Agenda Item 5-B

INFO Working Group Background Briefing Paper—Integrated Reporting and Assurance[1]

The International Integrated Reporting Council (IIRC)

1. The IIRC is a global coalition of regulators, investors, companies, standard setters, the accounting profession and non-governmental organizations. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting.

2. The IIRC's long-term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by Integrated Reporting (<IR>) as the corporate reporting norm. The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for a more financially stable economy and sustainable world.

International <IR> Framework

3. In December 2013, the IIRC released the International Integrated Reporting Framework[2] (the <IR> Framework). The <IR> Framework notes that <IR> aims to:

    - Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.
    - Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time.
    - Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies.
    - Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.

4. The <IR> Framework defines the terms "<IR>" and an "integrated report" as follows:

    - *<IR>*: A process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation.
    - *Integrated report:* A concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.

    An integrated report is not a report that is merely a package of separate reports on different subject matters collated and presented in a single report. It is rather a more cohesive and efficient

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[1] Information in this paper has been obtained from different IIRC resources.

[2] http://www.theiirc.org/international-ir-framework/

approach to corporate reporting to explain the interrelationships of these subject matters.

Scope of the <IR> Framework

5. The <IR> Framework is written primarily in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations.

6. The <IR> Framework outlines benefits to both businesses and investors as follows:

Benefits to Businesses

- Better articulation of strategy for the business and how its business model is responding to changing needs and expectations in the marketplace.
- Enabling better dialogue between the business and providers of financial capital.
- More connected departments, breaking down silos.
- Improved internal processes.
- Lower cost of capital.

Benefits to Investors

- <IR> makes clearer the connections between an organization's strategy, governance, performance and prospects – investors are therefore able to assess more effectively the combined impact of diverse factors.
- The disclosure of key risks and opportunities as management views them enables investors to assess the short, medium and long term impact.
- More effective capital allocation decisions leading to better long-term investment returns.

Key Concepts of <IR>

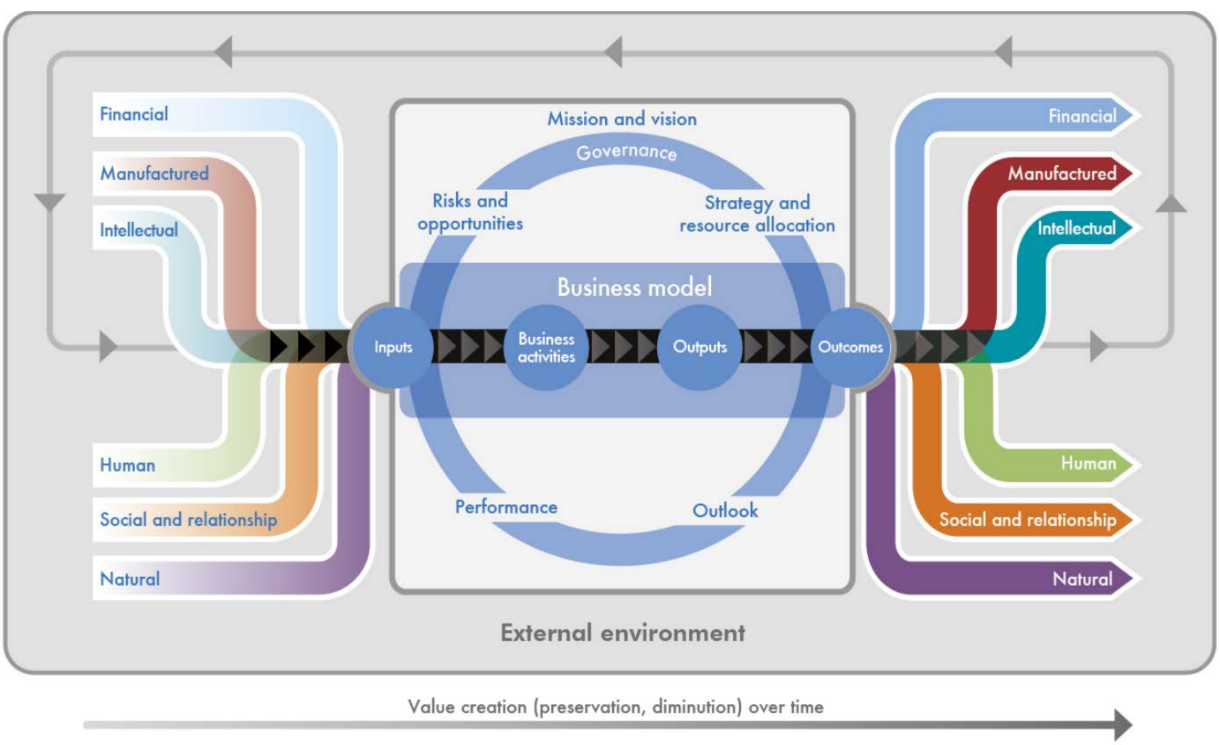
7. <IR> has three fundamental key concepts: (i) value creation for the organization and others, (ii) the capitals, and (iii) the value creation process.

