

Integrated Reporting

An evolution in corporate reporting

FEE Event on Integrated Reporting

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Lois Guthrie

Technical Director

International Integrated Reporting Council

INTEGRATED REPORTING <IR>

Observations about corporate reporting

Louder
than
Words.

BIS | Department for Business
Innovation & Skills

THE FUTURE OF NARRATIVE
REPORTING

The Government Response

MARCH 2012

ACCOUNTANCY FUTURES

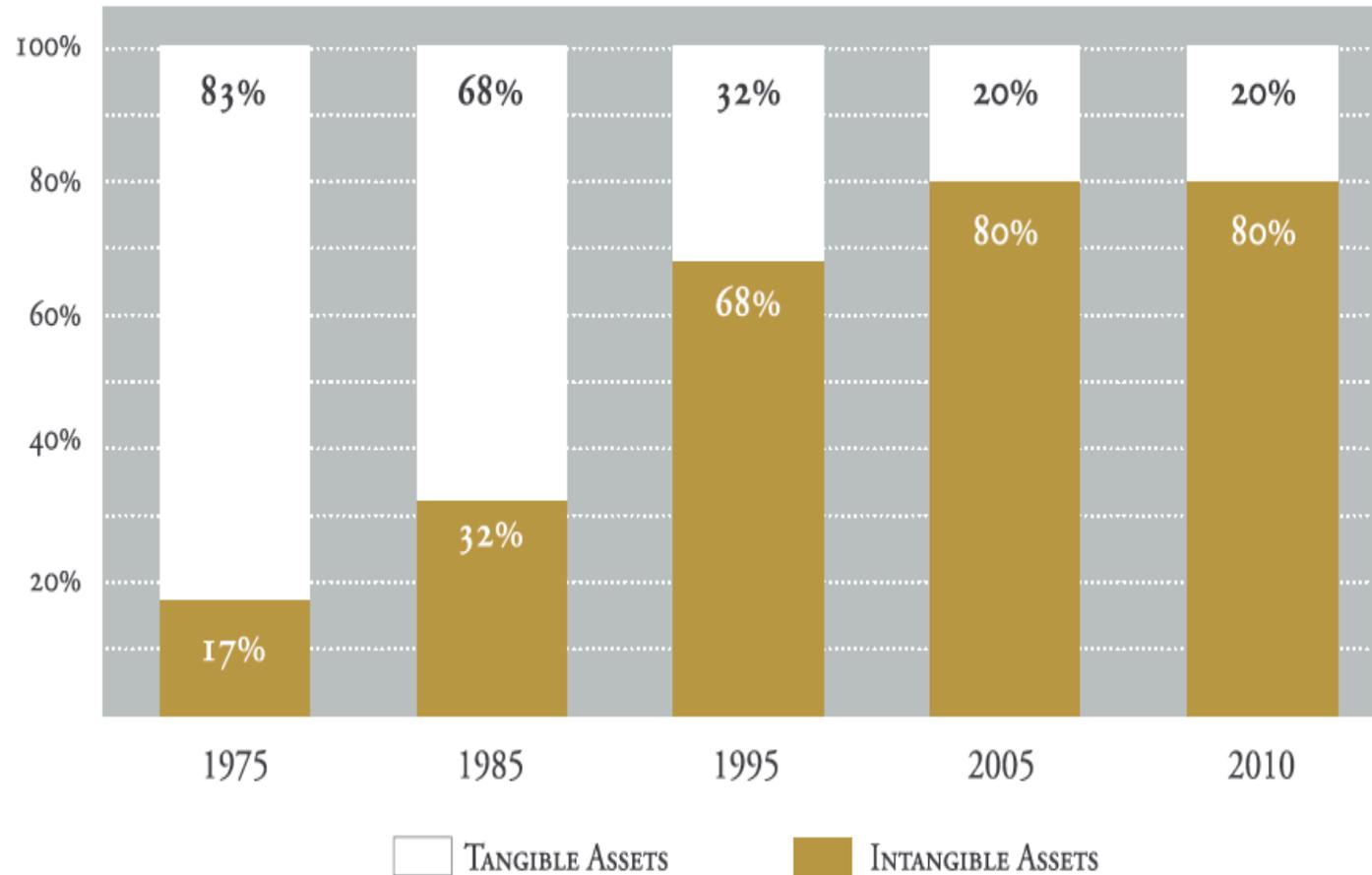
Re-assessing the value
of corporate reporting

