

# Integrated Reporting: A Primer

ELI Conference: The Cutting Edge of Corporate  
Sustainability Disclosure

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# PRESENTATION OVERVIEW

- **The Concept of Integrated Reporting**
- **The International Integrated Reporting Framework (IIRF)**
- **Key Questions Pertaining To The Future of Integrated Reporting**

# IMPETUS FOR INTEGRATED REPORTING

## ➤ **Traditional Approach: Separate Reports**

- ✓ Financial
- ✓ Environmental, Social and Governance (ESG)
- ✓ Other

## ➤ **Criticisms of Traditional Approach**

- ✓ Results in lack of integrated thinking about connections between financials and ESG
- ✓ Leads to ESG reports that fail to consider material issues -- particularly medium and long term issues
- ✓ Does not facilitate Sustainable, Responsible and Impact (SRI) investment

# SOLUTION: INTEGRATED REPORTING

- **Recognize both financial and non-financial “capital”**
  - ✓ Money
  - ✓ Goods
  - ✓ Intellectual Property
  - ✓ People
  - ✓ Relationships
  - ✓ Natural Resources (e.g., environment, energy, etc.)
- **Develop a process to evaluate all of these forms of capital by a multidisciplinary team (i.e., Finance, Sustainability, Investor Relations, Corporate Governance, Legal and Marketing)**
- **In doing so, will foster – and communicate – a holistic and forward looking understanding of the business**

# INTERNATIONAL INTEGRATED REPORTING COUNCIL (IIRC)

- Established in 2010 to promote, standardize, and implement integrated reporting
- Involves many stakeholders, e.g., companies, investors, regulators, accounting firms, NGOs.
- Key IIRC goals:
  - ✓ “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”

# SO, EXACTLY WHAT IS INTEGRATED REPORTING?

- “Integrated reporting is 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.” *IIRC, Frequently Asked Questions*, <http://www.theiirc.org/resources-2/faqs/>.
- “Integrated reporting is about moving to a more aligned understanding of the interplay between financial and non-financial factors.” *10 Minutes on Integrated Reporting*, [http://www.pwc.com/en\\_US/us/10minutes/assets/pwc-10minutes-integrated-reporting.pdf](http://www.pwc.com/en_US/us/10minutes/assets/pwc-10minutes-integrated-reporting.pdf).

# IIRC PILOT AND FRAMEWORK

- IIRC-sponsored three-year integrated reporting pilot program
  - ✓ Ended in Sept. 2014
  - ✓ Participants included Volvo, BASF, HSBC, Microsoft, Sanofi, Sasol, Solvay and many others. See <http://www.theiirc.org/companies-and-investors/pilot-programme-business-network/2-2/>.
- **International Integrated Reporting Framework (IIRF)**
  - ✓ Released in late 2013 as outgrowth of reporting pilot
  - ✓ Establishes “guiding principles” (slide 8-9) and “content elements” (slide 10-11)

# IIRF GUIDING PRINCIPLES

***Strategic Focus And Future Orientation:*** Provide insight into organization's strategy, and how it relates to organization's ability to create value in short, medium and long term

***Connectivity Of Information:*** Show holistic picture of factors that affect the organization's ability to create value over time by addressing combination, interrelatedness and dependencies between such factors

***Stakeholder Relationships:*** Provide insight into organization's relationships with its key stakeholders, including how and to what extent it understands, takes into account and responds to their legitimate needs and interests



# IIRF GUIDING PRINCIPLES (CONTINUED)

**Materiality:** Disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term

**Conciseness, Reliability And Completeness:** Be concise, but include all material matters, both positive and negative, in a balanced way and without material error

**Consistency And Comparability:** Present information consistently over time and in a way that organization's own ability to create value over time in comparison to other organizations

# IIRF CONTENT ELEMENTS

## ***Organizational Overview And External Environment:***

What does the organization do and what are the circumstances under which it operates?

### ***Governance:***

How does organization's governance structure support its ability to create short, medium and long term value?

### ***Business Model:***

What is the organization's business model?

### ***Risks And Opportunities:***

What are specific risks and opportunities that affect organization's ability to create short, medium and long term value, and how is the organization dealing with them?

# IIRF CONTENT ELEMENTS (CONTINUED)

## ***Strategy And Resource Allocation:***

Where does the organization want to go and how does it 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?

### ***Basis of Presentation:***

How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?

