

**EFFAS - The European Federation of Financial Analysts Societies**

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**WICI Europe - 2nd International Policy Conference on Intangibles**

**„Only what's measured can be managed“**

# **Intangible Assets & ESG Factors in Financial Reporting**

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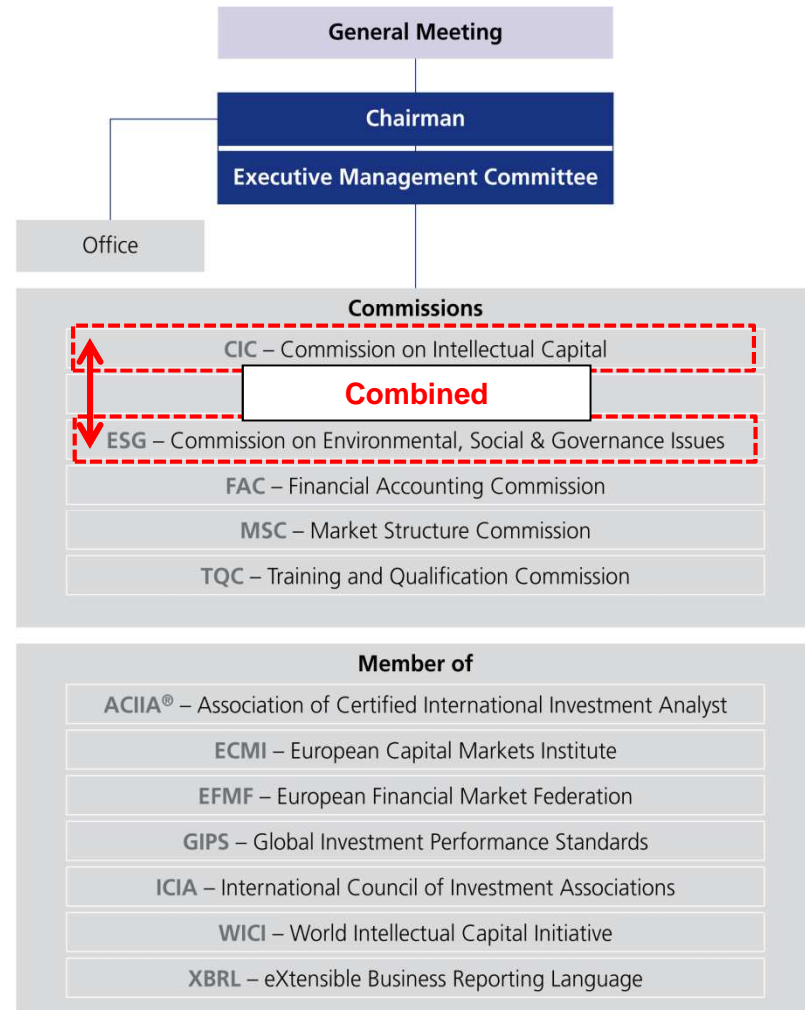
**Frankfurt am Main/ Germany**

**12 September, 2017**

# EFFAS: A standard-setter for investment professionals' requirements

- EFFAS was set up in 1962 as a non-profit organization
- EFFAS is a founding member of the WICI Global Network, etc.
- 22 national member societies, representing approx. 15,000 investment professionals in Europe
- Head Office: Frankfurt a.M. / Germany
- EFFAS executive bodies: AGM & EMC (Executive Management Committee)

**Chairman:** Jesús López Zaballos (Spain)  
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 Manuel Puerta da Costa (Portugal)

