

IFRS in Focus

International Integrated Reporting Committee issues Discussion Paper on Integrated Reporting

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The Bottom Line

- The Discussion Paper introduces proposals for the future development of corporate reporting and argues that a change is necessary, as there have been major changes in the way business is conducted and how businesses create value.
- The objective of the International Integrated Reporting Committee ('the IIRC') is to explore innovation in companies' reporting processes (internal and external) and in how companies embed all aspects of their value-creation activities (financial, physical and intangible) into their strategy.
- The IIRC believes that an overarching framework for all reporting is needed in order to bring together the currently diverse and disconnected strands (financial, management commentary, governance and remuneration, and sustainability) into a coherent, integrated whole, explaining how they interconnect and affect the ability of the organisation to create and sustain value in the short, medium and long-term.
- Integrated reporting is centred around an organisation's business model, resources and relationships used and impacted by it, described as "capitals" – manufactured, human, intellectual, natural, social and financial capital.
- The period for comments closes on 14 December 2011. The IIRC is keen to involve corporate organisations and investors in its Pilot Programme (see below).

The proposal

On 12 September 2011, the International Integrated Reporting Committee ('the IIRC') published its Discussion Paper *Towards Integrated Reporting – Communicating Value in the 21st Century* ('the DP'). The DP advocates development of an international framework for integrated reporting, which would bring together, clearly and concisely, material information about an organisation's strategy, business model, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates, to aid better decision-making.

The DP argues that this is necessary because there have been major changes in the way business is conducted, how businesses create value and the context in which businesses operate. These changes are interdependent and reflect trends such as globalisation, growing policy activity around the world in response to financial, governance, and other global issues, heightened expectations of corporate transparency and accountability, actual and prospective resource scarcity, population growth and environmental concerns. Integration is needed because reporting has evolved in separate, disconnected strands, reports are already long and are getting longer, and critical interdependencies between strategy, governance, operations and financial and non-financial performance are not made clear.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

An integrated report would show the connectivity between separate reporting strands (financial, management commentary, governance and remuneration, and sustainability) and explain how an organisation creates and sustains value in the short, medium and long-term. It would provide insight into:

- significant external factors that affect an organisation;
- the resources and relationships used and impacted by an organisation, described as “capitals” and comprising manufactured, human, intellectual, natural and social capital, as well as financial capital; and
- how an organisation’s business model interacts with these capitals to create and sustain value over time.

Observation

The DP envisages that the next step would be creation of a framework as the foundation of a future corporate reporting model.

The “value creation concepts” are described in the DP in high-level terms and, presumably, will need to be developed further in the framework, because, while financial capital is a defined and well-understood term, social, human, intellectual and natural capitals are not as clearly understood today and KPIs to quantify and explain these capitals either do not exist or are in their infancy.

The building blocks: guiding principles and content elements

The DP identifies five guiding principles to be applied in determining the content of an integrated report, based on the key Content Elements, summarised below. The presentation of these elements should make clear the interconnections between them.

Guiding principles	Content elements
<p>Five guiding principles underpin the preparation of an integrated report:</p> <ul style="list-style-type: none"> • strategic focus; • connectivity of information; • future orientation; • responsiveness and stakeholder inclusiveness; and • conciseness, reliability and materiality. 	<p>The five guiding principles should be applied in determining the content of an integrated report, based on the following key elements:</p> <ul style="list-style-type: none"> • organisational overview and business model; • operating context, including risks and opportunities; • strategic objectives and strategies to achieve those objectives; • governance and remuneration; • performance; and • future outlook.

Benefits and challenges

The DP presents views on the main benefits and challenges of integrated reporting separately for reporting organisations, investors, policy-makers, regulators, standard-setters and other stakeholders. Overall, some of benefits and challenges presented include but are not limited to:

Benefits	Challenges
<ul style="list-style-type: none">• better alignment of externally reported information with information management uses for decision making;• a broader information set;• improved transparency;• enhanced risk management;• greater stakeholder engagement;• higher levels of trust with key stakeholders;• harmonisation of reporting approaches; and• lower cost of, and better access to, capital because of improved disclosure.	<ul style="list-style-type: none">• the variety of existing local regulations across jurisdictions;• inconsistent fiduciary duties of directors across jurisdictions;• concerns about directors' liability if the reports are to include greater focus on the future; and• knowledge-building and experience essential to long-term success.

Alternative pathways to integrated reporting

While the IIRC anticipates that an integrated report will ultimately become the primary report for all organisations, alternative pathways to an integrated report may include:

- Combining the sustainability report with the management commentary of a full report as a first step with a view to building an understanding of how performance of one area drives value in another.
- Publishing a concise, standalone, integrated report as an addition to a statutorily required annual report or regulatory filing.
- Modifying the sustainability report or, to the extent permitted given the organisation's regulatory environment, the management commentary in accordance with the guiding principles and content elements.
- Adopting integrated reporting internally to underpin management information.

Observation

Consistent reporting of all aspects of an entity's financial and non-financial performance using consistent parameters could yield significantly improved information for companies, allowing benchmarking and evaluation activities not currently possible.

A high-quality, internationally accepted framework for such reporting could (as it has for financial reporting using IFRSs) represent a means of achieving the IIRC's goal of 'international integrated reporting.'

Comment period and next steps

The IIRC is inviting comments on its proposals to develop an overarching International Integrated Reporting Framework by 14 December 2011.

The IIRC's next steps designed to contribute to the evolution of Integrated Reporting include:

- a Pilot Programme to encourage experimentation and innovation among companies and investors; and
- an Exposure Draft of the International Integrated Reporting Framework, reflecting responses received to the DP and the experience gained from the first year of the Pilot Programme.

Observation

The IIRC was created in 2010 by the UK Prince of Wales' Accounting for Sustainability Project ('A4S'), the Global Reporting Initiative (the 'GRI') and the International Federation of Accountants ('IFAC') to bring together a cross section of representatives from the corporate, investment, accounting, securities, regulatory, academic, civil society and standard-setting sectors to create a globally accepted integrated reporting framework which brings together financial, environmental, social and governance information in a clear, concise, consistent and comparable format. [IIRC Mission Statement, available at <http://www.theiirc.org/>] The DP is the first step in achieving this mission.

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