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## Integrated Reporting and Connectivity Council (IRCC)

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This document is prepared as a summary of a public meeting of the Integrated Reporting and Connectivity Council an advisory body of the IFRS Foundation. The IRCC provides advice and advocacy on how reporting required by the IASB and the ISSB should be integrated and on how principles and concepts from the Integrated Reporting Framework should be considered in relevant projects by the IASB and the ISSB.

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## Welcome

1. Mr Charles Tilley (Chair) welcomed members and guests to the third IRCC meeting of 2024.
2. Mr Tilley drew attention to the significant progress made in 2024, notably the rate of adoption of the ISSB's S1 and S2 standards and the decision to finalise the IASB's management commentary project.
3. The growth and strength of integrated reporting communities demonstrated continued support for the Integrated Reporting Framework.
4. In October, the IFRS Foundation hosted a successful Integrated Reporting and Thinking Conference in Milan, Italy and Dr. Andreas Barckow and Mr. Emmanuel Faber delivered keynote speeches. The event featured sessions on intangibles and a fireside chat with the Vice Chairs of both boards
5. A strong message that came through from the conference was that integrated reporting is fit for purpose and companies should continue to use the Integrated Reporting Framework. Mr Tilley encouraged supporters of integrated reporting to utilise the suite of IFRS Foundation tools to support the adoption and implementation of IFRS S1 and S2 to further drive integrated reporting and thinking.
6. Mr Tilley shared that the staff intend to collect evidence of how companies are utilising IFRS S1 and S2 in their integrated reports over the next year.
7. Mr Tilley noted the upcoming conference in Tokyo, will focus on the practical application of integrated reporting in a market with over 1,000 companies adopting the framework.

## Report on Progress by Mr Faber and Dr Barckow

8. Mr Emmanuel Faber provided a report on activities of the ISSB. The number of jurisdictions adopting IFRS S1 and S2 has increased from 20 to 30 in five months covering over half of global GDP and 40% of global market capitalisation.
9. The success of IFRS S1 and S2 is closely tied to the success of the Integrated Reporting Framework. These Standards require the provision of information to investors about sustainability-related risks and opportunities and is crucial for generating cash flows in the short, medium, and long term. This is reflected in the first paragraphs of IFRS S1 which state that an entity's ability to generate cash flows is inextricably linked to interactions between the entity and its stakeholders.
10. There is a strong emphasis by the ISSB on supporting the adoption of IFRS S1 and S2. Despite differences in local approaches, there is a collective responsibility to ensure the successful implementation of these Standards. Adopters of the Integrated Reporting Framework are well-prepared to apply the ISSB standards.

11. Integrated thinking provides the true value behind integrated reporting. There is limited value in integrated reporting without integrated thinking. It provides the basis for the transformation of the strategic approach to sustainability issues within a business.
12. Mr Faber thanked the members of the IRCC as well as all the experts on integrated thinking and integrated reporting for their support.
13. Dr Andreas Barckow echoed Mr Faber's comments and provided an update on the progress of the IASB's project on management commentary which will be issued as a Practice Statement in 2025. The IASB was encouraged to finalise the management commentary project by regulators who recognised that this includes the latest thinking on narrative reporting. The project when completed will be seen as a stepping stone towards further integration in reporting.
14. The IASB have agreed to only make targeted refinements to the Exposure Draft to bring clarity where required on scope and objective. In November and December 2024 the IASB will consider the topics of materiality and key matters to ensure that the management commentary aligns with both financial reporting and sustainability-related disclosures.

### Introduction to the Managing Director IFRS Foundation

15. Mr Michel Madelain, the new Managing Director of the IFRS Foundation, addressed the meeting, reflecting on his recent appointment in September 2024 and his previous experience as a Trustee of the IFRS Foundation. He emphasised the progress that has been made since the initial discussions about integrating the Value Reporting Foundation with the IFRS Foundation, noting the significant advancements in the success of the ISSB.
16. Mr Madelain suggested that the ultimate success of integrated reporting would be when it becomes fully embedded within the IFRS Foundation, eliminating the need for the IRCC to exist separately.
17. He explained that his role focuses on ensuring the efficient operation and support of the IASB and ISSB rather than direct involvement in standard-setting. Mr Madelain also mentioned his recent visit to Japan, indicating the upcoming conference there was a notable topic of discussion, underscoring the global interest and relevance of integrated reporting.

