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Topic**Integrated reporting**

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This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council of the IASB.

The views expressed in this paper are those of the authors.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretation Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

***IFRS Advisory Council***

***IIRC Discussion Paper  
June 2011***

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***IIRC Discussion Paper***

**Content of presentation**

- Drivers of change
- Positioning of IIRC and discussion paper
- Details of discussion paper
- Two year programme

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## Drivers of change

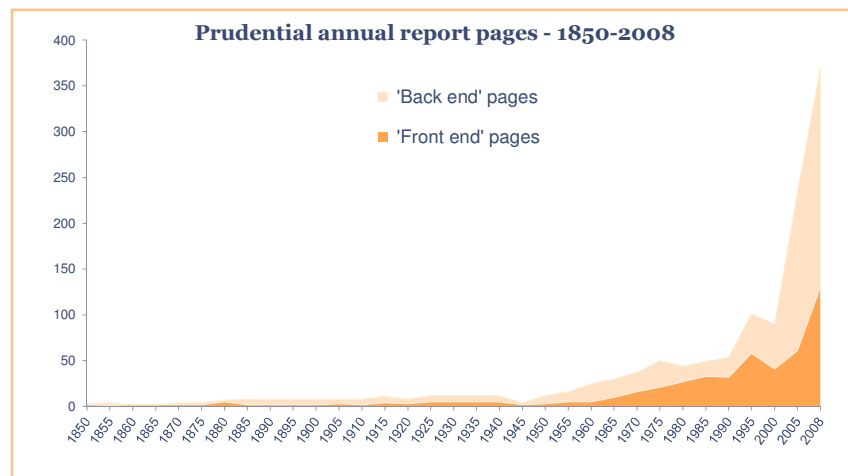
### *Short comings with today's model*

- Undue focus and commitment of effort on financial aspects of model
- Lacking in strategic focus (wood for trees)
- Increasing length, complexity and clutter in reports (have evolved in a haphazard way)
- External reporting increasingly separate from internal management information
- Governance reporting (more form than substance)
- Sustainability reporting - often a stand alone silo not hard wired into business thinking
- Uncertainty on what's audited

***Behavioural picture - compliance mindset suppresses effective communication***

- Compliance mindset dominates
- **Investor relations** has become a parallel process...significant use as non GAAP information
- **Boards** feel increasingly remote from financials and dependent on technical specialists
- Model does not facilitate **NEDs** and **shareholders** oversight
- **Auditors** spend disproportionate time on technical reporting
- **Investors** spend substantial time unbundling the financials and seek alternative sources

***Quality not quantity - the pace of change in annual reporting***



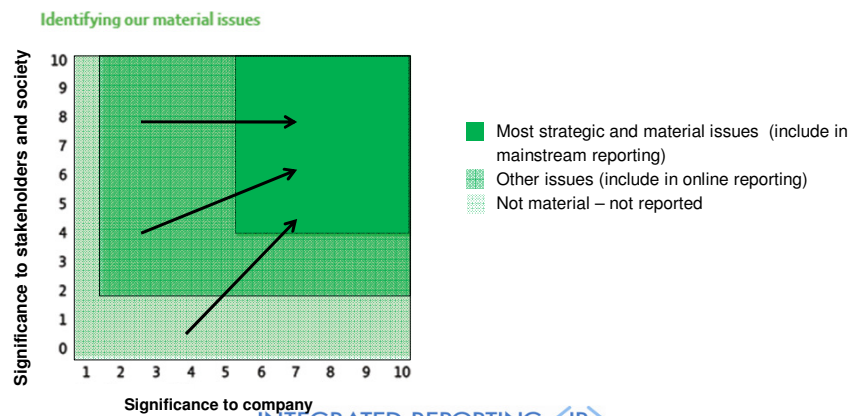
Source: Investis research

### *Credit crunch emphasised importance of non-financial information*

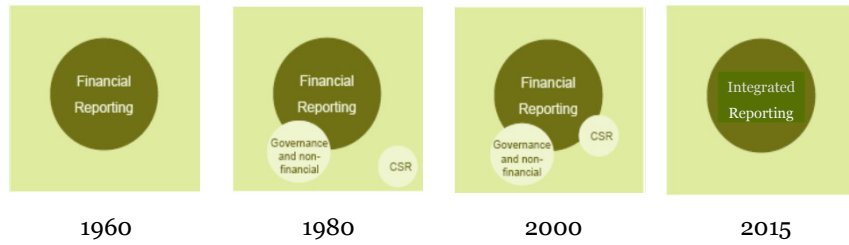
- Quality and sustainability of performance
- Business model/key relationships
- Corporate governance
- Risk management
- Strategy, remuneration and performance
- Culture and values
- Disclosure vs measurement

