

Towards Integrated Reporting – The Pivotal Role of IIRC

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Abstract

The key objective of Integrated Reporting is to demonstrate the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. There are several standard-setting and regulatory bodies responsible for creating standards for financial reporting, as well as frameworks and guidelines for ESG (Environmental, Social, Governance) reporting. However, there is no single body with the authority, legitimacy or expertise to bring together the different elements required for Integrated Reporting. The International Integrated Reporting Council (IIRC) brings together a powerful, international cross section of leaders from the corporate, investment, accounting, securities, regulatory, and standard-setting sectors as well as civil society. The key milestones of IIRC in 2011 were the publication of an [Integrated Reporting Discussion Paper](#) for public consultation in September and the launch of a [Pilot Programme](#) for Integrated Reporting in October. On September 26, 2012, the IIRC has marked the first anniversary of the launch of its Pilot Programme by holding a major international conference and publishing a Yearbook ([The Pilot Programme Yearbook 2012](#)) which showcases the business and investor journey towards Integrated Reporting.

Key Words: integrated reporting, ESG, IIRC

Introduction

Integrated Reporting is a new approach to corporate reporting that demonstrates the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, Integrated Reporting can help businesses to make more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing. An Integrated Report should be a single report which is the organization's primary report – in most jurisdictions the Annual Report or equivalent. Central to Integrated Reporting is the challenge facing organizations to create and sustain value in the short, medium and longer term. Each element of an Integrated Report should provide insights into an organization's current and future performance. By addressing the material issues for an organization, an Integrated Report should demonstrate in a clear and concise manner an organization's ability to create and sustain value in the short, medium and longer term.

The Need for Integrated Reporting

At the heart of Integrated Reporting is the growing realization that a wide range of factors determine the value of an organization – some of these are financial or tangible in nature and are easy to account for in financial statements (e.g. property, cash), while many are not (e.g. people, natural resources, intellectual capital, market and regulatory context, competition, energy security). Integrated Reporting reflects the broad and longer-term consequences of the decisions organizations make, based on a wide range of factors, in order to create and sustain value. Integrated Reporting enables an organization to communicate in a clear, articulate way how it is drawing on all the resources it utilizes to generate value in the short, medium and long term, helping investors to manage risks and allocate resources most efficiently.

The Current Corporate Reporting Framework

The current corporate reporting framework needs to evolve to reflect the wide range of factors that affect corporate performance. The current corporate reporting focus on an organization's financial statements is insufficient to answer the question: what is the value of the organization? Financial reporting covers both financial performance and risk, and this will remain an important part of the reporting universe; it is, however, insufficient by itself to provide all the information that users now need for rational and high quality decision-making. In a scenario where the majority of the information available to investors is historic, they are required to navigate a course around the next corner with reference only to the financial picture presented in the rear view mirror. Integrated Reporting is the route map that supports investment decision-making, reflective of the integrated thinking and decision-making within organizations.