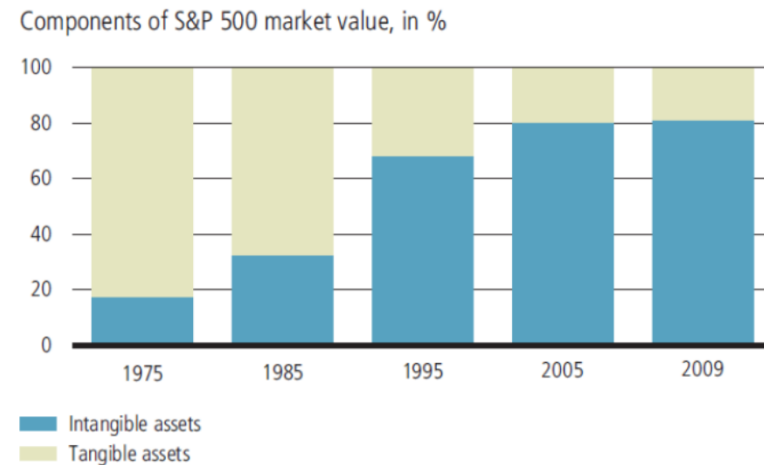


# Why analyze Intangible Assets (IAs)?

Traditional financials only grab a fraction of a company's true value

- Studies\* estimate that up to **60-80% of a company's value** is determined by IAs and this percentage is increasing
- Even though sustainability related factors are now part of non-financial reporting, there are still **many IAs that remain unrecognized**
- Better recognition of such IAs will **improve investment and management decisions**

Components of S&P 500 market value in %



Source: UBS, Sustainable Investing, July 2013

\* e.g. PwC: Intangible assets: What are they worth and how should that value be communicated?, UBS „Sustainable Investing“

# Types of Intangible Assets

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## Intangible Assets (IAs):

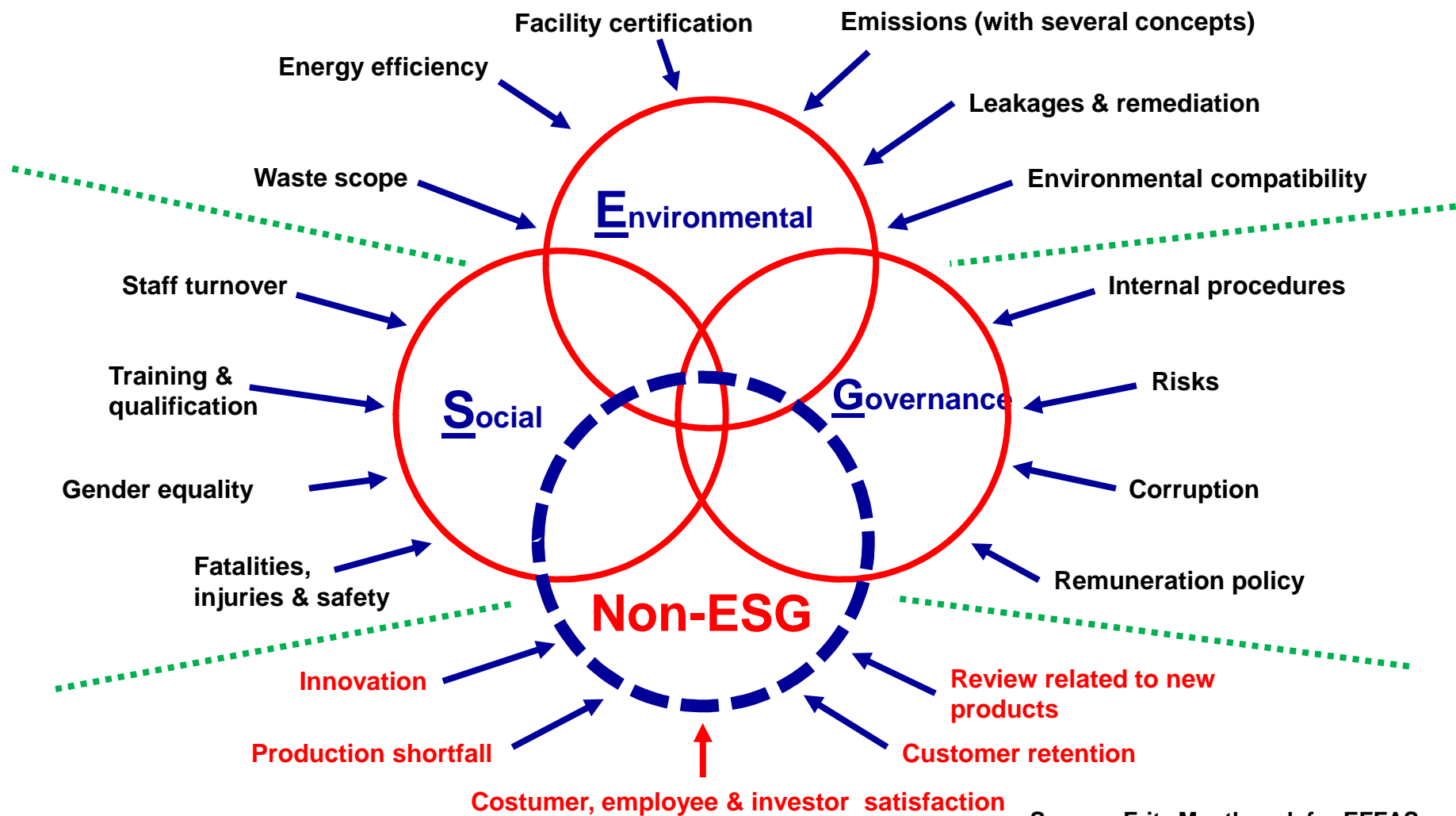
IAs recognized as financials  
(usually assets such as  
patents purchased from 3rd  
parties)