(i) Value Creation for the Organization and Others: Value has two interrelated aspects – value created for the organization itself, which enables financial returns to the providers of financial capital and for others (i.e., stakeholders and society at large). The ability of an organization to create value is influenced by the external environment, is created by and linked to relationships with stakeholders and the value it creates for others and dependent on the available resources. An integrated report explains how an organization creates value over time. The value creation manifests itself in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs.

(ii) The Capitals: The <IR> Framework identifies the following capitals, which are stocks of value that are increased, decreased or transformed through the activities and outputs of the organization:

- Financial capital – The pool of funds that is available obtained through financing, such as debt, equity or grants, or generated through operations or investments.
- Manufactured capital – Manufactured physical objects that are available to an organization for use in the production of goods or the provision of services, including: buildings, equipment and infrastructure.
- Intellectual capital – Organizational, knowledge-based intangibles, including intellectual property (such as patents, copyrights, software, rights and licenses and "organizational capital" such as tacit knowledge, systems, procedures and protocols.
- Human capital – People's competencies, capabilities and experience, and their motivations to innovate.
- Social and relationship capital – The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being, including shared norms and values, stakeholder relationships and intangibles associated with brand and reputation.
- Natural resources: all renewable and non-renewable environmental resources and processes that provide goods or services, air, water, land, minerals and forests, biodiversity and eco-system health.

(iii) The Value Creation Process is depicted below**:**



Integrated Report

8. The <IR> Framework established Guiding Principles and Content Elements for the preparation of an integrated report.

9. The Guiding Principles in the <IR> Framework are as follows:

- *Strategic Focus and Future Orientation* – An integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term and to its use of and effects on the capitals.
- *Connectivity of Information* – An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time.
- *Stakeholder Relationships* – An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.
- *Materiality* – An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term.
- *Conciseness* – An integrated report should be concise.
- *Reliability and completeness* – An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.
- *Consistency and comparability* – The information in an integrated report should be presented:
  - On a basis that is consistent over time; and
  - In a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time.

Content Elements of an Integrated Report

10. The eight Content Elements in an integrated report are[3]:

- Organizational overview and external environment: What does the organization do and what are the circumstances under which it operates?
- Governance: How does the organization's governance structure support its ability to create value in the short, medium and long term?
- Business model: What is the organization's business model?
- Risks and opportunities: What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term and how is the organization dealing with them?
- Strategy and resource allocation: Where does the organization want to go and how does it

[3] This overview is a summary of the more elaborated text in the <IR> Framework

intend to get there?

- Performance: To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
- Outlook: What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance? and
- Basis of preparation and presentation: How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?

Types of Information to Be Included in an Integrated Report

11. The types of information that might be included in an integrated report can be classified as:
    - Quantified measurements, including statistics, which may be internal (derived from an organization's reporting system) or externally obtained.
    - Factual narrative—information that is supported by events that have occurred, which may be evidenced in a number of ways, including reporting systems and their resulting reports, or in information reported externally by other organizations.
    - Soft narrative—information internally generated; it may contain views or judgments of management and those charged with governance but the substance should be reflected in various reports, internal communications, and the organization's internal or external websites, and in the organization's operating practices.
    - Quantified estimates—estimated amounts or percentages, such as related to a future-oriented matter or the effect on a capital that is measurable.
    - Qualitative estimates—directional indications of an effect or anticipated outcome (e.g., increase/decrease, favorable/unfavorable).
    - Diagrams—may be used as pictorial representations in conjunction with or instead of a narrative.

Reporting Boundary

12. The <IR> Framework defines the reporting boundary as the boundary within which matters are considered relevant for inclusion in an organization's integrated report. While it states that the financial reporting entity is central to the reporting boundary for the integrated report, it also states that identifying and describing outcomes may require disclosure of the effects on capitals up and down the value chain. In an integrated report a description is provided on the reporting boundary and how it has been determined.