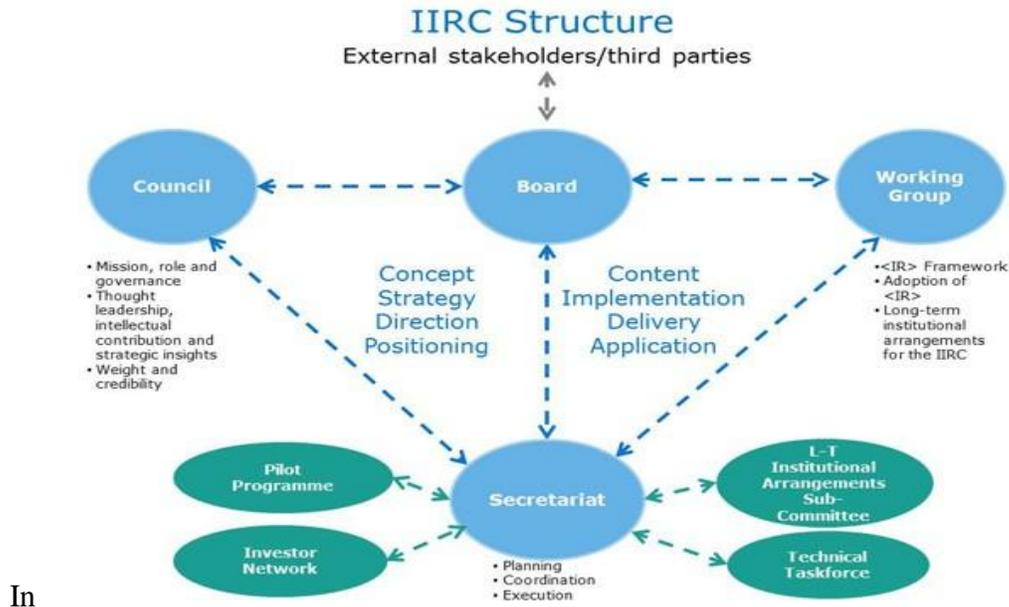
Making of IIRC

Over the last few years a number of initiatives, organizations and individuals began to converge in response to the need for a consistent, collaborative and internationally accepted approach to Integrated Reporting. In 2009, The Prince of Wales convened a high level meeting of investors, standard setters, companies', accounting bodies and UN representatives to establish the International Integrated Reporting Committee (IIRC), a body to oversee the creation of a globally accepted Integrated Reporting framework. In 2010 and 2011, the IIRC held a series of successful meetings around the globe resulting in the development of Integrated Reporting through [regional roundtables](#), the launch of the [<IR> Discussion Paper](#), and establishing the [<IR> Pilot Programme](#). In November 2011, the Committee was renamed the International Integrated Reporting Council (IIRC). In 2012, a permanent [IIRC Secretariat](#) has been established to support the work around Integrated Reporting.

The IIRC

The International Integrated Reporting Council ('the IIRC') is a powerful, international cross section of leaders from the corporate, investment, accounting, securities, regulatory, academic and standard-setting sectors as well as civil society. The IIRC is chaired by [Professor Mervyn King](#). [Paul Druckman](#) is Chief Executive Officer. The mission of the IIRC is 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. The aim is to help with the development of more comprehensive and comprehensible information about organizations, prospective as well as retrospective, to meet the needs of a more sustainable, global economy. The principal role of the IIRC is to:

- Reach a consensus among governments, listing authorities, business, investors, accounting bodies and standard setters for the best way to tackle the challenges of Integrated Reporting;
- Identify priority areas where additional work is needed and provide a plan for development;
- Develop an overarching Integrated Reporting framework, which sets out the scope and key components of Integrated Reporting Framework;
- Consider whether integrated reporting should be voluntary or mandatory;
- Promote the adoption of Integrated Reporting by relevant regulators and report preparers.



September 2011, the IIRC launched the discussion paper [Towards Integrated Reporting – Communicating Value in the 21st Century](#) which sets out the rationale for Integrated Reporting and proposals for an Integrated Reporting framework. It solicited feedback on a new approach to reporting – Integrated Reporting. The Discussion Paper considered the rationale behind the move towards Integrated Reporting, offered initial proposals for the development of an International Integrated Reporting Framework and outlined the possible next steps for its creation and adoption. Its purpose was to prompt input from all those with a stake in improved reporting, including producers and users of reports. The comment period ended on December 14, 2011. In total, 214 responses were received from a wide range of stakeholder groups from a dispersion of geographic areas. The IIRC Secretariat analyzed the responses, including whether the respondents agreed, agreed with a qualification or disagreed with the various concepts included in the Discussion Paper, and looked for commonality of ideas, themes and concerns. Specific questions were posed in the Discussion Paper.

Executive Summary of Discussion Paper Launched in September 2011

The vast majority of the respondents to the International Integrated Reporting Council's September 2011 Discussion Paper on Integrated Reporting supported the development of an Integrated Reporting Framework although a number of specific challenges were highlighted, as expected. A total of 214 responses to the Discussion Paper from organizations and individuals in over 30 countries were received. Four significant themes with respect to the development of the framework were identified from an analysis of the Discussion Paper responses; these related to:

- Basic concepts underlying the definition of Integrated Reporting
- The target audience for Integrated Reporting
- From whose perspective “value” should be considered
- The timing of the release of the framework.

Work streams are being established on technical topics identified by respondents. This will lead to the publication of papers on those topics during 2012 and 2013. Over 70 organizations from 22 countries and a variety of sectors are participating in the <IR> Pilot Programme, experimenting with Integrated Reporting and testing the concepts being developed through the IIRC's technical activities. An <IR> Investors Network was launched in March 2012 to help ensure that reporting develops in a way that meets the needs of the investor community as the primary audience for Integrated Reporting.