Tomorrow's
Corporate
Reporting

A critical system at risk

The “value gap”

COMPONENTS OF S&P 500 MARKET VALUE

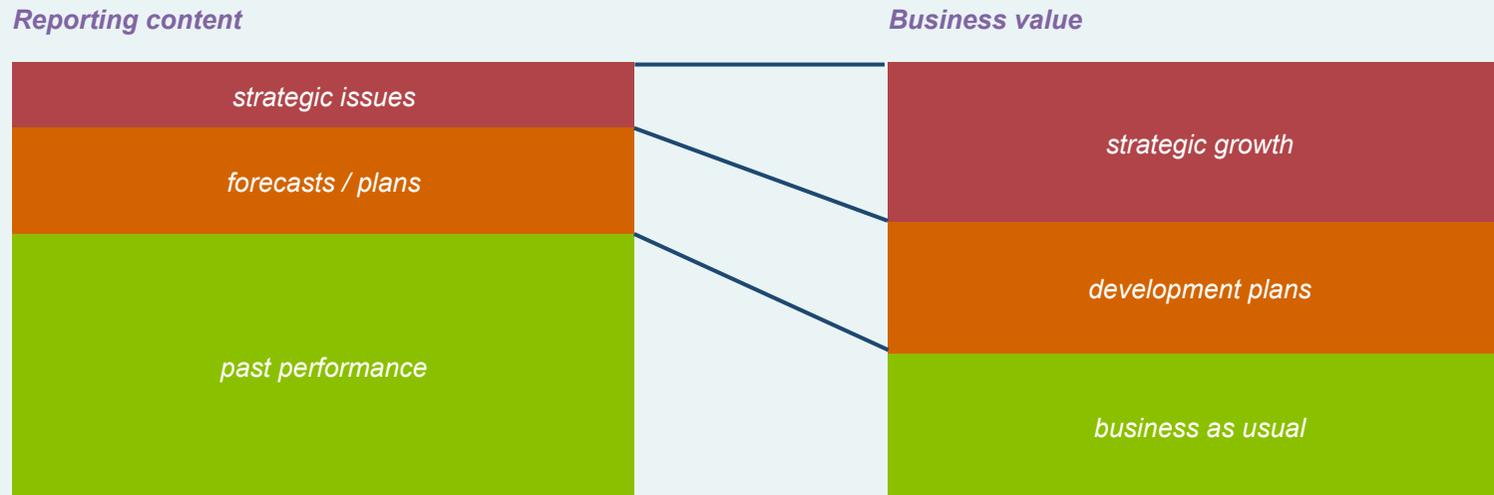


Source: Ocean Tomo

The Reporting Mismatch

The reporting mismatch

An illustration for a typical business:



The consequence:

- *Issues central to long term business value aren't getting the attention they deserve*
- *Capital markets compensate by pricing in risks that may well be adequately managed*
- *Investors focus on the short term because they can't get a clear picture of the long term*

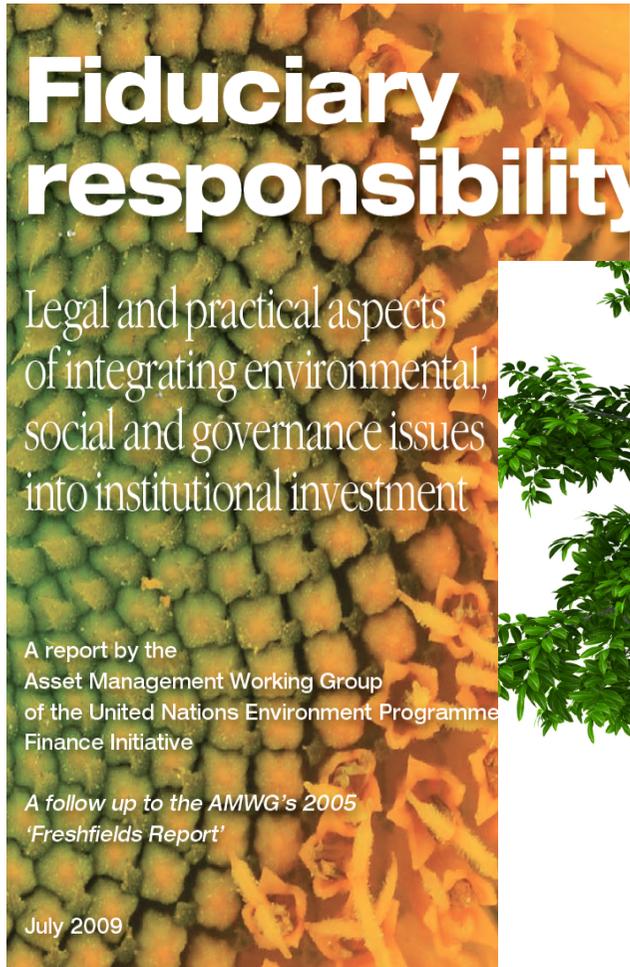
Assessing the value of corporate reporting

