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Yang Berusaha Encik Khalid Khan Abdullah Khan, Timbalan Ketua Audit Negara (Kewangan);
Yang Berusaha Dr Nurmazilah Dato Mahzan, Chief Executive Officer of MIA;
MIA Council Members, past Council Members, Past Presidents and Past CEOs;
and
Distinguished guests, ladies and gentlemen.

1) Introduction

- a) First of all, many special thanks to Dato' Faiz Azmi and the MIA Leadership for the kind introduction and to the Malaysian Institute of Accountants ("MIA") for inviting me to give this lecture in commemoration of MIA's 50th Anniversary, themed, "Integrity, Accountability and Trust." Indeed, I am truly honoured to be invited, given the particular gravitas of this MIA lecture. 50 years is a long time to be in existence and I must congratulate the wonderful work done by the MIA committee over the years. I am also pleased to note that my good friend, Tan Sri Wahid Omar, is also a speaker in this series and has given his speech in April 2017 on "Integrity in Action". A truly worthy choice indeed.
- b) When I was invited to speak at this event tonight, I had no hesitation. Among my favourite people to speak to are accountants. This is absolutely true. In fact, I actually have a history of speaking to accounting professionals at accounting events or conferences! This is my fourth, and I think it is perhaps apt now to summarise my first three speeches. At these speeches, I have used several metaphors to try and get my messages across.



- (i) In November 2010, I was given the privilege of addressing the World Congress of Accountants where I spoke on, “Accountants – Sustaining Value Creation in the Borderless Economy.” Using the metaphor of the wise and enduring elephant – 38 million years old, socially adept, keen listeners, long memories, reliable, strong, sustainable and above all, in tune with and of great service to its surroundings – I submitted that sustainable value creation could only occur if it is aligned with deep trust, strong leadership and ongoing relevance.
- (ii) In July 2012, I spoke at the ACCA CFO Summit Malaysia, where I discussed World Class Finance Transformation from a CEO’s perspective. At that Summit, I had used the metaphor of football to make the point of, in my view, getting accountants to reset themselves and revert to their original and important role of being custodians – as goalkeepers, as defenders or at most, defensive midfielders.
- (iii) In November 2015, I spoke at the 56th commemorative lecture of your sister organisation, MICPA, where I invoked the spirit of Jane Austen to discuss, “Sense and Sensibility, Accounting and Accountability: A Practitioner’s Perspective.” In this speech, I zoomed in on the sacredness of the accounting profession and the trust to which it is given to uphold matters of integrity and governance. In that work, it was crucial to have both substance and form – or sense and sensibility – or as the Malay saying goes, *bagaikan aur dengan tebing*.



Addressing Accountants, from 2010 to the Present
Of Elephants, Football, Jane Austen and the Rainbow



<p>2010 World Congress of Accountants</p>	<p>2012 ACCA CFO Summit</p>
<p>2015 MICPA 56th Commemorative Lecture</p>	<p>2017 MIA 50th Anniversary Lecture</p>

- c) If my most recent address to the accounting profession was on the importance of the accounting profession in upholding integrity and governance, then this address, the MIA 50th Anniversary Commemorative Lecture, is to discuss the role of the noble profession of accounting in Accountability and Sustainability. As the title of my speech, “Somewhere over the Rainbow” suggests, we are not quite there yet, wherever ‘there’ may be. And indeed, as perhaps will be apparent, I have landed on the metaphor of the Rainbow to capture the precepts of accountability and sustainability. In this speech, I would like to make my point via three key messages – firstly, the principles and philosophy of accountability and sustainability, secondly, the three waves in the evolution of accounting – and sustainability accounting in particular – and, thirdly, what I see as the five roles of the accountant.

**MIA 50th Anniversary Commemorative Lecture – 2017**
“Somewhere Over the Rainbow”**Sustainability
Development Goals
“Rainbow”****A Circle Rainbow
(over Victoria Falls)****Somewhere Over
the Rainbow...****2) The Philosophy of Accountability and Sustainability**

- a) Ladies and gentlemen, in preparing for this commemorative lecture, and therefore to outline the role that accountants play in Accountability and Sustainability, I thought it worthwhile, crucial even, to reflect back on what exactly are the guiding principles, definitions, or philosophies of Accountability and Sustainability.

- b) In 2015, during the said 56th Anniversary Commemorative Lecture to your sister Institute, MICPA where I discussed, “Sense and Sensibility, Accounting and Accountability: A Practitioner’s Perspective”. That speech, in many ways, addresses the philosophy of Accountability and how accountants fit within that philosophy. I made the point that a central theme that applies to this topic of Accounting and Accountability is “to do the right things, right, in the right way”. At the heart of accountability is really the question of Integrity. And integrity itself, its root word of Integer or of being whole is therefore at the heart of Accountability. That is, being “whole”, being true to our nature, to what is true. Indeed,

viewed from this lens, Accounting, Accountability and Accountants indeed have a noble and sacred task of being custodians of integrity through our profession. This is the essence of good governance in accounting, that thoughtful compliance and strong performance are, to me, simply two sides of the same very important coin.