IAs unrecognized as financials,  
but typically suited for **non-  
financial reporting** (internally  
developed, typically soft factors)

Factors recognized  
in non-financial  
reporting (**ESG**, in  
particular)

Factors not  
recognized in non-  
financial reporting

# However, there are areas not covered by ESG. This, we should talk about...



Source: Fritz Mostboeck for EFFAS

# Integrated ESG Management

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## Our opinion/approach:

- **The benefit of a sustainably oriented strategy is the greatest if it integrates all available management tools (risk management, finding of investment opportunities).**
- **Long-term and sustainable experience & track record, continuous enhancements.**

Source: Erste Asset Management

# Risk Management via Sustainability Analysis

## ESG Rating and Best-in-Class Analysis

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- **ESG risks & opportunities** from business operations and the geographic distribution/diversification of a company have to be analyzed (exposure).
- **Risk information** has to be checked in relation to **existing controlling & management systems** (?) to evaluate relevant financial **ESG risks in future**.

Source: Erste Asset Management

## Summary & outlook

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- IAs are only partially recognized in financial reporting
- IAs related to sustainability are typically excluded from financials, but **included in non-financial reporting**
- Numerous ***non-ESG factors*** remain unrecognized in both financial and non-financial reporting
  - **As many of these are equally crucial for value creation, it seems important to develop a suitable framework for capturing them**



# Contacts

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# Appendix



# Intangible Assets in financial reporting

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- IA is **an umbrella term** for different types of assets without physical substance, some of which are reported as financials, some are part of non-financial reporting
- With the implementation of the **EU Directive 2014/95 into Austrian Law (NaDiVeG from 12/2016)** sustainability related indicators (**ESG factors**) are included in mandatory non-financial reporting since 1.1.2017

**Still: some intangible assets which are not captured by sustainability related legislation remain unrecognized!**

# We do have a lot of **unsolved problems** worldwide



**On a global scale, the discussion is still at the beginning!**



etc.,...

Source: Fritz Mostboeck for EFFAS

# ESG

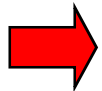
## What are the benefits of ESG?

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- ESG is not a marketing gag.

Differentiation effectively creates:

1. **Competitive advantage,**
2. **Higher reputation,**
3. **Confidence.**



**These ingredients are the basis for the sustainable success of a company. Therefore, applied ESG increases a **company's value**.**

Source: Fritz Mostboeck for EFFAS

# ESG

## Advantages of the capital market

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- > Wide transparency is honoured, lacking is sanctioned,
- > Soft facts are measured by the share price as well,
- > ESG and the capital market stands for performance orientation,
- > Generation of a common good,
- > Efficient allocation of financial resources,
- > **Capital markets** are the **best-suited medium** for a comprehensive evaluation (including soft facts) because:
- > **Stocklisted companies** => represent the **bulk of global GDP** (~85%, bonds are ~140%/ government- and corporate bonds).

