

STAFF PAPER

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Background

1. In December 2013 the International Integrated Reporting Council (the IIRC or the Council) released the first version of a Framework for Integrated Reporting (the Framework)¹. The IASB has an MoU² with the IIRC and Hans Hoogervorst is on the Council. I am on the Working Group and Technical Task Force. Until he left, Olivier Servais was on the Connectivity technical collaboration group.
2. Now that the Framework has been released the IASB has been asked some interesting questions. Does the MoU mean that the IASB is fully behind integrated reporting? How does the IASB see integrated reporting developing—is it a competitor or complimentary to financial reporting? How does the IASB's Management Commentary, as reflected by its Practice Statement³, compare with an integrated report?

¹ See <http://www.theiirc.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf>.

² See <http://www.ifrs.org/Use-around-the-world/Pages/IASB-and-IIRC-MoU.aspx> and <http://www.ifrs.org/Use-around-the-world/Documents/MoU-IIRC-and-IFRS-Foundation-February-2013.pdf> for further information.

³ See <http://www.ifrs.org/Current-Projects/IASB-Projects/Management-Commentary/Pages/Management-Commentary.aspx> for more information.

Integrated Reporting⁴

3. The integrated reporting initiative grew out of an interest in sustainability and perceptions that we need a fundamental change in corporate reporting. I think it emerged mainly from a push from people who were, and are, concerned about the future of our planet. In that sense the word ‘sustainable’ was associated with environmental sustainability.
4. The idea was to create a framework that entities could use to prepare a report that shows the relationships and trade-offs the entity has, and has made, between financial information and other factors, such as the environment and social responsibility. For example, is improved financial performance at the expense of increased consumption (or destruction) of natural resources?
5. As the project developed it became clear that many ‘mainstream’ investors and preparers did not see the benefits of this type of work—the *demand* was not strong. To be blunt, the emphasis on environmental factors was divisive. In bridging the differences in views I think the project became more ‘mainstream’ by acknowledging that environmental issues were not the only issues relevant to investment decisions potentially missing from corporate reports. Relatedly, there was an acknowledgement that environmental issues would not be as important (or relevant) to all entities. For example, management of intellectual property might be more relevant to an entity than natural resources.
6. The ‘factors’ that emerged from these discussions as being relevant are reflected by what the integrated reporting Framework calls the *capitals*--financial, manufactured, intellectual, human, social and relationship, and natural.
7. An integrated report explains how important each of these capitals is to an entity and how the capitals are affected by the actions of the entity. This integrated report should explain how an entity creates value (its business model) and help users assess how whether that business model is sustainable.
8. One example I often use is two pharmaceutical companies. One maintains its new product pipeline by running its own R&D function, the other does not have an R&D function but acquires start-up companies. Both are valid business models. An integrated report would explain how their capital has changed and how sustainable is their business model. In other cases it is the relationship with natural resources (such as fishing or

⁴ This summary reflects my personal observations and perceptions about how integrated reporting has evolved. Others may have different recollections or perceptions.

extractive activities) or social responsibilities (such as being good employers) or relationships (such as how the activities of the entity affect people living nearby).

An integrated report

9. An integrated report is intended to be a succinct (concise) report that explains to providers of financial capital how the organisation creates value over time.
10. It should explain the strategy, governance, performance and prospects of the entity as well as its external environment and how it creates value over the short, medium and long term. Most people see this as being much shorter than an annual report, more like a management commentary. In fact, this is a helpful comparison because the management commentary practice statement has been compared to an integrated report:

Management commentary should provide users of financial statements with integrated information that provides a context for the related financial statements. Such information explains management's view not only about what has happened, including both positive and negative circumstances, but also why it has happened and what the implications are for the entity's future.

Management commentary complements and supplements the financial statements by communicating integrated information about the entity's resources and the claims against the entity and its resources, and the transactions and other events that change them.

Management Commentary Practice Statement

11. An integrated report is also not intended to be an additional report. Instead, it should replace some of the current reporting.

The future

12. Discussions that have taken place around the development of the integrated reporting Framework include thoughts and comments that:
 - (a) the IASB's **Management Commentary** could be adapted, with little effort, into the basis for an Integrated Report. The IASB would then 'own' that report, which concentrating on financial reporting requirements. The IIRC could close down having achieved their objective.
 - (b) the Integrated Reporting Framework does not go far enough, and should be a driver of environmental sustainability.
 - (c) there is no demand from investors for integrated reports.

- (d) an integrated report should replace an annual report, with the IASB concentrating on providing financial statement data to support the integrated report.
- (e) the regulatory demand for integrated reporting is very jurisdictional specific—there is a limited appetite for this type of report in some countries.

13. These views illustrate that a common role, or home, for an integrated report has yet to emerge. We are interested in hearing your views, as investors, of whether you agree with an integrated reporting concept, and, if so, where integrated reporting should sit and what efforts the IASB should give to developing this way of thinking.