- c) Indeed, Accountability is crucial to governance – the duty of being an accountant literally means fulfilling the trust of the public to hold organisations, public and private, and individuals accountable. This entails exercising due care, skill, independence, and professionalism to an accountant's best ability. With the incredibly rigorous and holistic training that the accounting qualifications and profession provides, accountants are at a clear advantage when it comes to telling the truth equitably and dispassionately.
- d) To further illustrate this point, in the line of work for an accountant in discharging his or her duties to uphold the sacred trust of the public, it may mean the simple and monotonous act of yet another cross-casting and tabulation check after midnight in a windowless room in a basement at a PLC rushing to close its accounts (as I did with Dato' Zainal Shaari, my former COO at Khazanah, and my auditor at Tenaga) to the grand and stoic and some say heroic act of standing firm, with grace under considerable fire, of only signing off on accounts where they deserve to be signed off. In my view, this is about our (and I can use 'our' since I too was trained as an Accountant) integrity and our sacred covenant and trust with the public; that we will always give our best even if it means to our loss, with due care and skill and with the utmost integrity, independence and professionalism. I have the utmost respect for the nobility of the Accounting profession and those who practice it.
- e) However, this is not to say that every Accountant is noble or always adheres to his or her obligation to the sacred trust of the public. This is especially true in the case of accounting firms where there may arise clear conflicts of interest between the client who pays your fees and the firm's accountants who have to audit that firm. The classic example is of the Enron scandal in 2001 which led to the *de facto* closure of Arthur Andersen given its malpractice role which severely undermined public confidence in accounting firms. This is a failure not just by the

accountants at Arthur Andersen but a failure of Accountability as a whole as well.

- f) In the earlier speeches to the accounting profession (this being the fourth), I stated that the accounting profession needs to reclaim its true north. The accounting profession, as a whole, becomes threatened when it loses its true north in its noble task of measuring and accounting. Unless careful and proactive measures are collectively taken, the personal and institutional integrity of esteemed accounting and audit firms will be threatened and will result in bouts of unhappy endings. We must therefore reclaim and anchor on our true north. When, as an investment analyst for a global investment bank 20 years ago, I studied for my CFA exams, they quickly tried to undo our constructs by teaching us that cash is king and accounting is opinion. Well, we accountants would likely also agree that cash is king but good accounting is indeed a benign and powerful queen, and possibly a bishop, knight and rook as well!
- g) Turning to the principles, definition and philosophy of **Sustainability**, it is most often the case that the most popular understanding of sustainability is typically centered around environmental and ecological concerns – the preservation of the only planet we have ever called home. Yet, I would submit that while all of that is certainly a crucial portion of Sustainability, it is but one aspect of it. Another such issue of Sustainability is that of shared economic growth – be it at the national level or the corporate level or even at the international level – which is essentially the ability for countries or companies to maintain growth at a given rate or level in a holistic and sustainable way. This can be seen in Malaysia's New Economic Model, which lists a Sustainable economy as one of its three pillars. A third aspect of Sustainability was raised by *Yang Berbormat* Datuk Johari Ghani, the Second Finance Minister and a Khazanah Board Member, at the Khazanah Megatrends Forum 2016, where he said in his Closing Address that Sustainability also means balancing the needs of the future without compromising the needs of the present.
- h) Therefore, in essence, the core value or 'philosophy' of Sustainability is the preservation of our shared 'commons' in all its various incarnations, as a nation, ecologically, economically, societally, or indeed the global

commons. This notion of the ‘commons’ is something that Khazanah takes very seriously, having been the theme of our 2010 Khazanah Megatrends Forum – “Reclaiming the Commons.” Last year, at KMF 2016, we zoomed in on this topic again, where we focused on Stewardship as a solution to the Political Economy of Location, Environment and Demographics. Stewardship was posited as the primary solution to the Tragedy of the Commons – a situation where individual interest and incentives overwhelm the interests of the collective, leading to situations such as overgrazing, overfishing or even the collection of unearned economic rents.

- i) If I can perhaps sharpen the analysis a bit further, consider, for instance, the issue of land ‘ownership’ which is typically symbolised by property rights. If property rights are man-made, a human construct, and natural resources and land are God-given, what right does man have to ‘own’ things that he did not create? Against this backdrop, DYMM Tuanku Sultan Dr. Raja Nazrin Shah, the Sultan of Perak, in his Opening Address at KMF 2015, posited that, “...it is essential for this paradigm to be altered in favour of the worldview of individuals as stewards, rather than owners, of resources. Implicit in this view is the proposition that our right to derive profits from these resources are temporary and that it is our duty to ensure that they remain undiminished and uninjured for future generations.” Indeed, Tuanku went on to call for actions to move across three paradigms – from the paradigm of production to one of *preservation*, from the paradigm of maximisation to one of *optimisation*, and from the paradigm of resource ownership to one of *stewardship*.
- j) A powerful and timeless articulation of the paradigms and a call to action. Indeed, at a micro-level, Sustainability is therefore the shift from a shareholder-based economy to a stakeholder-based economy. If we are ‘trustees’ of the things we hold ‘ownership’ rights to, then we must seek to optimise the returns not just to ourselves but more importantly to the offices or resources or responsibilities that we hold. In the case of business, this means not maximising *only* shareholder value, but stakeholder value. This means caring not just for Total Shareholder Returns (“TSR”) but also for customers, suppliers, business partners, employees and society as a whole. We must be good corporate citizens not just of our home nation, but also nations in which we operate. Karl

Marx famously, or infamously, once said that, “All property is theft.” While the capitalist model of, among others, property rights in its most pointed form has a conception of “All property as an absolutist right,” ladies and gentlemen, I posit that actually, “All property is indeed actually neither theft nor our absolute right, but all property is indeed ultimately in Trust.”