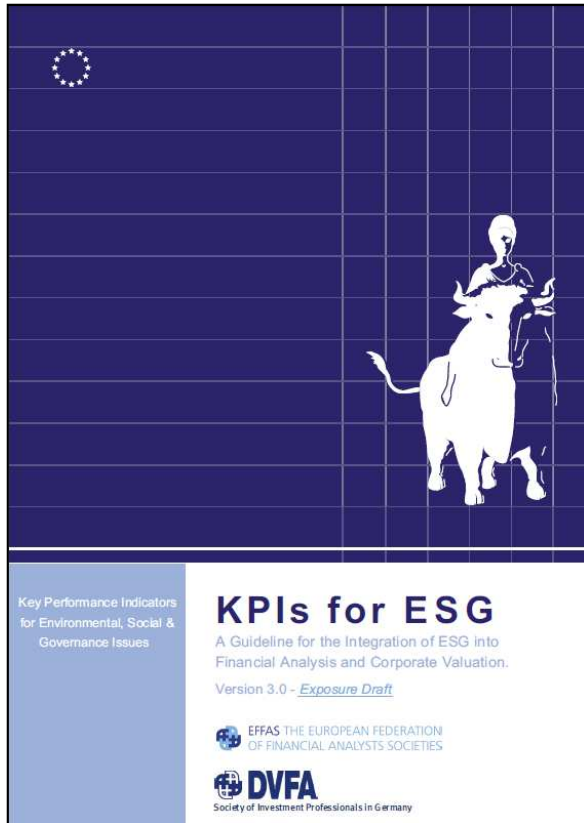
Major disadvantage for the moment: **Investor awareness**, but:  
-> public pressure is - from different sides - increasing.

Source: Fritz Mostboeck for EFFAS

# EFFAS Non Financial Reporting KPIs

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## EFFAS/ DVFA Report on Sector KPIs for ESG



Released in September 2010:  
see [www.effas-esg.com](http://www.effas-esg.com)

- **Sector Benchmark:**  
**Dow Jones Industry Classification**
- **Covering 10 main sectors:**  
**Oil & Gas,**  
**Basic Materials,**  
**Industrials,**  
**Consumer Goods,**  
**Health Care,**  
**Consumer Services,**  
**Telecom,**  
**Utilities,**  
**Financials,**  
**Technology.**
- **divided into 114 subsectors.**

