

“The Whole Truth”

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OPENING

- Ladies and gentlemen - good morning.
- May I begin by saying what a pleasure it is to join you, in this of all years - the twenty-fifth anniversary of the IFRS Foundation as we know it today.
- I am told there are some fifty-three jurisdictions represented today in this room and online, including standard setters, regulators and academics.
- Which makes you, collectively, the custodians of something I have depended upon for my entire professional life: the language in which companies tell investors the truth.
- And it is truth I want to talk about today.
- My title - “The Whole Truth” - is borrowed, of course, from the courtroom oath: to tell the truth, the whole truth, and nothing but the truth.
- Notice that the oath has three parts. It is not enough that what a witness says is accurate. It must also be complete.
- A true statement that omits what matters, can mislead just as surely as a false one.
- I want to suggest to you this morning that corporate reporting has, for most of my career, passed the first test and has work to do on the second.
- Our report and accounts have told the truth. They have, at times, not told the whole truth.
- And the work of the IFRS Foundation - of the IASB and the ISSB together - continues to be so vital in closing that gap.

WHO AM I TO SAY SO?

- Let me explain why an investor would say such a thing - and perhaps establish my credentials for saying it.
- I am not an accountant. I am a fund manager.
- I began my career at Mercury Asset Management in 1987, in the era of Carol Galley and Stephen Zimmerman, when Mercury was the great training ground of the City.
- And I went on to run global equities at TCW and Fortis Investments before joining Hermes Investment Management as Chief Investment Officer in 2009, and becoming its CEO in 2011.
- But by training I am something rather different. I am a historian.
- And the first thing a historian is taught is to interrogate the source. Who wrote this document? For whom? What did they choose to record and, more importantly, what did they leave out?
- It turns out this is also the first lesson of investment.
- Because when I started analysing companies in the late 1980s, the documents in front of me - the report and accounts - were sources of exactly that kind.
- Truthful, by and large. Audited, certainly. But partial.
- And worse: they were partial in different ways in every country.
- Those of you of a certain vintage will remember what cross-border investing was like before this Foundation existed.
- A German company, a Japanese company and a British company in the same industry could report the same economic reality and produce three entirely different sets of numbers.
- Depreciation, provisions, goodwill, revenue - each country's Generally Accepted Accounting Principles (GAAP) had its own dialect.
- Comparing them was not analysis; it was translation.
- And much was lost in translation.
- If you wanted to allocate capital globally - which is, after all, what capital wants to do - you were navigating with charts drawn by different cartographers, to different scales, with different norths.

WHY IFRS MATTERS

- That is why I have followed the work of the IFRS Foundation closely from its earliest days.
- And I should perhaps declare an interest: I have the privilege of serving on the Foundation’s Integrated Reporting and Connectivity Council - formerly the International Integrated Reporting Council - so I come to this work as a friend of it, as well as a user.
- What was created in 2001 with IASB - and what Europe adopted at a stroke in 2005, with so much of the world following - was not a technical exercise in harmonisation.
- It was the creation of a common language for capital.
- Today, more than 140 jurisdictions require IFRS Accounting Standards. A single set of books can be read in London, in São Paulo, in Singapore, in Johannesburg and mean the same thing.
- As an investor, I want to emphasise three features of that achievement which are easy to take for granted.
- First, the standards are written from the perspective of the investor. The question the IASB asks is not “what is convenient to report?” but “what does the provider of capital need to know to make a decision?” That single design choice is the Foundation’s great advantage, and it must never be diluted.
- Second, the standards are principles-based. They ask preparers to capture economic substance, not merely to comply with a rulebook. Rules invite engineering around them; principles invite honesty. As a historian I would say: rules produce documents written for the lawyer; principles produce documents written for the reader.
- Third, the standards listen to the world. The IASB consults globally and answers to a global constituency. That is what makes a level playing field possible: no single jurisdiction owns the language in which everyone else must speak.
- The prize, in plain terms, is this: when an investor in one country can read the accounts of a company in another with confidence, capital crosses borders. The cost of capital falls. Savers in one part of the world can fund growth in another.

- That is not bookkeeping. That is a public good for global capital markets and one of the quiet triumphs of international cooperation of the past twenty-five years.
- And in an age in which the forces of fragmentation are gathering strength, it is a triumph we should defend loudly, not quietly.