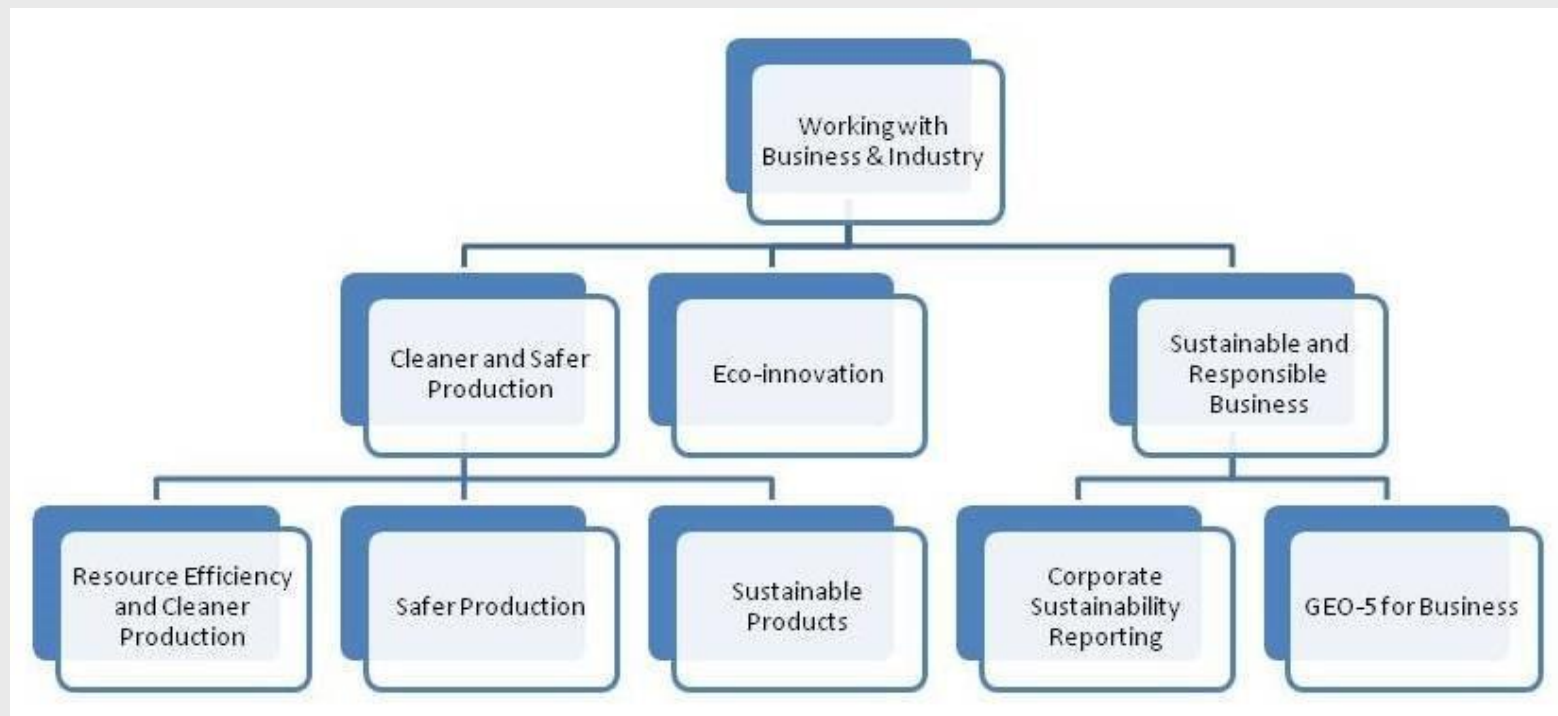
# OTHER RELEVANT STANDARDS

## ➤ Sustainability Accounting Standards Board

- ✓ Sustainability accounting standards for more than 80 industries in 10 sectors
- ✓ Designed for disclosure of material sustainability information in mandatory SEC filings

## ➤ United Nations Environment Programme (UNEP)

- ✓ Global Reporting Initiative Framework
- ✓ Working with Business & Industry (see next page)



# KEY QUESTIONS:

## Who Is The Primary Audience?

### ➤ Investors?

- ✓ The “primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time.” *IIRC, Frequently Asked Questions*, <http://www.theiirc.org/resources-2/faqs/>.
- ✓ “Integrated reporting ... in general aims primarily to offer an organization’s providers of financial capital with an integrated representation of the key factors that are material to its present and future value creation.” *Global Reporting Initiative, Integrated Reporting*, <https://www.globalreporting.org/information/current-priorities/integrated-reporting/Pages/default.aspx>.

### ➤ Broader Audience?

- ✓ e.g., South Africa’s mandatory integrated reporting regime

# KEY QUESTIONS: Is Integrated Reporting More Than The Sum of Its Parts?

- “Integrated reporting is more than combining existing disclosures into a single report. Elements of both financial reporting and sustainability reporting would be included in an integrated report if the information is relevant to how an organization creates and sustains value. This would require assessing the connectivity and interdependencies between the organization’s business model, the context in which the organization operates, and the resources and relationships on which it relies and that it affects.” *Integrated Reporting: Going Beyond the Financial Results*, [http://www.pwc.com/en\\_US/us/cfodirect/assets/pdf/point-of-view-integrated-reporting.pdf](http://www.pwc.com/en_US/us/cfodirect/assets/pdf/point-of-view-integrated-reporting.pdf).

# KEY QUESTIONS: Will Integrated Reporting Replace Other Reports?

- “Although intended to be a catalyst for integrating current forms of reporting, it is not designed to replace existing disclosures, which provide useful detail to report users with particular information needs and help to shine a light on the thinking and behaviour within organizations.” *IIRC, Frequently Asked Questions*, <http://www.theiirc.org/resources-2/faqs/>.



# KEY QUESTIONS: Will Integrated Reporting Be Embraced?

- **Participants in the IIRC pilot program reported, e.g., as follows:**
  - ✓ 92% saw increased understanding of value creation.
  - ✓ 91% saw an increased engagement with external stakeholders.
  - ✓ 87% who published at least one integrated report believe investors better understand their strategy.
  - ✓ 79% reported improvements in decision making.
  - ✓ 68% reported a better understanding of risks and opportunities.

*Realizing the Benefits: the Impact of Integrated Reporting,*  
[http://www.theiirc.org/wp-content/uploads/2014/09/IIRC.Black\\_Sun\\_Research.IR\\_Impact.Single\\_pages.18.9.14.pdf](http://www.theiirc.org/wp-content/uploads/2014/09/IIRC.Black_Sun_Research.IR_Impact.Single_pages.18.9.14.pdf).
- **Limited adoption thus far by S&P companies – according to the IIRG, just 1.4% (seven) include a statement on integrated reporting or declared their annual financial report to also be an ESG report**

# **KEY QUESTIONS: What Are The Most Challenging Aspects Of Integrated Reporting?**

**Let's hear from our Panel on this and the other Key Questions . . .**

Thank You!

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