- k) In the case of accountants and accounting, Sustainability must therefore go beyond financial accounting. Indeed, as I discuss later, sustainability accounting is an important evolutionary step in the profession of accounting, which considers an organisation’s performance at economic, ecological, and social levels or sometimes known as the triple bottom line or three P’s: People, Planet, Profit. Thus, in building a stakeholder economy, accountants serve as indirect facilitators of engagement between parties that have an interest in the financial and social performance of a company, recording and measuring not just financial data, but also social, economic and environmental.
- l) To close on this brief exposition on the philosophy of Sustainability is simply that we cannot ignore Sustainability or rather, we ignore it to our own peril. Social, economic and environmental megatrends are changing the global landscape and, consequently, the business landscape. This is perhaps most apparent with the introduction of the United Nation’s Sustainable Development Goals (“SDGs”), which was ratified in September 2015 by 193 countries¹. This, to me, is remarkable. 193 countries, which are so diverse and with their various national interests have basically agreed to put “Sustainability” into the forefront of Economic Development and therefore a key component to all measures of economic growth moving forward. Accountants are key to the SDGs. Indeed, the International Federation of Accountants posits that the global accounting profession is able to contribute to at least eight of the SDGs, including, but not limited to – quality education and the innovative ways accountants can contribute to financial literacy in society; decent work & economic growth – promoting sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all; industry, innovation and infrastructure – enabling confidence in financing infrastructure by providing critical services in decision analysis, due diligence etc.; and peace, justice and strong institutions – by building effective, accountable, and inclusive institutions at all levels.²

¹ Sustainable Development Goals, United Nations 2015, United Nations, accessed 19 March 2017,

< <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>

² International Federation of Accountants (2016). 2030 Agenda for Sustainable Development: A Snapshot of the Accountancy Profession’s Contribution, International Federation of Accountants



Sustainable Development Goals
The "rainbow" of global economic development



3) Somewhere over the Rainbow: The Three Waves of Accounting

- a) Ladies and gentlemen, distinguished guests. Having considered the principles and philosophies behind Accountability and Sustainability, I now turn to the evolution of accounting. I posit that there have been three major waves of accounting in our collective history. **The First Wave**, if I may submit, stretches back thousands of years and is heavily focused on the recording of transactions and therefore of financial exchanges. The known early development of accounting dates back more than 7,000 years to ancient Mesopotamia where archaeological documents show lists of expenditures, and goods received and traded.³ In the 4th Century BC, Ancient Egypt and Babylon had auditing systems for checking movement in and out of storehouses, including oral 'audit reports.' This, in fact, formed the origin of the term "auditor." By the time of Emperor Augustus, the Roman government had access to detailed financial information of its citizens and indeed its Emperor. Among the public expenditure that the Roman accountants accounted for included grants of land to army veterans, subsidies to the treasury, the construction

³ "Ancient History of Accounting" Accountant.org website 2012, Accountant.org, accessed 19 March 2017, <<http://www.accountant.org/news/ancient-history-of-accounting-10736/>>

of temples and expenditures on theatrical shows and gladiator games. Indeed, a study of history shows the humble record-keeper or census of store-keeping, forerunner accountants if we may, to be the first soldiers of empires.

- b) Several centuries later, when medieval Europe moved towards a monetary economy in the 13th century, sedentary merchants depended on bookkeeping to oversee multiple simultaneous transactions financed by bank loans. Perhaps the most important breakthrough in the history of accounting took place at that time – the introduction of double-entry bookkeeping. The honour of that introduction goes to Luca Pacioli who published the “Review of Arithmetic, Geometry, Ratio and Proportion” (*Summa de Arithmetica, Geometria, Proportioni et Proportionalita*) in Venice in 1494. It is perhaps no surprise that this took place in Venice, the great trading port of Europe and the location for the agglomeration of commerce and merchants in the Renaissance period. In his work, Luca introduced symbols for plus and minus for the first time in a printed book, symbols which became standard notation in Italian Renaissance mathematics. Luca was the first person to publish a work on double-entry bookkeeping.
- c) In the 17th century, the development of joint-stock companies built wider audiences for accounting information, as investors without first-hand knowledge of their operations relied on accounts to provide the requisite information. This development resulted in a split of accounting systems for internal – management accounting – and external – financial accounting – purposes. Further, this period in time also resulted in the introduction of accounting disclosure regulations and the rise of independent auditors. By the middle of the 19th century, the Industrial Revolution in Britain was in full swing, and London was the world’s financial centre. With the growth of the limited liability company and large scale manufacturing and logistics, demand surged for more technically proficient accountants capable of handling the increasingly complex world of high speed global transactions. As a reaction to the increase demand, local (accounting) professional bodies in England amalgamated to form the Institute of Chartered Accountants in England and Wales (“ICAEW”), established by royal charter in 1880.

- d) This journey through history serves to illustrate that the First Wave of accounting generally although not exclusively founded on measuring and recording. Accounting was principally supporting the premise of trade and commerce with the measurement and valuation of financial matters the sole focus. Even in Malaysia, the development of accounting, particularly in the 20th century was to further drive the conventional wisdom in accounting and to enhance financial accountability. Key events, in particular, include the formation of the Malaysian Association of Certified Public Accountants (“MACPA”) in 1958, the establishment of the Companies Act in 1965, the admittance of MACPA as a member of the International Accounting Standards Committee (“IASC”) and the adoption of the IAS in 1978, and the establishment of the Securities Commission in 1993. Of course, in all of this, I must not leave out perhaps the most important development of all! In 1967, with the passing of the Accountants Act, the Malaysian Institute of Accountants (“MIA”) was established and just 20 years later, it began to issue accounting standards and is now the regulator and developer of the accountancy profession in Malaysia, with a membership of over 32,000 people!
- e) Thus, ladies and gentlemen, as you can observe, the **First Wave** of accounting is really a story of the development of Financial accounting, serving the very important purpose of recording and measuring financial and commercial transactions. The Second Wave, in the evolution of accounting, the **Rise of Sustainability Accounting**, begins in the middle of the 20th century. Indeed, the development of sustainability reporting over the last century and especially over the last two decades has reflected prevailing social and political climates. Politics and events such as environmental disasters impacted the ebb and flow of the global community which therefore impacted the nature of reporting.
- f) One of the earliest instances of a heightened awareness of corporate concerns that go beyond financial concerns was the case of Reverend Leon Sullivan, a board member of General Motors in the United States in 1971. Appalled by the apartheid regime practiced in South Africa, Reverend Sullivan drew up a Code⁴ of Conduct for practising business with South Africa. What became known as the Sullivan Principles attracted a great deal of attention and several reports were indeed commissioned by the government to examine how many American companies were