Pilot Programme

On September 26, 2012, The International Integrated Reporting Council (IIRC) has marked the first anniversary of the launch of its Pilot Programme by holding a major international conference and publishing a Yearbook ([The Pilot Programme Yearbook 2012](#)) which showcases the business and investor journey towards Integrated Reporting. The Integrated Reporting Pilot Programme underpins the development of the International Integrated Reporting

Framework. The group of organizations participating in the Pilot Programme has the opportunity to contribute to the development of the Framework and to demonstrate global leadership in this emerging field of corporate reporting. Through the Pilot Programme the principles, content and practical application of <IR> are being developed, tried and tested by businesses and investors. It is running throughout the development of the International <IR> Framework which will be published in December 2013. The Pilot Programme is scheduled to run until September 2014. This will enable participants to trial the Framework during their following reporting cycle so that the IIRC can assess <IR> outcomes and complete its work.

The Pilot Programme comprises:

- a [Business Network](#) with over 80 businesses across the globe from multinational corporations to public sector bodies
- an [Investor Network](#) with 25 institutional investors

Pilot Programme Business Network

The purpose of the Pilot Programme Business Network is to:

- provide the IIRC with structured feedback on key building blocks in the Framework to inform its development and practical application; and
- build business momentum towards implementation of <IR>.

Over 80 businesses from around the globe have joined the IIRC's Business Network since it was launched in October 2011. They are engaging with the IIRC and other community members through individual meetings, webinars, regional and sector networks, conferences and through a dedicated Pilot Programme community website. This wide-ranging interaction provides the opportunity to discuss and challenge developing technical material, test its application and share learning and experiences.

<IR> Pilot Programme Business Network as of 12 September 2012

AB Volvo – Volvo Group	Sweden	Automobiles
AEGON NV	Netherlands	Financial services
AES Brazil	Brazil	Utilities
AkzoNobel N.V.	Netherlands	Chemicals
ARM Holdings plc	United Kingdom	Technology hardware & equipment
Association of Chartered Certified Accountants	United Kingdom	Accounting
Atlantia S.p.A.	Italy	Industrial transportation
BAM Group	Netherlands	Construction & materials
BBVA	Spain	Banks
BNDES	Brazil	Banks
BWise B.V.	Netherlands	Support services
Chartered Institute of Building, The	United Kingdom	Professional organization
Chartered Institute of Management Accountants, The	United Kingdom	Accounting
Cliffs Natural Resources	United States of America	Industrial mining & metals
CLP Holdings Limited	China	Electricity
CNDCEC	Italy	Accounting
Danone	France	Food producers
Deloitte LLP	United Kingdom	Accounting
Deloitte Netherlands	Netherlands	Accounting
Deutsche Bank	Germany	Banks
Diesel & Motor Engineering PLC	Sri Lanka	Industrial engineering
Edelman	United States of America	Media
ENAGAS S.A	Spain	Gas, water & multi utilities
EnBW Energie Baden-Württemberg AG	Germany	Electricity
Enel S.p.A.	Italy	Electricity
eni S.p.A.	Italy	Oil & gas producers
Ernst & Young Nederland LLP	Netherlands	Accounting
Ernst & Young ShinNihon LLC	Japan	Accounting
Eskom Holdings SOC Limited	South Africa	Electricity
Eureko (Achmea)	Netherlands	Insurance
Flughafen München GmbH	Germany	Transportation services
Generali Group	Italy	Insurance