# EFFAS Non Financial Reporting KPIs

## EFFAS/ DVFA Report on Sector KPIs for ESG

**DVFA** **EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES**

533 Exploration & Production

KPI	Spez-ID	Scope	Specification
1 Energy Efficiency	E01-01	I	Energy consumption, total
2 GHG Emissions	E02-01	I	GHG emissions, total (scope I,II)
3 Staff turnover	S01-01	I	Percentage of FTE leaving p.a./total FTE
4 Training & qualification	S02-02	I	Average expenses on training per FTE p.a.
5 Maturity of workforce	S03-01	I	Age structure/distribution (number of FTEs per age group, 10-year intervals)
6 Remuneration	S08-01	I	Total amount of bonuses, incentives and stock options paid out in €/\$
	S08-02	I	Total number of FTEs who receive 90 % of total amount of bonuses, incentives and stock options
	S08-03	I	Key Performance Narrative (Please answer the questions in max. 500 words) Do you take ESG performance into account in your performance agreements? How do you integrate ESG principles within performance agreements in your company and to what extent do you apply it?
7 Litigation risks	V01-01	I	Expenses and fines on filings, law suits related to anti-competitive behavior, anti-trust and monopoly practices
8 Corruption	V02-01	I	Percentage of revenues in regions with Transparency International corruption index below 6.0
9 Revenues from new products	V03-02	I	Percentage of new products or modified products introduced less than 12 months ago
10 Innovation	V04-01	I	Total R&D expenses
	V04-12	I	Total investments in research on ESG relevant aspects of business as defined by company (referred to Introduction 1.B.1. KPIs & Definitions)
11 Emissions to Air	E03-01	II	Total CO <sub>2</sub> , NO <sub>x</sub> , SO <sub>x</sub> , VOC emissions in million tonnes
12 Remediation	E12-01	II	Expenditure for remediation, reclamation and decommissioning total in monetary terms i.e. currency
	E12-03	II	Environmental spending for R&D, site rehabilitation and environmental monitoring total in monetary terms i.e. currency
13 Contributions to political parties	G01-01	II	Contributions to political parties as a percentage of total revenues
14 Dimensions of pending legal proceedings	G02-01	II	Amount in monetary terms i.e. currency in controversy, dispute from legal proceedings
15 Fatalities & Injuries	S04-03	II	Total number of fatalities in relation to FTEs
	S04-04	II	Total number of injuries in relation to FTEs
16 Maintenance & safety	S09-02	II	Total spendings in monetary terms i.e. currency on maintenance and safety of production sites, plants ect.
17 Environmental CapEx	V12-02	II	CapEx allocation to investments on ESG relevant aspects of business as defined by the company (referred to Introduction 1.B.1. KPIs & Definitions)
18 Utilization	V13-01	II	Capacity utilisation as a percentage of total available facilities
19 Supply Chain	V28-01	II	Total number of suppliers
	V28-02	II	Percentage of sourcing from 3 biggest external suppliers
	V28-03	II	Turnover of suppliers in percent
20 Emissions to Air	E03-04	III	TOP 2 components of emissions to air by environmental importance (according to TRI; PRTR; and EPER) Rank 1
	E03-05	III	TOP 2 components of emissions to air by environmental importance (according to TRI; PRTR; and EPER) Rank 2
21 Emissions to Water	E03-09	III	TOP 2 components of emissions to water by environmental importance (according to TRI; PRTR; and EPER) Rank 1
	E03-10	III	TOP 2 components of emissions to water by environmental importance (according to TRI; PRTR; and EPER) Rank 2
22 Remediation	E12-05	III	Total amount of reserves for future environmental remediation, emissions, accident costs in monetary terms i.e. currency
23 Leakages	E24-02	III	Volume of leakages in barrels or cubic metres
	E24-03	III	Total amount of costs incurred through leakages including remediation and fines
24 Accidental oil/gas spills	E25-01	III	Volume of accidental oil spills in barrels




### Setting of ESG standards in the financial industry

- “Translation” of different E, S & G areas into characteristics
- Setting of defined KPIs
- Hard & soft facts can be evaluated by concrete ratios
- Additional qualitative approach through non financial indicators



# EFFAS Non Financial Reporting KPIs

What does that mean just with a few points e.g. in detail



533 Exploration & Production

KPI	Spez-ID	Scope	Specification
<i>(Scope I = Entry Level; Scope II = Midlevel; Scope III = Highlevel)</i>			
1	Energy Efficiency	E01-01	I Energy consumption, total
2	GHG Emissions	E02-01	I GHG emissions, total (scope I,II)
3	Staff turnover	S01-01	I Percentage of FTE leaving p.a./total FTE
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6	Remuneration	S08-01	I Total amount of bonuses, incentives and stock options paid out in €, \$
		S08-02	I Total number of FTEs who receive 90 % of total amount of bonuses, incentives and stock options
		S08-03	I Key Performance Narrative (Please answer the questions in max. 500 words) Do you take ESG performance into account in your performance agreements? How do you integrate ESG principals within performance agreements in your company and to what extent do you apply it?
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10	Innovation	V04-01	I Total R&D expenses
		V04-12	I Total investments in research on ESG relevant aspects of business as defined by company (referred to Introduction 1.8.1, KPIs & Definitions)
11	Emissions to Air	E03-01	II Total CO <sub>2</sub> , NO <sub>x</sub> , SO <sub>x</sub> , VOC emissions in million tonnes
12	Remediation	E12-01	II Expenditure for remediation, reclamation and decommissioning total in monetary terms i.e. currency
		E12-03	II Environmental spending for R&D, site rehabilitation and environmental monitoring