⁴ “The Sullivan Principles” Marshall University website 2017, Marshall University, accessed 19 March 2017, <<http://www.marshall.edu/revleon/sullivan/principles.htm>>

investing in South African companies that contravened the Sullivan Code . Coincidentally or perhaps not so coincidentally, social accounting disclosures – the initial foundations of sustainability accounting – began to emerge in the United States.

- g) In terms of economic philosophy, the tide was beginning to turn as well. The eminent economist, Milton Friedman, who was one of the great champions of pure capitalism, argued that social responsibility would adversely affect a firm's financial performance. He contended that the valuation of a company or asset should be focused exclusively on the pure bottom line. In other words, the business of business was business. However, as the world moved towards the end of the century, the dominance of the concept of 'self-interest' in economics was challenged and a seminal article in the *American Journal of Sociology* by James S. Coleman, an American sociologist at Friedman's own University of Chicago, introduced the concept of social capital into the measurement of value.⁵
- h) The idea was gaining ground. In 1998, John Elkington, co-founder of the business consultancy SustainAbility, published *Cannibals with Forks: The Triple Bottom Line of 21st Century Business*⁶ which introduced the phrase, the "triple bottom line," for the first time. Elkington identified the newly emerging cluster of non-financial considerations which, he argued, should be included in the determination of a company's value, referring to the financial, environmental and social factors. In that same year, *Fortune* magazine published a list of *100 Best Companies to Work For*, which compiled the best companies in the United States with regards to their corporate social responsibility ("CSR") and measured how their financial performance fared as a result. The author, eminent journalist Milton Moskowitz, found that improving corporate governance procedures did not damage financial performance. On the contrary, he found that it maximised productivity, ensured corporate efficiency and led to the sourcing and utilising of superior management talents.
- i) In the early 2000s, the success of Moskowitz's list and its impact on the brand reputation of companies began to challenge the historical assumptions regarding the financial effect of Environmental, Social and Governance ("ESG") factors. In other words, it was asking if the

⁵ Coleman, J.S. (1988). Social Capital in the Creation of Human Capital, *American Journal of Sociology*, Vol. 94, pp. S95-S120

⁶ Elkington, J. (1998). *Cannibals with Forks: The Triple Bottom Line of 21st Century Business*. Gabriola Island, BC, New Society Publishers.

business of business was not *only* business. The results were hugely encouraging for supporters of sustainability accounting. Alex Edmans, a Finance Professor at Wharton, found that the 100 Best Companies to Work For outperformed their peers in stock returns by 2-3% a year from 1984 to 2009 and delivered earnings that systematically exceeded analyst expectations. An MIT study involving all American publicly traded companies from 1980 to 2009 found that companies experienced significant stock price increase around the announcement date of environmentally responsible events *and* that investors penalised companies with irresponsible acts towards the environment by selling off shares in those companies.⁷ This was corroborated by a Harvard Business School study that tracked 180 similar companies from the same sectors and found a higher stock return in companies that voluntarily adopted a wide range of environmental and social policies.⁸

- j) Beyond the voluntary take up of ESG initiatives by companies, governments too have seen the importance of adopting sustainability accounting. Perhaps the key tipping point of the movement was in 2005, when the United Nations Environment Programme Finance Initiative commissioned a report that concluded that not only was it permissible for investment companies to integrate ESG issues into investment analysis, it was arguably part of their *fiduciary* duty to do so as well. Governments have been supportive of this notion; indeed, government regulation accounts for the largest proportion of sustainability reporting instruments worldwide. Indeed, in 2016, there were 223 instruments of sustainability accounting issued by governments, 69 by financial regulators, 44 by stock exchanges and 15 by industry regulators. At a broader scale, the United Nations is also well known for the Principles of Responsible Investing or “PRI.”

- k) This has also been true of Malaysia. In October 2015, Bursa Malaysia issued amendments to its listing requirements requiring listed companies to disclose a narrative statement of the management of material economic, environmental and social (“EES”) risks and opportunities, called the Sustainability Statement, in their annual reports. In essence, ESG reporting is now a pre-requisite for listing.⁹ About a month ago, the Securities Commission revised the Malaysia Code on Corporate Governance to give greater emphasis on the issue of corporate

⁷ Flammer, Caroline. (2011). Corporate Social Responsibility and Shareholder Value: The Environmental Consciousness of Investors. MIT Sloan School of Management.

⁸ Eccles, Robert G. & Ioannou, Ioannis & Serafeim, George. (2011). The Impact of a Corporate Culture of Sustainability on Corporate Behaviour and Performance, Harvard Business Review.