Gold Fields	South Africa	Mining
Grant Thornton UK LLP	United Kingdom	Accounting
HSBC Holdings plc	United Kingdom	Banks
Hyundai Engineering & Construction	South Korea	Construction & Materials
Indra	Spain	Software & computer services
Industria de Diseño Textil S.A. (Inditex)	Spain	General retailers
Jones Lang LaSalle	United States of America	Real Estate
KPMG International	Switzerland	Accounting
LeasePlan Corporation N.V.	Netherlands	Financial services
Marks and Spencer Group plc	United Kingdom	General retailers
MASISA S.A.	Chile	Forestry, wood and boards
mecu Limited	Australia	Banks
Microsoft Corporation	United States of America	Software & computer services
N.V. Luchthaven Schiphol	Netherlands	Transportation services
National Australia Bank Limited	Australia	Banks
Natura	Brazil	Personal goods
New Zealand Post	New Zealand	Postal services
NHS London	United Kingdom	Health care
Novo Nordisk	Denmark	Pharmaceuticals & biotechnology
PricewaterhouseCoopers Advisory	Italy	Accounting
PriceWaterhouseCoopers N.V.	Netherlands	Accounting
Prudential Financial, Inc.	United States of America	Financial services
Rabobank	Netherlands	Financial services
Randstad Holding N.V.	Netherlands	Support services
Rosneft	Russian Federation	Oil & gas producers
Sainsbury's	United Kingdom	Food retail
SAP	Germany	Software & computer services
SASOL	South Africa	Chemicals
Showa Denki Co. Ltd.	Japan	Household goods & home construction
SK Telecom	South Korea	Telecommunications
SNAM S.p.A.	Italy	Oil & Gas
Solvay	Belgium	Chemicals
State Atomic Energy Corporation ROSATOM	Russian Federation	Nuclear industry

Stockland	Australia	Real estate investment & services
STRATE	South Africa	Financial services
Takeda Pharmaceutical Company Limited	Japan	Pharmaceuticals & biotechnology
Tata Steel	India	Steel producers
Teck Resources	Canada	Industrial Mining & Metals
Telefónica S.A.	Spain	Telecommunications
Terna S.p.A.	Italy	Electricity
The Clorox Company	United States of America	Chemicals
The Coca-Cola Company	United States of America	Beverages
The Crown Estate	United Kingdom	Real Estate Management
Transnet	South Africa	Transportation services
Unilever	United Kingdom	Retail Goods
Vancity	Canada	Banks
Vestas Wind Systems	Denmark	Alternative energy
Via Gutenberg	Brazil	Support services

Note: The businesses listed above have agreed for their names to be published. This is not a complete list of all participants in the Pilot Programme Business Network.

Pilot Programme Investor Network

The purpose of the Pilot Programme Investor Network is to:

- Provide an investor's perspective on the shortfalls of current corporate reporting
- Provide constructive challenge and feedback on emerging reporting from Pilot Programme reporting organizations and the International Integrated Reporting Framework being developed
- Engage with peers in the investor community on <IR>.

The network was launched in March 2012, comprises 25 global institutional investors and is chaired by Colin Melvin, CEO Hermes EOS.

Investor Network as at 01 September 2012

Organization	Country
AMP Capital Investors	Australia
APG	Netherlands
Arisaig Partners	Singapore
ATP	Denmark
Australian Council of Superannuation Investors (ACSI) (on behalf of StatewideSuper + AustralianSuper)	Australia
Calvert	United States of America
CFA Institute	United States of America
Colonial First State Global Asset Management (including First State Investments)	Australia
DWS Investment GmbH (DB Advisors of Deutsche Bank Group)	Germany
European Society of Financial Analysts Societies (EFFAS)	European
Element	South Africa
Ethos Foundation	Switzerland
Government Employees Pension Fund of South Africa	South Africa
Hermes EOS	United Kingdom
Interamerican Development Bank	United States of America
Natixis Asset Management	France
Newton Investment Management Ltd	United Kingdom
Norges Bank Investment Management (NBIM)	Norway
Pax World	United States of America
PGGM	Netherlands
Railways Pension Trustee Company Limited (LEAD)	United Kingdom
Rathbone Brothers Plc	United Kingdom
Rockefeller Financial	United States of America
Skandinaviska Enskilda Banken (SEB)	Sweden
Victorian Funds Management Corporation	Australia

Executive Summary of Pilot Program 2012 Year Book

The IIRC Pilot Programme was established to enable businesses and investors to share experiences and to create the conditions for widespread adoption of <IR> in the years to come. A critical part of enabling global acceptance is the creation of the Framework which will set out the concepts and principles from which businesses will produce their Integrated Report. The Pilot