### *Sustainability reporting - A shift in priorities*

Moving from “stakeholder driven reporting” to the mainstreaming of what’s “strategic and material” to business success



*Evolution of reporting - integrated reporting the future*



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Positioning of IIRC  
and discussion paper

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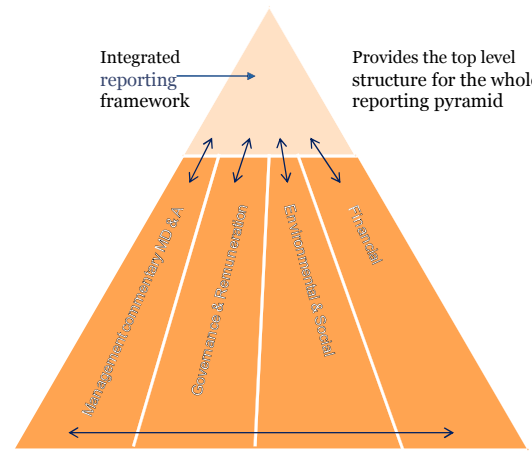
### *Long term objectives of integrated reporting*

- Investor centric (relevance to mainstream investors)
- A step change to the mainstream reporting model (replace existing model)
- Reflects interconnected nature of ESG issues to strategy and financial performance
- Focus on strategically important and material (“see wood for trees”)
- Aligns with way company organised and managed
- Reduce complexity in reporting, regulation and guidance (including channels)

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11

### *Integrated Reporting – focussing on the top slice*



Sets a framework to encourage greater linkage between existing reporting silos

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12

### ***What do we mean by Integrated Reporting?***

- The integration of mainstream and sustainability reporting (ESG)
  - Illuminate resources consumed and external impacts
- The integration of financial, non-financial and narrative information
- A model that illuminates an alignment between key elements of reported information:
  - Market dynamic, strategy and business model
  - Strategy with resource usage and environmental impacts
  - Strategy and KPIs (financial and non financial)
  - Strategy and risk
  - Remuneration with strategic and KPIs

### **Work Plan and Discussion paper**



## *The IIRC – 2010-11 work plan*

Work-stream	Description	Output
1. Integrated Reporting Framework development	Proposals for an integrated reporting framework	Discussion Paper for public consultation released in July 2011
2. Engagement and communications	Raise awareness of the need for integrated reporting and develop a consensus on the response required	Support for proposals to the G20 in Q4 2011
3. Governance of Integrated Reporting	Proposals for the structure, governance and role of the IIRC and/or other organisations to achieve the adoption and oversight of integrated reporting in the medium- to long-term	Discussion Paper for public consultation in January 2012

## *The Discussion Paper - International Integrated Reporting Framework*

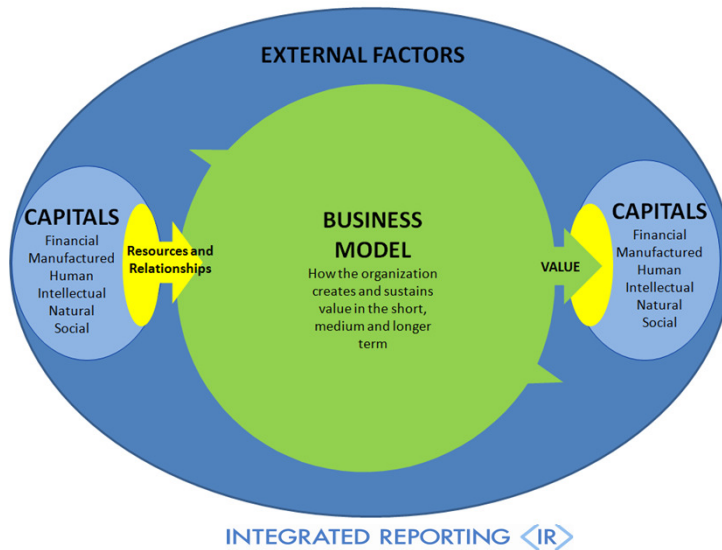
### **Part 1**

Background/Preface  
 Executive summary  
 Introduction  
 Business case  
 Vision  
 Roadmap, enabler and barriers

