A4S, PRI and ICGN, in order to create an international integrated reporting model.

Governments, too, must be urged to play a role to ensure an international mandate from which an internationally-accepted integrated reporting model can be developed.

The crisis of climate and the degradation of our ecosystems and biodiversity is common to every human being on the planet. Notwithstanding, persons have a natural inclination to think of their own selfish interests rather than a global one. We can no longer do that. We are in a state of emergency. Emergency does not call for the right thing to do. It calls for essential things to be done. What is essential now is that we all collaborate and contribute to establish an international integrated reporting entity which can achieve the goal of an international model. Boards have to get buy-in for their long-term sustainable strategic thinking and if they do, they will get ordinary people to achieve the most extraordinary things. And it is extraordinary things we now have to achieve in the interests of those who will be on the planet whom we will never even know.

There should be a call on the external auditing profession to equip itself to give assurance as to the credibility of integrated reporting. Assurance is needed in order to have meaningful, credible and comparable information about the impacts upon the economy, society and the environment.

This strategic sustainability thinking has to be built into the very rhythm of a business. It must be monitored, reviewed and reported on in understandable language. It will improve risk management and provide credible and useful information for management implementing the strategic direction of a company. Making more with less and carrying on business as unusual is good hard-nosed business, because it will increase a company's global competitiveness and long-term prosperity.

We have to share knowledge and reduce duplication of effort because we do not have 100 years in which to develop integrated reporting. We have to create a model and standards in the next couple of years. We do not have the luxury of time. Calamity is staring us in the face. There is an identity of purpose in this room which, if harnessed, can avoid the calamity. A first step is to persuade the G20 in Canada to legislate that all entities within their jurisdictions have to report or explain how their operations have impacted on society and the environment. Stakeholders will be the compliance officers while international standards of integrated reporting are developed.

I tender the GRI's collaboration with the organisations represented in this room in forming an international integrated reporting entity. We must work together to create an international integrated reporting model, which can eventually be measured against accepted standards and assured in the interests of humankind.

I accept this is a journey and that we will have to do it step by step while walking up an ascending path. But we have to start and as we take each fruitful step, we will feel a sense of achievement in doing so because it will be in the interests of our planet and the sustainability of humankind.