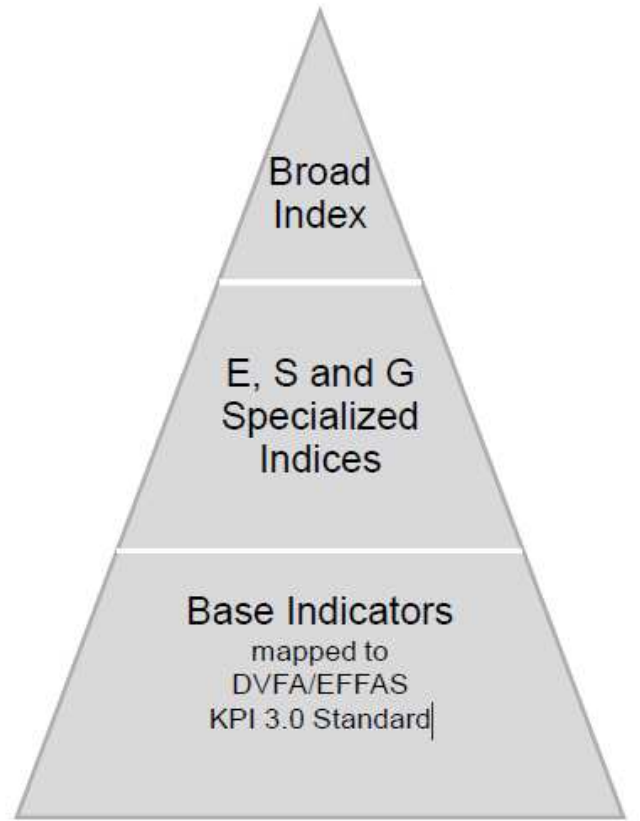
# EFFAS Non Financial Reporting KPIs

## What does that mean just with a few points e.g. in detail

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24	Accidental oil/gas spills	E25-01	III	Volume of accidental oil spills in barrels
		E25-02	III	Total amount of costs incurred through accidental oil spills amount including remediation and fines
		E25-04	III	Volume of accidental gas spills in cubic metres
		E25-05	III	Total amount of costs incurred through accidental gas spills amount including remediation and fines
25	Local Staff	S17-01	III	Average percentage of FTE in non-domestic production and exploration sites hired from respective non-domestic labour markets as of total FTE
	Supply Chain	V28-04	III	Key Performance Narrative (Please answer the questions in max. 500 words) How do you ensure that your suppliers adhere to a standard of ESG compliance similar to that of your company?

# EFFAS Non Financial Reporting KPIs

## EFFAS/DVFA KPIs as backbone of STOXX ESG Global Leader index family



**Base for the calculation of international ESG indices**

- Done together with - the globally recognized index service provider - STOXX® Index Group Ltd.
- Overall STOXX® Global ESG Leader Index
- Individual E, S & G specialized STOXX® indices
- Benchmark allowing investors to fine tune their sustainable investments

**STOXX**

Source: STOXX® Ltd.

# e.g. Possible Internal Investment process

## How to measure ESG?

### Conventional financial analysis (research)

Additional criteria for exclusion

Alcohol, Tobacco, Gambling, Defense/weapons, Animal testing, Nuclear energy, Gene technology, Environment, Human rights, Labor relations, Employment equality, Governance (varies from approach to approach)

Analysis of criteria...

Own databases, annual & sustainable reporting, Websites, Surveys, etc. (hard fact & soft fact analysis)

...under a sustainable long-term stakeholder perspective:

Clients & products, Employees, Society, Suppliers & partners, Investors



ESG Ratings, investment recommendations  
or portfolio/ index weightings

Source: Fritz Mostboeck for EFFAS