BUT THE TRUTH WAS NEVER WHOLE

- And yet. Even as the language became common, the story it told remained incomplete.
- Throughout my career as an investor, I held a central thesis: that the traditional report and accounts, however faithfully prepared, did not contain all the information I needed to make a good investment decision.
- Where, in the accounts, was the productivity of the workforce? Where was the resilience or fragility of the supply chain? Where was the quality of the relationship between a company and the communities and governments on whose licence it operates?
- Where, indeed, was most of the company at all?
- We now live in a world of knowledge-based businesses, where the assets that actually generate value - the algorithms, the brands, the data, the trained people - are largely invisible on the balance sheet.
- As a historian would put it: the source was authentic, but the archive was incomplete.
- An investor reading only the financial statements was like a judge hearing only the evidence the witness found convenient to give.
- Truth but not the whole truth.

WHAT HERMES TAUGHT ME — SUSTAINABILITY AS FINANCE

- When I joined Hermes Investment Management in 2009, I found a firm that had been acting on this insight for decades.
- Hermes grew out of the BT Pension Scheme - a genuinely long-term owner, investing across whole markets, for members whose retirements stretched decades into the future.
- My predecessors there - visionaries like Ralph Quartano and Alastair Ross Goobey - understood something profound.
- That for a long-term owner, the factors missing from the accounts are not peripheral. They are the ballgame.
- They pioneered engagement - the patient, cooperative dialogue with companies that we now call stewardship - precisely because they understood that how a company treats its people, its environment and its stakeholders shape the wealth it creates over decades.
- Decades of practice, and independent academic study since, have vindicated them: companies engaged successfully on these factors have outperformed their peers over time.
- So, when I say that sustainability matters to investment, I am not making an ethical claim but a financial one.
- Sustainability, in the context of long-term wealth creation, is simply the full set of risks and opportunities that determine whether a company will still be creating value in ten, twenty, thirty years' time.
- Or as we have long put it at Federated Hermes - being good is good business.
- But here was the problem. Through the 2010s, as investors woke up to this, the information arrived in chaos. A proliferation of voluntary frameworks, ratings and acronyms - well-intentioned, inconsistent, unverifiable, incomparable.
- We had escaped the Tower of Babel in accounting only to rebuild it in sustainability reporting.

WHY THE ISSB WAS SO IMPORTANT

- That is why I regard the announcement at COP26 in Glasgow, in November 2021, of the International Sustainability Standards Board as one of the most significant developments in corporate reporting in my professional lifetime.
- And why I believe it was profoundly right that it was housed here in this Foundation, alongside the IASB.
- Because the genius of the ISSB is that it took the very qualities that made IFRS accounting succeed - the investor focus, the global reach, the rigour of due process - and applied them to sustainability.
- IFRS S1 and S2 do not ask companies to make moral declarations.
- They ask companies to disclose sustainability-related risks and opportunities that are useful to investors - and to do so in a way that is consistent, comparable and connected to the financial statements.
- That last word - connected - is the one I want you to hold on to.
- And the momentum is real.
- IOSCO's endorsement; jurisdictions across Asia, Africa, Latin America and Europe adopting or consulting on the standards; the work now under way on nature-related disclosure, building on the TNFD, and the research on human capital.
- The very subjects investors like me have been straining to see for thirty years.
- To Emmanuel (Chair), to Sue (Vice Chair), to Jingdong (Vice Chair) and to the ISSB team: from the buy side, thank you and keep going.

AND WHY THE IASB'S WORK IS JUST AS VITAL

- But let me be equally clear about the other half of this house - because the whole truth needs both.
- Sustainability disclosure without rigorous financial statements is a story without numbers.
- The financial statements remain the bedrock. The place where assertions must finally reconcile with cash.
- And the IASB's current agenda speaks directly to the gaps I have described.

- IFRS 18 is bringing new discipline and transparency to how performance is presented so that management's own measures are anchored, visibly, to audited numbers.
- The project on intangible assets confronts head-on the question of how accounting captures value in a knowledge economy - perhaps the single most important question in financial reporting today.
- The work on the statement of cash flows goes to the heart of what every investor ultimately wants to know: what cash does this business generate, and who has a claim on it?
- This is a Board that is asking the questions of the next decade, not the last one. That is exactly what staying relevant looks like.