Assurance

13. The majority of the respondents to the IIRC's *Consultation Draft of the International <IR> Framework* viewed independent, external assurance as a fundamental mechanism for ensuring reliability. Some respondents expressed concerns over the ability for an assurance engagement to

be performed and pointed to the need for specific assurance standards to be developed to address issues relevant to an integrated report.[4]

[4] Prior to finalizing its International <IR> Framework, the IIRC released for public comment a *Consultation Draft International <IR> Framework*. The IIRC also released a document, *Summary of Significant Issues*, which provides a high-level summary of the significant technical issues raised by respondents to the *Consultation Draft of the International <IR> Framework.* Further discussion of those responses that deal with issues relating to reliability, credibility, and assurance of the International <IR> Framework is available at: http://www.theiirc.org/wp-content/uploads/2013/12/13-12-08-Summary-of-significant-issues-IR.pdf.

Appendix 1

Some Facts and Figures Related to Integrated Reporting

1. This Appendix provides selected recent facts and figures in relation to the interest and activity around <IR>. In addition, facts and figures are presented on information on Corporate Responsibility (CR) or sustainability, both as included in separate reporting as well as part of annual reporting. Companies that started several years ago to report on this type of information are now moving gradually towards <IR>.

Company Reporting

2. 104 companies have joined the IIRC pilot program, which includes representation from the following key regions: Europe (broad coverage from UK to Russia), Asia/Oceania (specifically Singapore, Japan, India, Australia and New Zealand), North America, South America (specifically Brazil and Argentina) and South Africa.[5]
3. Examples of an integrated report can be found in a database on the IIRC website.[6]
4. An analysis of the 100 largest companies by revenue in 41 countries exploring how many companies are producing CR reports indicated that 51% included CR in the annual report in 2013, up from 20% in 2011 and 4% in 2008.[7]
5. Of the G250 that report CR data (2013), 59% have obtained external assurance (46% in 2011), of which 67% is performed by major accountancy firms.[8]
6. Of the 3,650 sustainability reports issued in 2012 and collected in the sustainability disclosure database of Global Reporting Initiative (GRI), 2,930 (80%) contain a reference to the GRI.[9]

Investor Initiatives

7. IIRC Investor Network consists of 36 investors, representing more than $4 trillion assets under management, including: DWS Investments (Deutsche Bank), Goldman Sachs, Hermes, Government Employee Pension Fund of South Africa and Natixis Asset Management.[10]

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5 Source: *IIRC pilot program, (status as per January 14, 2014). Experiences of these pilot companies can be found in:the IIRC Pilot Program Yearbook;* http://www.theiirc.org/wp-content/uploads/2013/12/IIRC-PP-Yearbook-2013_PDF4_PAGES.pdf

6 Source: *Examples Database*: http://examples.theiirc.org/home

7 Source: *The KPMG Survey of Corporate Responsibility Reporting 2013;* http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/corporate-responsibility-reporting-survey-2013.pdf \

8 Ibid

9 Source: *Global Reporting Initiative Sustainability Disclosure Database*: https://www.globalreporting.org/reporting/report-services/sustainability-disclosure-database/Pages/default.aspx

10 Source: *IIRC Investor Network (status as per January 14, 2014).*

8. Between March and September 2011, a survey of a sample of 34 investors and 35 analysts, of which 68% were working primarily in the Socially Responsible Investment (SRI) field, with the remainder in non-SRI fields, revealed the following:[11]

   - Over 80% of investors and analysts surveyed believe that <IR> will deliver benefits to their analysis and company assessments;
   - The initiatives most commonly used by investors and analysts in this sample include the GRI Sustainability Reporting Framework (70%), the Carbon Disclosure Project (54%) and key performance indicators created by industry associations (32%); and
   - The majority of investors and analysts in this research rate external assurance as very important or important for non-financial reporting.

[11] Source: *The value of extra financial disclosure: What investors and analysts said*, Research partners the Global Reporting Initiative and The Prince of Wales's Accounting for Sustainability Project (A4S), in collaboration with Radley Yeldar; https://www.globalreporting.org/information/news-and-press-center/Pages/Investors-and-analysts-use-extra-financial-information-in-decision-making-suggests-new-research.aspx