Programme plays a large part in testing the robustness of the Framework. Since October 2011, more than 75 businesses from a variety of sectors and 23 countries – the Pilot Programme Business Network – began to put the concepts and principles underlying <IR> into practice. In addition, the Pilot Programme Investor Network, with a membership of 25 institutional investors, helps to ensure that the information that businesses communicate in their Integrated Reports is value-relevant and supports capital market decision-making. The first year of the Pilot Programme has set an important benchmark for future activity. The Pilot Programme Yearbook demonstrates that businesses are starting to see extensive changes in thought processes across their organizations. Businesses are starting to use the <IR> concepts and principles to drive their focus on integrated thinking and strategic decision-making. This first Yearbook shows that businesses are at different stages in their evolution towards <IR>. Some organizations have produced non-public integrated reports, which have enabled them to test systems and processes internally. Others are combining information as a first step towards integration, while another group has incorporated the concepts and principles of <IR> in their Annual Reports and accounts. For many businesses at the first stage of experimenting with <IR>, it will take more than one reporting cycle to implement <IR>. The Pilot Programme continues to gain momentum and the fact that so many multinational businesses are actively taking part in this initiative is testimony that <IR> not only benefits investors, but is also a valuable tool for businesses. Challenge to Pilot Programme members is to provide insights and perspectives that ensure the evolution towards <IR> is informed by business and market experience, and not necessarily to produce an Integrated Report immediately. The Pilot Programme has therefore been extended into a third year, 2014, enabling participants to trial version ‘1.0’ of the Framework. The Investor Network is critical to the success of the Pilot Programme and will review and comment on

innovations made by businesses within the Pilot Programme, as well as providing detailed input into the development of the Framework. This network is exploring how <IR> can be a route for investors to obtain better quality and more relevant information from businesses, enabling them to allocate capital more efficiently. Investors need Integrated Reports to reveal how companies take account of the capitals in business models and strategies. The IIRC asked the Pilot Programme participants to share their latest thinking on the five areas that are the focus of technical papers being developed by the IIRC Secretariat. Their main findings are as follows:

Business Model

Some companies are identifying new business models in terms of operating structures, brands and product or service offerings.

- Investors need to understand a company's strategic focus and how its business model supports its ability to create value.
- Business models can describe capitals on which an organization relies, strategic objectives to add value to these capitals, and delivery of products or services to achieve these objectives.
- Reporting on the business model in an integrated way can provide insight into how external factors drive risks and opportunities that define markets and influence value creation.

Value

Businesses are demonstrating ways to create and preserve value through their business models and values.

- There is growing recognition that a wide range of factors create value in the short, medium and long term.

- Some companies are using innovative ways to communicate value creation and preservation through the capitals.
- Recognizing value creation more comprehensively can help identify value at risk.

The Capitals

The capitals evaluated in <IR> are financial capital, manufactured capital, human capital, intellectual capital, natural capital and social capital.

- Many companies in the Pilot Programme are initially strengthening measurements of corporate key performance indicators (KPIs) in relation to the capitals, as part of understanding their strategic significance to businesses.
- Finance departments within Pilot Programme businesses are becoming accountable for more than financial information.
- Many companies seek independent verification and assurance of more than just financial information to ensure data quality is adequate for decision-making.
- Industry-specific and local issues can drive the KPIs selected to assess dependence and impacts on capitals.
- More insight into links between capitals could help address the challenge of demonstrating their relevance to strategic decision-making.
- Companies are strengthening accountability for capitals to meet investors' needs for more comparable, meaningful information.

Connectivity

Working across departments to connect information in order to develop <IR> can help break down 'silos' and lead to stronger cross-functional communications.

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- Connecting information can facilitate more productive dialogue between employees at all levels across business activities, and a more cohesive approach to reporting.
 - Company management that connects information can develop more integrated thinking and cohesive reporting.
 - Integrated decision-making can contribute to more meaningful dialogue with external stakeholders.
 - IT applications can provide a starting point to improve capabilities to link information and provide access to it. New IT tools can be useful to connect data and narrative.

Materiality

Several investors have called for Annual Reports to clearly identify material risks and the financial and strategic implications of all the capitals.

- Many businesses in the Pilot Programme are engaging with stakeholders to help determine issues material to stakeholders.
- Materiality assessments can be useful to identify and prioritize issues that could be material to the organization's value in the short, medium or long term.
- Scenario analyses can help address uncertainties surrounding the probability, timing and magnitude of potentially material factors.
- Companies can connect internal and external information on all of the capitals to identify material issues that are relevant to strategy development.

Conclusion

In short, the IIRC has been doing its best to create an Integrated Reporting framework which will enable companies to bring more coherence and focus to corporate reporting and

dialogue with its stakeholders. Let us hope it moves on its roadmap as envisaged and achieves its goal.

Reference

Integrated Reporting (IR), <http://www.theiirc.org>.