### Panel on Corporate Governance

18. Mr Jonathan Labrey introduced the panel of Ms Tanya Levy-Odom from BlackRock and Mr Leon Kamhi from Federated Hermes to discuss the significant role that corporate governance plays in ensuring high-quality adoption of quality standards such as IFRS S1 and IFRS S2 emphasising that these should not be seen merely as compliance exercises.
19. Ms Levy-Odom and Mr Kamhi shared insights on several key issues related to corporate governance, integrated reporting, and integrated thinking:
  - a. **Value of Integrated Reporting:** companies practicing integrated reporting apply rigorous focus, discipline, and accountability to both their financial and environmental, social, and governance (ESG) metrics. These enterprises, view these disclosures not just as compliance but as essential to value creation which helps them become stronger and more resilient.
  - b. **Importance of Comprehensive Reporting and an integrated narrative:** robust disclosure is crucial for investors to evaluate a company's strategy effectively, particularly regarding

sustainability risks and opportunities. There are examples, such as Clorox, which successfully integrates sustainability into its core business processes and operations. Reporting should go beyond compliance and avoid boilerplate language, focusing instead on how companies create value across different dimensions. A company should be able to describe the narrative of the company in a seamless way without a distinction between financial and non-financial information.

- c. **Governance and Decision-Making:** governance plays a role in ensuring that companies address conflicts and trade-offs openly. Effective governance drives long term success and this can be illustrated by using the example of energy companies balancing current profitability with future sustainability investments, advocating for transparency in how boards address such challenges.
- d. **Governance and Communication:** the significance of board and management communication in conveying integrated thinking, which suggests that larger multinational companies tend to adopt such approaches more comprehensively compared to smaller firms.
- e. **Integrated Thinking and Strategy:** integrated thinking enables companies to align their operations and strategies effectively, which is evident in companies like Procter & Gamble. These companies incorporate sustainability in innovation and product development, balancing consumer needs and operational performance. Integrated thinking involves breaking down silos within organizations, encouraging collaboration across departments to address various stakeholder needs. This approach has been implemented successfully at Federated Hermes by aligning the company's different functions to support responsible investment priorities.
- f. **Simplifying Reporting:** the complexity and volume of current reporting requirements, such as those seen in remuneration reports, could be clearer leading to more concise storytelling that focuses on essential performance and governance issues.
- g. **Trends Impacting Reporting:** Artificial intelligence is being used to enhance productivity by streamlining processes, such as employing large language models for drafting reports. Ms Levy-Odom stressed the importance of integrated thinking to ensure that companies convey an effective narrative aligning financial integrity with sustainability goals. Mr Kamhi was concerned over the risk of governance and reporting becoming overly risk-averse and a box-ticking exercise, driven by regulatory compliance rather than strategic integration. He advocated for more purposeful governance that embraces risk-taking necessary for long-term investment in transitions like sustainability.

## Summary of Integrated Reporting and Integrated Thinking Conference, 2024

20. Associate Professor Laura Girella provided information on the recent conference held in Milan, Italy hosted by OIBR and the IFRS Foundation. Nearly 40 speakers from the accounting profession, EFRAG, academia, IASB, and ISSB participated in seven panel discussions. There were more than 300 in-person and 2,000 online registrations.

21. The key messages from the day can be summarised as;

- a. The Integrated Reporting Framework remains fit for purpose.

- b. Sustainability disclosures can improve the specificity and the quality of an integrated report and make it potentially more suitable for assurance.
- c. Integrated thinking is useful not only for preparing an integrated report but also for the adoption of IFRS S1 and IFRS S2.

## Breakout Group Discussions

- 22. Mr Tilley introduced the questions to be discussed in four breakout sessions each led by a facilitator.
- 23. On the future of corporate reporting;
  - a. What are the current and potential future global trends that are likely to affect the corporate reporting ecosystem?
  - b. What opportunities and threats do these trends pose to the corporate reporting ecosystem over the short, medium and long-term? Are there any implications for achieving the continued use and adoption of the Integrated Reporting Framework?
- 24. On integrated thinking;
  - a. How do you believe integrated thinking can help to achieve high quality application of ISSB Standards?
  - b. What insights will the use of integrated thinking provide in determining the sustainability-related risks and opportunities that will affect an entity's prospects to enable it to tell its story effectively?
- 25. Facilitators from each breakout group presented a summary of the discussion. Comments from the groups can be summarised as
  - a. **Real risk of fragmentation in reporting** – between accounting and sustainability information, competing reporting requirements, leading to a trend of companies producing separate reports. This underscores the importance of global leadership in the debate on the future of corporate reporting and work to establish a clear and accepted future vision.
  - b. **Technology is a megatrend that offers both opportunities and risks** – AI and large language models can accelerate the process of integration (spotting linkages between data, etc) and reduce reporting burdens for medium and smaller companies. It could lead to more 'real-time' reporting and greater transparency. However, technology also presents challenges in terms of governance, accountability and control.
  - c. **Integrated thinking presents a great opportunity** – it provides insight into board thinking and decision-making and enhances the quality of capital allocation decisions, risk management and disclosures. The biggest challenge is awareness and education – we need a whole system approach (companies, investors, auditors) to build understanding and develop the business case.
- 26. And a more detailed summary