⁹ SSE Homepage 2017, Bursa Malaysia, accessed 27 April 2017, <<http://www.sseinitiative.org/fact-sheet/bursa/>>

governance with particular focus on the FTSE Bursa Top 100 large companies and those companies with a market capitalisation of RM2 billion or more.¹⁰

l) As we can see, ladies and gentlemen, the **Second Wave** in the evolution of accounting has put the concept of sustainability accounting – incorporating People, Planet and Profits – and the ESG method into the primacy of accounting and corporate practices. Of course, we must then ask, how “real” is the second wave? Is it mere flash, or real fire? In other words, as accountants, we ask, is there more form rather than substance? The answer depends on our own standards and expectations. I believe we should celebrate the advances in getting the form and honouring it by really driving home the more important substance. For instance, the 2017 ESG Institutional Investor Survey finds that while there has been a global increase in ESG integration amongst institutional investors and businesses, the depth of ESG exposure within portfolios remains low. While 80% of surveyed institutions have an ESG component as part of their investment strategies, only 17% of have more than 50% of assets with exposure to ESG factors, and 44% have less than 25%. A third group has between 25% and 50%.¹¹

m) This brings me, ladies and gentlemen, to the **Third Wave** of accounting. To carry on the imagery of waves or curves, I would like to use the metaphor of perhaps the most beautiful, natural, indeed sustainable curve – that of a rainbow. The beauty and the hope that it represents of the pot of gold at its end represents hope and our collective human endeavour to continuously strive and prosper. **Somewhere Over The Rainbow**. To me, I see this **Third Wave** as the way forward for the sacred and noble profession of accounting, but it is still some ways away hence, it is **somewhere over the rainbow**. Of course, at the end of the rainbow, may be a pot of gold, but if we are not careful and conscientious, it may also be another type of pot! If the **Second Wave** introduced concepts such as the triple bottom-line reporting and ESG methods, it also introduced them as distinct concepts to also be considered alongside financial reporting. Where I think the **Third Wave** differs and even enhances the Second Wave is to consider all these considerations as one measure which I call the True Value of a company. This way, social impact and sustainability accounting does not just sit alongside financial

¹⁰ Securities Commission Malaysia. (2017). Revised Malaysian Code of Corporate Governance. Securities Commission Malaysia.

¹¹ Burr, Barry B. (2016). ESG Integration on the Rise, But Issues Remain. Pensions & Investments.

considerations, it is amalgamated with those considerations and is therefore, indistinct.



- n) As we had covered, a key and continuously universally agreed upon true north of this **Third Wave** is the introduction of the Sustainable Development Goals (“SDGs”) by the United Nations. Ratified on 25th September 2015 by 193 countries, the SDG contains 17 goals with 169 targets covering a broad range of sustainable development issues, including but not limited to – ending poverty and hunger, improving health and education, and promoting economic growth and strong, effective, accountable and inclusive institutions at all levels. This effectively puts “Sustainability” into the forefront of Economic Development and therefore a key component to all measures of economic growth moving forward.
- o) From the world of investing, one idea that is really in line with all of this is something called “Patient Capital.” It may as well be called “Sustainable Capital.” This is because the key idea behind patient capital is when investors are willing to make a financial investment with no expectations

of turning a quick profit. Instead, investors are willing to forgo an immediate return in anticipation of more substantial returns down the road. To be clear, “short term” and “long term” are just labels, and do not accurately or quantitatively capture what is the “right term” for a specific company in a specific industry. The point is simply that a quick profit is not the sole goal of the company, but the right profit under the right circumstances. But beyond just the long-term, more significant are its positive and sustainable impacts – or what has come to be called Impact Investing.

- p) Along these lines, we can clearly see the rise of Impact Investing in recent years. Impact investments are defined as investments made into companies, funds and organisations with the intention to generate a measurable and beneficial social or environmental impact alongside a financial return. The activity of impact investing has significantly increased since the 2008-2009 global crisis, with the industry growing from USD4.4bn of investments in 2011 to an expected commitment of USD12.2bn in 2015 (annual growth of 30%). Khazanah and its investee companies are also doing more in this area, with Khazanah’s investments in companies such as 8990 in the Philippines, Cenergi and Cenviro in Malaysia and Axiata’s investment in the micro-insurance firm, BIMA.
- q) As Managing Director of Khazanah, I would be remiss to not also discuss briefly the things that Khazanah is doing to do our bit in this agenda of the **Third Wave** of Sustainability. We have a diagonal called Inclusion and Sustainability (“IxS”) which cuts across all our vertical and horizontal initiatives at Khazanah. This includes, among others, investments into Sustainable Development companies, pushing for IxS at Investee Companies, development of financial instruments that are based on sustainability, delivering societal returns and, crucially, the development of a mechanism or framework to measure a company’s True Value, called Project Chronos.
- r) From an Investments standpoint, Khazanah undertakes Investments into SD initiatives and also encourages IxS initiatives at its investee companies.

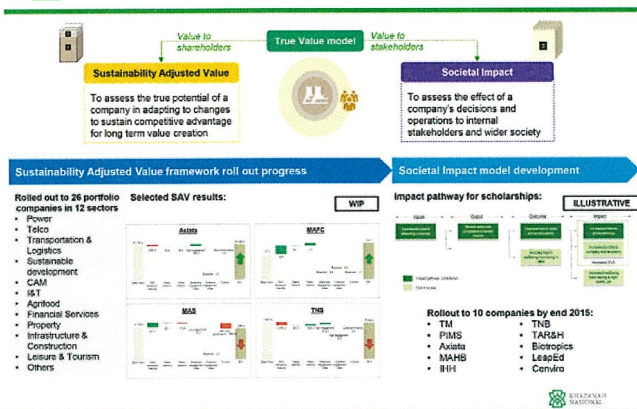
These include:

- o Malaysia Airports: Short take-off and landing ports (STOLports)
 - o Biotropics: Job creation and upskilling of Orang Asli communities
 - o UEM Sunrise: Pledged 10,000 affordable homes
 - o PLUS: Housing for tollbooth operators in isolated areas
 - o Cenergi: Zero-waste, closed loop processes
 - o Cenviro: State of the art landfill technology
 - o IHH: Khazanah IHH Healthcare Fund
 - o TM: High speed Broadband rollout to undeserved areas
 - o Axiata: Rural coverage and Digital Inclusion products
 - o Tenaga Nasional: Electricity tariff structure with minimal impact to low-income groups
 - o Iskandar Malaysia: Project Harmony & Project An Nur
- s) Next, I am proud to say, alhamdulillah, that Khazanah, in the space of Islamic Finance or Real Finance has developed the Sustainable & Responsible Investment (“SRI”) Sukuk that has unique features. For instance, if Sukuk Holders meet their set KPIs, the yield on the Sukuk will be reduced to 3.50%, i.e. mandatory reduction of 6.22% to the Issue Price. Therefore, redemption price will be adjusted down to 93.7%. If the KPIs are not met, then the yield and the redemption price remains at 4.30% and 100%, respectively. Furthermore, Sukuk holders will be entitled to receive tax vouchers from an amount equal to the amount waived or reduction in the nominal value of their respective Sukuk holdings. This, as far as we know, is the first of its kind in the world and is an innovation akin to Social Impact Bonds that are starting to gain traction in Developed Markets.
- t) In terms of Societal Returns, since 2006, Khazanah and its subsidiary, Yayasan Hasanah (“YH”), have collectively spent more than RM1 billion on Corporate Responsibility (“CR”) initiatives, with 73% being allocated to education, 13% to knowledge, 10% to public spaces, and 4% to policy and advisory support. YH serves as an impact-based Foundation with a long-term view in catalysing social progress in Malaysia. YH works hand-in-hand with a hub of Civil Society Partner Organisations (“CSPOs”) to deliver programmes and advocacy that drive high social impact in communities in Malaysia across: Education, Community Development, Environment, Arts Heritage & Culture, and Knowledge.

- u) Last, but certainly not least is a project, still in development at Khazanah in our R&D lab, if you like, called **Project Chronos**. Project Chronos seeks to measure not just the financial and economic values of the organisations investments, but also their societal impact, thus measuring a company's True Value – beyond the market value (i.e. what the company ascribes), beyond the intrinsic financial value (an internal valuation Khazanah's team does as an active investment house), and to also cover whether the company is value generating or value destroying from the standpoint of external and stakeholder factors such as the environment, staff and industrial harmony, economic multipliers such as job creation, technology and knowledge formation, development of a supplier base, and corporate responsibility.



Khazanah has initiated Project Chronos, a means to measure the Societal Impact of Khazanah's work



- v) In contextualising this, let us just take the example of Tenaga Nasional (“TNB”), where we own about 28%, and has a market capitalisation of approximately RM78 billion. The metrics used in the Chronos initiative would take into account more than just the organisation’s intrinsic financial value, but also include, for instance, environmental considerations as well. For example – TNB’s valuations should also be dependent on its use of

non-renewable energies in generating electricity. Not to pick on TNB of course, they actually do a really good job in this respect. This is again just illustrative. So, back to the example, even if the market value of TNB is, for illustrative purposes, RM100 billion, that may be just the technical financial value. However, maybe in generating electricity, TNB keeps using non-renewable energies, its True Value could be lower than RM100 billion. Imagine if we could say, "We disagree with this RM100 billion valuation. We think it is actually RM80 billion, measured by True Value." That is a powerful statement which will hopefully be a call to action for the company. It is possible we may be ridiculed, but we hope it also invites constructive criticism so we can improve and refine the framework, which is, rightfully, an ongoing process.



Via Project Chronos, Khazanah plans to integrate a more structured approach to True Value

WHAT IS TRUE VALUE?

Khazanah True Value
Long-term financial, strategic and societal impact

PROJECT CHRONOS: SUSTAINABILITY VALUATION MODEL

2010 2011 2013

Roll out to 26 investee companies in 11 sectors

>75% RW

SUSTAINABLE

ALIGNMENT TO GLOBAL AND NATIONAL COMMITMENTS

SUSTAINABLE DEVELOPMENT GOALS

2016 UN Sustainable Development Goals ("SDGs") to ensure "Nobody Gets Left Behind"

Malaysia's New Economic Model to improve quality of life for all Malaysians

ELEVENTH MALAYSIA PLAN (2016-2020)
National economic plan "Anchoring Growth on People"

MOVING FORWARD...

Establish responsible investing policies	Integrate into investment processes	Incorporate into decision making process
Public disclosure of Project Chronos results	Continued engagement with investee companies	Drive behavioural change

CONTINUE ENGAGEMENTS FOR KNOWLEDGE SHARING & ADVOCACY

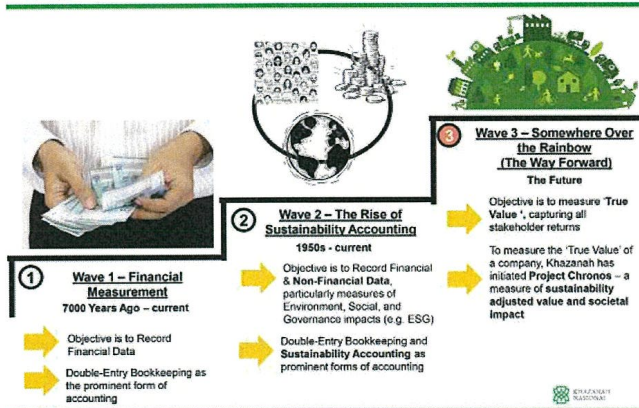
w)The Chronos initiative began in earnest in 2010 with a bottom-up valuation of various sustainability initiatives, followed by progressive iterations in 2011 (top-down portfolio level valuation via regression methodology) and 2013 (company valuation incorporating impact of ESG), before finally rolling out the Sustainability Adjusted Value

framework to 24 Khazanah investee companies in 2015 and subsequently, pilot testing Chronos' Societal Impact model to 10 investee companies. Some 21 companies under Khazanah's investment portfolio of around 80 companies (or 20%) involving some 76% of the RAV of our portfolio are currently under beta test and within a couple of years, insyaAllah this will be rolled out in full or possibly publicly too.