MY WISH - INTEGRATED ACCOUNTING AND FINANCIAL CONNECTIVITY

- I believe in an ideal world where integrated accounting becomes part of every company's report and accounts.
- Not a financial report in one volume and a sustainability report in another, written by different teams, on different timetables, with different definitions - each true, neither whole.
- But a single, coherent account of the business: where sustainability-related information and financial information are presented as what they are - one integrated view of the same enterprise.
- And within that, what I would call financial connectivity: the discipline of showing, explicitly, how sustainability translates into the financial statements.
- How a climate commitment flows into capital expenditure.
- How a dependency on nature shows up in impairment assumptions.
- How investment in people connects to the productivity that drives the forecasts behind the goodwill.
- If we have that, we have what good information has always meant: a holistic picture - that lets one see not only the risks, but the upside.
- The opportunity for growth. The productivity gains. The companies that will compound value for decades.
- Because investors are not auditors of the past. We are buyers of the future.
- And the whole truth is the only sound basis for pricing it.

- I would add one further thought. The way investors consume information is itself being transformed by artificial intelligence.
- Increasingly, the first reader of an annual report is a machine.
- AI will devour disclosure at a scale no analyst ever could. But it amplifies whatever it is fed.
- Feed it fragmented, inconsistent, disconnected data, and it will manufacture confident nonsense at industrial speed.
- Feed it structured, comparable, connected reporting - built on global standards and digital taxonomies - and it becomes the most powerful instrument for capital allocation we have ever had.
- The whole truth has never been more valuable, because it has never been more rapidly consumed.

A WORD TO THE DOUBTERS

- Now, I am aware there are those who are nervous about these two boards sitting under one roof - who suspect that sustainability disclosure might obscure, rather than illuminate, the true risks.
- There are honest differences across jurisdictions, and we should respect them.
- To them I say, as an investor: the test is not ideology. The test is relevance.
- Does the information help capital markets price risk and allocate capital?
- If it does, it belongs in the reporting package.
- If it does not, it should go.
- That is the whole of my creed - and it is, I believe, the whole of this Foundation's creed too.
- Judged by that test, the case for the two boards together is overwhelming.
- The risks the ISSB illuminates are financial risks in formation; the statements the IASB governs are where those risks come home to roost.
- Separating them would divide the very truth we are trying to make whole.
- And let me say a word in defence of the international project itself - because it, too, has its sceptics.

- It took decades of painstaking work to give investors a common global language. Those gains were hard won, and they are not self-sustaining.
- Every step back towards fragmentation - every retreat behind national rulebooks - raises the cost of capital, narrows the opportunity set of savers, and makes the world poorer.
- Cross-border investment depends on certainty. Certainty depends on comparability. And comparability depends on the IFRS Foundation.
- In the end, this is about trust. Markets run on it; reporting is how it is earned.
- Protecting what IFRS has already built is not conservatism - it is the precondition for everything we want to build next.

CLOSE

- So let me end where I began - with the oath.
- The truth: that was the achievement of the first twenty-five years of the IASB - a single, rigorous, global language of financial reporting, written for investors.
- The whole truth: that is the work of the next twenty-five - sustainability and financial information, connected and ultimately integrated, so that a report and accounts tells the complete story of how a company creates wealth, and for how long.
- And nothing but the truth: information that is relevant, decision-useful and honest - nothing performative, nothing for show.
- Humbly, may I ask of you - the fifty-three jurisdictions in this room and online - to keep going. Adopt. Implement. Connect.
- And give this Foundation the support, and the resources, that a global public good deserves.
- My ask of the IFRS Foundation is to flourish and to innovate. To keep asking what investors need next, before we have learned to ask for it ourselves.
- Because better information really does mean better decisions.
- Better decisions mean capital flowing to the companies that will create wealth sustainably, for the long term.
- Which is to say, for the people whose pensions and savings all of us ultimately serve.

- Your work matters to investors in every market in the world.
- On behalf of them - you have my deepest thanks.
- Thank you.