### **Part 2**

Introduction, high-level context  
 The Integrated Reporting Model—  
 A Dynamic Model  
 Guiding Principles for Integrated  
 Reporting  
 Content Elements for an  
 Integrated Report

## *The Integrated Reporting Model*



17

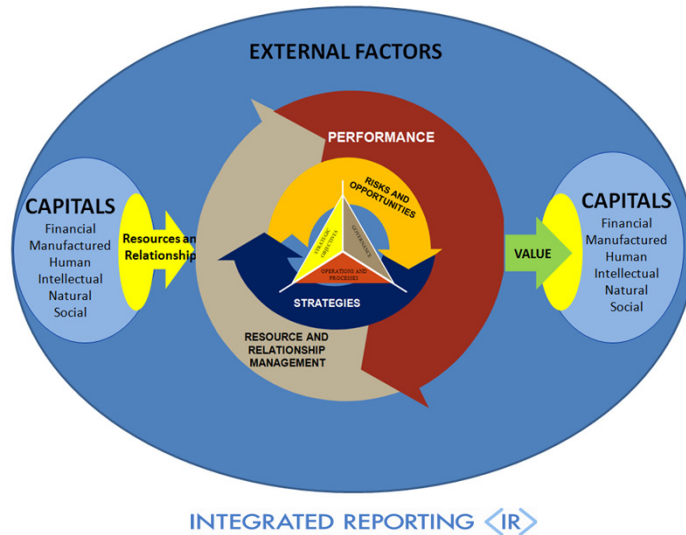
## *“The Capitals”*

- **Financial capital:** The pool of funds that is available to the organisation for use in the production of goods or the provision of services.
- **Manufactured capital:** Manufactured physical objects (as distinct from natural physical objects) that are available to the organisation for use in the production of goods or the provision of services.
- **Human capital:** People’s skills and experience, and their motivations to innovate.
- **Intellectual capital:** Intangibles that provide competitive advantage.
- **Natural capital:** Natural capital and the natural processes that generate them, including air, water, land, biodiversity, eco-system health, and natural sources of energy.
- **Social capital:** The institutions and relationships established within and between each community, group of stakeholders, and other networks to enhance individual and collective well-being, which together support the business model.

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18

## *The Business Model in the Context of the Integrated Reporting Model*



19

## *Guiding Principles for Integrated Reporting*

- Strategic Focus (with clear link to resource usage and critical business relationships)
- Future Orientation (e.g. market dynamic, lead indicators, extended time horizon)
- Connectivity of Information (illuminate “integrated thinking”)
- Responsiveness and Stakeholder Inclusiveness (connectivity with key relationships, identification of issues, use of KPIs)
- Qualitative characteristics, including Relevance, Reliability and Conciseness

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20

## Contents of an Integrated Report

<b>Report profile</b>	Whose report is it, what type of report is it and for what period?
<b>Organisational overview and business model</b>	What does the organisation do and how does it create and sustain value in the short, medium and longer term? <b>What is the organisation's "footprint" across the value chain</b>
<b>Operating context, including risks and opportunities</b>	What are the circumstances under which the organisation operates?
<b>Strategic objectives and strategies to achieve those objectives</b>	Where does the organisation want to go in the short, medium and longer term, and how is it going to get there?
<b>Governance and remuneration</b>	What is the organisation's governance structure and how does governance support the strategic objectives of the organisation and relate to the organisation's approach to remuneration?
<b>Performance</b>	How has the organisation performed against its strategic objectives and related strategies <b>(as a reporting entity and across its value chain?)</b>
<b>Future outlook</b>	What challenges is the organisation likely to encounter in achieving its strategic objectives in the short, medium and longer term, and what resulting implications for its strategies and future performance?

## Next steps

## ***Consultation process***

Discussion Paper released in mid-2011

Public comment period ending in October 2011

Targeted consultations through:

- Distribution to relevant organisations directly
- Roundtables
- Online forum

Open consultation with awareness raising to encourage widespread response

- Publicise through all networks
- Articles and broader online material discussing topics related to the Discussion Paper
- Speaking at conferences and seminars

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23

## ***Pilot programme***

### **Objectives**

- Content – Provide structured feedback on the Integrated Reporting Framework and contribute to its further development
- Good practice – Build a pool of practical examples from which the framework can be further deepened and developed
- Engagement – Increase the number of companies preparing integrated reports

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24