- x) On the one hand, some of this may seem standard ESG, triple bottom line stuff that many are familiar with, but we can assure you that this work along with our advisors, PWC we believe has gone into a depth and granularity that is quite unique to our understanding. We have had also inputs and interest from the likes of World Bank, some prominent business schools, United Nations and the World Economic Forum, for instance. There is still some ways to go, but it is one of our great hopes that this will be a game-changer in the world of valuation and measurement of the True Value of companies and we do invite all of you to join us in that **Somewhere Over the Rainbow**.



Somewhere Over the Rainbow
The Three Waves of Accounting



4) **The Role of Accountants – Custodian, Standard Bearer, Measurer, Cheerleader, Thought Leader**

- a) Ladies and gentlemen, distinguished guests, having gone on a brief tour d'horizon of the principles and philosophy of Accountability and Sustainability, that I hope has done some justice to those incredibly important precepts, I have tried to motivate a view of the **Three Waves** in the evolution of accounting, it is time to take this to a landing to the accounting profession. If the Third Wave is really the fusion of financial, strategic, and societal returns into a True Value, then what is the role of accountants in this to go further, to go “**Somewhere Over the Rainbow**”?
- b) In one of my speeches to the ACCA community in 2012, I used some football analogies – let’s revisit this to illustrate what I see as the five roles of accountants as we collectively go beyond, **Somewhere over the Rainbow**. As such, in thinking of the role of Accountants, The first two are what I call ‘defense’ roles, the third a defensive midfielder role, the fourth an offensive midfielder role and finally a striker’s role.
- c) The first role of Accountants with regards to Accountability and Sustainability is as **Custodians** of both private and public interest. As I mentioned earlier, the profession of accountant is a truly noble and sacred one, *if and only if*, it does not forget its true north. Accountants are entrusted by the public to hold individuals and corporates and indeed governments accountable and they must fulfil that role, first and foremost, doing the right things in the right way. A goalkeeper in football is also called a custodian. Similarly, a goalkeeper’s first job is to protect the goal; if the goalkeeper is unable to do so whether through incompetence or irresponsibility, every other benefit that that goalkeeper can bring to the team – distribution, sweeping up, or even scoring goals – is rendered meaningless.
- d) The second role, still on defense, is to be a **Standard Bearer** of the noble accounting profession. In some ways, to be a standard bearer is to ensure the highest quality of standards in executing a task. This is, in some sense, maintaining the integrity of the various accounting qualifications and certifications handed out by the various accounting bodies and to ensure

the integrity of the accounting profession. This is where organisations like MIA and MICPA play a critical role. More literally, a standard bearer is a person who carries the flag or standard of an army. That person is always at the front of the battalion and under no circumstances is that soldier allowed to drop the standard unless, of course, through death. Even then, someone else must pick up the standard. The point here is that, in light of a VUCA (Volatile, Uncertain, Complex, Ambiguous) world, the accounting profession may come under an onslaught of pressure and fire to do what is easy rather than what is right. Standard bearers must ignore that temptation and set an example of what it means to uphold the sacredness and nobility of the accounting profession. You can think of a standard bearer as a team's lead-by-example captain, such as the Franz Beckenbauer of the 1960s Germany, or Sir Bobby Moore in England's 1966 World Cup winning team, or in more contemporary times, Steven Gerrard of Liverpool and England.

- e) The third role – a defensive midfielder – is that of an accountant's primary skill, to be a **Measurer** of value – financial, societal, environmental, governance. In a world with increasingly complex financial products, and difficult-to-measure assets such as patents or, in the case of technology companies, projected growth and valuations, the role of accountants in measuring the objective or 'fair' value of things becomes more critical. Measuring, ultimately, is the core role of the accountant – but what accountants measure has become more and more complex. Indeed, in thinking of Project Chronos, where we attempt to measure the True Value of a company, the role of the accountant in measuring very difficult-to-measure traits becomes even more amplified. The analogy of this role in football is that of the talent scout who must not only assess players by their playing capabilities, but also their mental and team chemistry contributions, a far more difficult task. These include today's Moneyball equivalent of data scientists, deep and steep in the art and science of management.
- f) Turning to **offense**, the next role of the accountant is to be a **Cheerleader**, an attacking midfielder. By this, I mean that accountants must support and cheer on the best accounting and corporate practices in this **Third Wave** of accounting. As accountants, we work within companies supporting the drivers of our respective companies. As

accountants too, like many in this room, we support companies, our clients. Whichever the case, if that particular company is undertaking healthy sustainability practices, and is looking to measure its True Value as opposed to merely its technical financial value, accountants should cheer on the efforts of that company. Rather than being defensive of existing practices or being reluctant to be open to potential improvements to existing methods, accountants must be willing to support practices that enhance the noble profession of accounting. This is best represented by the fans of a team, who are a team's primary cheerleaders. To take it even further, the best fans are those who not only cheer their team, but are willing to cheer opposition players who have performed at an elite level against their own teams, recognising greatness wherever it exists. Consider Real Madrid fans who cheered Ronaldinho and Andres Iniesta after outstanding performances in *El Clasico* matches or indeed the Hull City fans who cheered a certain Harry Kane after his sublime hat trick last night in Spurs 7-1 win.