## ***Global trends***

- a. **Artificial Intelligence (AI) and Large Language Models:** There was a significant focus on how AI and large language models are expected to change various aspects of business operations. The discussion touched on how these technologies could alleviate burdens and create new responsibilities. The potential of AI to transform reporting and governance was discussed, along with the challenges of managing and governing these technologies.
- b. **US Political Climate:** The recent developments in the United States [re-election of Trump as US President] and the potential influence of the new US government on global trends were discussed. There was concern about whether the US might roll back certain policies and how that could affect other countries.

## ***Opportunities and threats***

- c. **Complexity of Reporting Systems:** There was ongoing confusion caused by multiple reporting systems and there is a need for further consolidation. The current "alphabet soup" of acronyms and standards creates challenges for preparers of information and investors.
- d. **Standard Setting and Simplification:** There was a debate on whether the focus should be on perfecting standards or creating simpler, more adaptable ones that companies can implement more easily.
- e. **Impact of Reporting Burdens on Supply Chains:** The burden of reporting, especially on supply chains, was highlighted. Many supply chain participants, particularly SMEs, may not have the necessary skills to comply with reporting requirements, which can be a significant burden.
- f. During the discussion, there were concerns about the breadth of the **talent pool** and the need to increase the number of potential producers who can effectively and efficiently produce integrated reports. The group emphasized the importance of thinking about how to expand this talent pool to ensure high-quality production of integrated reports.

## ***Integrated thinking***

- g. Integrated thinking was discussed as a crucial element for breaking down silos within organizations by fostering cross-functional collaboration. An example was given of a company's commitment to achieve carbon neutrality by 2040, where integrated thinking played a significant role in making that possible.
- h. Integrated thinking extends beyond integrated reporting and is crucial for sustainable value creation. The importance of advocating for more widespread adoption of integrated thinking is fundamental to improving connectivity and corporate reporting. Effective integrated thinking adds value to businesses and investors, with the integrated report serving as the output of this thinking.
- i. The discussion also touched on the need for further rationalisation in terms of the plethora of reporting tools and the importance of education for investors and preparers. This education is crucial for fostering integrated thinking and ensuring that the information is used effectively.

- j. Leadership on integrated thinking is critical and should come from companies, not just from governments and regulators. Encouraging companies to report and learn from best practices is crucial. Awards for different types of reporting could highlight and spread these practices.
- k. The link between integrated thinking and value creation was highlighted as a key point. Maintaining and highlighting examples of how integrated thinking and reporting have helped value creation was deemed crucial for engaging with boards, regulators, and consumers of the information.

## **Integrated Thinking and Integrated Reporting Conference 2025**

- 27. Ms Norie Takahashi introduced the Integrated Thinking and Reporting conference to be held on April 3rd, 2025 in Tokyo. There are more than 1,000 integrated reporters in Japan who produce integrated reports on a voluntary basis, showing a high interest in integrated reporting in the country.
- 28. Having this conference in Japan is seen as a wonderful opportunity to connect with various stakeholders, including corporate, board and executive levels, investors, and regulators. The leadership from both the IASB and ISSB will be attending and speaking at the conference, demonstrating their commitment to achieving future integration in reporting and supporting the implementation of integrated thinking and integrated reporting.
- 29. The conference theme and details are under consideration and several side events are planned around the conference to engage stakeholders.

## **Closing Reflections**

- 30. Mr Tilley thanked all the speakers for their informative and helpful comments. The comments present a compelling vision for how future trends can influence the relationship between integrated reporting and the broader corporate reporting ecosystem.
- 31. Mr. Tilley also recognized the importance of the ecosystem to drive global adoption of the ISSB Standards, thereby ensuring comprehensive disclosures for capital markets. Additionally, he emphasized the significance of integrating thinking and reporting practices to enhance coherence within the reporting landscape.
- 32. Mr Tilley closed the meeting.