- g) Finally, the fifth, but certainly not least, role of the accountant is that of **Thought Leader**. It is not enough for accountants to cheer on good practices undertaken by others. Accountants must themselves take the lead in improving methods that better evaluate the True Value of a company. Thus, they act as Thought Leaders for the profession and indeed for the corporate sector. Historically, accountants have made their mark. Indeed, in his book *Sapiens*, Yuval Noah Harari writes that the first recorded name in history was the name, "Kushin" who signed off on a message written in the ancient Sumerian script that said, "29,086 measures barley 37 months Kushin" which is taken to mean, "A total of 29,086 measures of barley were received over the course of 37 months. Signed, Kushin".¹² Thus, as Harari writes, "it is telling that the first recorded name in history belongs to an accountant, rather than a prophet, a poet or a great conqueror." While Harari, it can be argued, should also have made references to the rich biblical text of the Israelites whose several prophets – and Islam's prophets too – from Adam to Joseph were great record keepers and indeed treasurers, the point is made from the discipline of archaeology and history and not just theology. It is therefore plausible that writing, one of the fundamental tenets of humankind, was the construct and brainchild of the noble accountant. It is altogether fitting that accountants must carry on the role of thought leadership. Against this backdrop, I posit one of the

12 Y. N. Harari. (2011). *Sapiens: A Brief History of Humankind*. Harper.

finest thought leaders in all of football, Johan Cruyff, one of my heroes, who sadly passed away two years ago, the inventor of “Total Football” which has left its mark on the Dutch national team and the great Ajax and Barcelona teams of the 1970s to the present day. If Johan Cruyff created the ideal of “Total Football,” maybe one of you here can create “Total Accounting”!

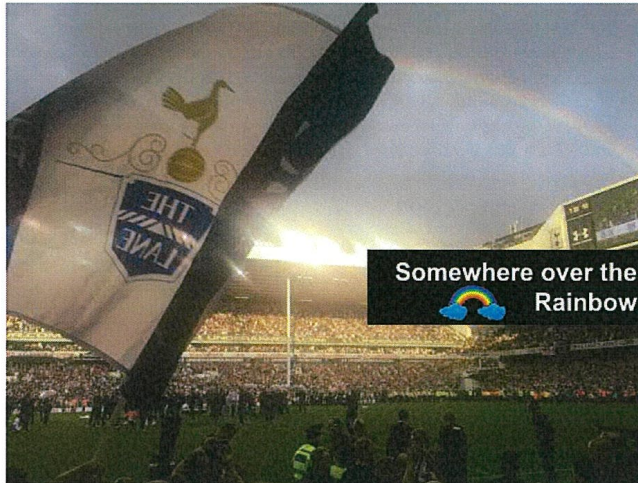


Accountability and Sustainability
The Five Roles of Accountants



Custodian	Standard Bearer	Measurer	Cheerleader	Thought Leader
				



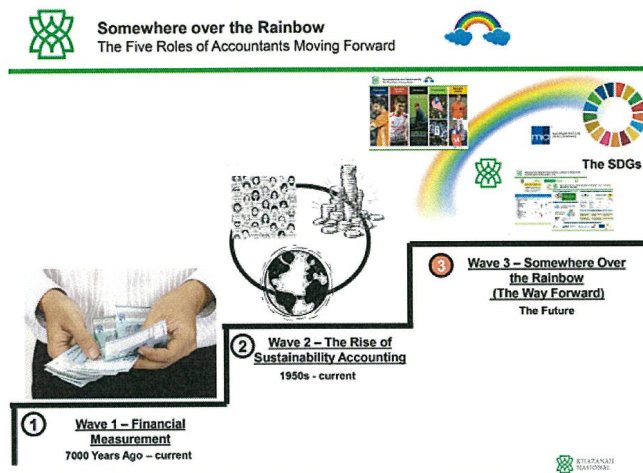


5) In Closing

- a) Ladies and gentlemen, distinguished guests, my final point is really to reiterate once again my deep respect and admiration for the accounting field and the accountant profession. The accountant is a truly noble profession, and holds a special place in society, having been given the sacred trust of upholding the integrity and governance of individuals, corporates and governments. This is especially true in these VUCA times.
- b) As we look ahead to the future, to the “Somewhere over the Rainbow,” it is especially crucial for accountants to configure their role within the Sustainability movement that is slowly but surely encompassing global economic development and, indeed, global business. Anchored on each and everyone’s personal duty of care, skill, integrity, independence, courage and professionalism, accountants will have key roles to play in the days to come which I submit to be, **Custodian, Standard Bearer, Measurer, Cheerleader and Thought Leader.**

- c) This is, I consider, a truly worthwhile cause. May we all do better each day, each time, step by step as we take the journey in finding the pot of gold at the end of the rainbow. I congratulate once again the noble profession of accounting in this MIA's 50th anniversary in this, our 60th anniversary of Merdeka, of NegaraKu. I also thank you once again for your kind attention and I hope you have benefited in listening to my thoughts as much as I have benefited in preparing and making these remarks.

Thank you.



Somewhere over the Rainbow
The Five Roles of Accountants Moving Forward

1 Wave 1 – Financial Measurement
7000 Years Ago – current

2 Wave 2 – The Rise of Sustainability Accounting
1950s - current

3 Wave 3 – Somewhere Over the Rainbow (The Way Forward)
The Future

The SDGs