ACCA January 2012 Report – “Re-assessing the value of corporate reporting”

Survey of 500 report users in US, UK and Canada including capital providers, credit providers and other stakeholders

- 47% - reports are too long.
- 35% - reports are too backward-facing.
- 40% - reports are too general purpose to meet needs
- 35% - reports are too complex in their current form, due to:
 - reporting standards (68%)
 - Legal requirements (61%)

Investor information needs



Fi/FX Research
ch
research

Halo's Creed ”



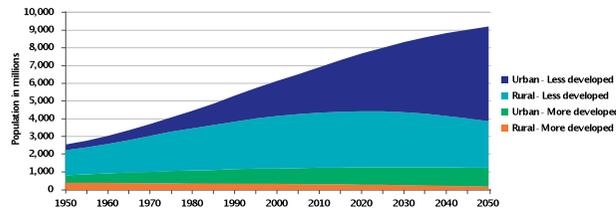
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Growth and degradation

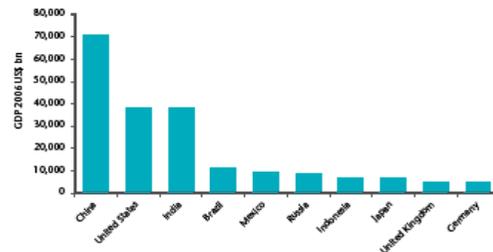
(source WBCSD – Vision 2050)

Growth

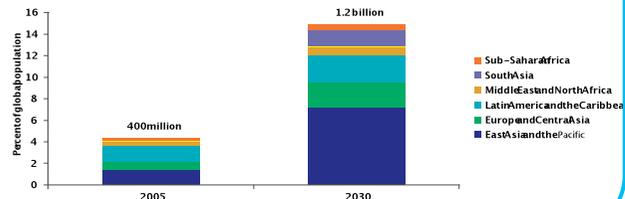
The world population is increasingly urban
Global population by type of area and by region - 1950-2050



Global economic power is shifting
Top 10 economies by GDP in 2050

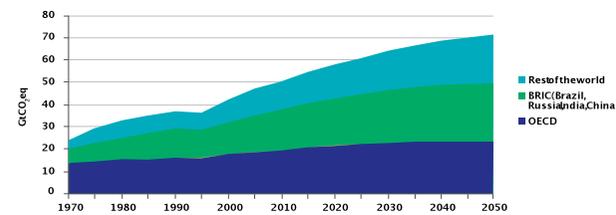


The global middle class is rapidly expanding
Population in low- and middle-income countries earning US\$ 4,000-17,000 per capita (purchasing power parity)

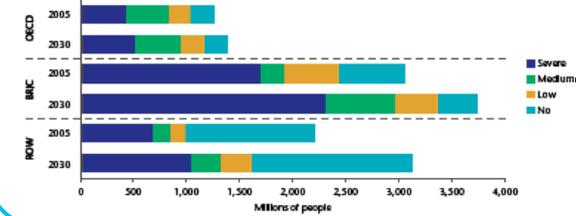


Degradation

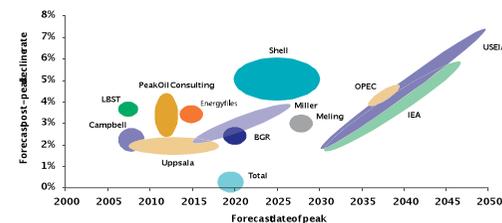
Greenhouse gas emissions keep rising
GHG emissions by regions



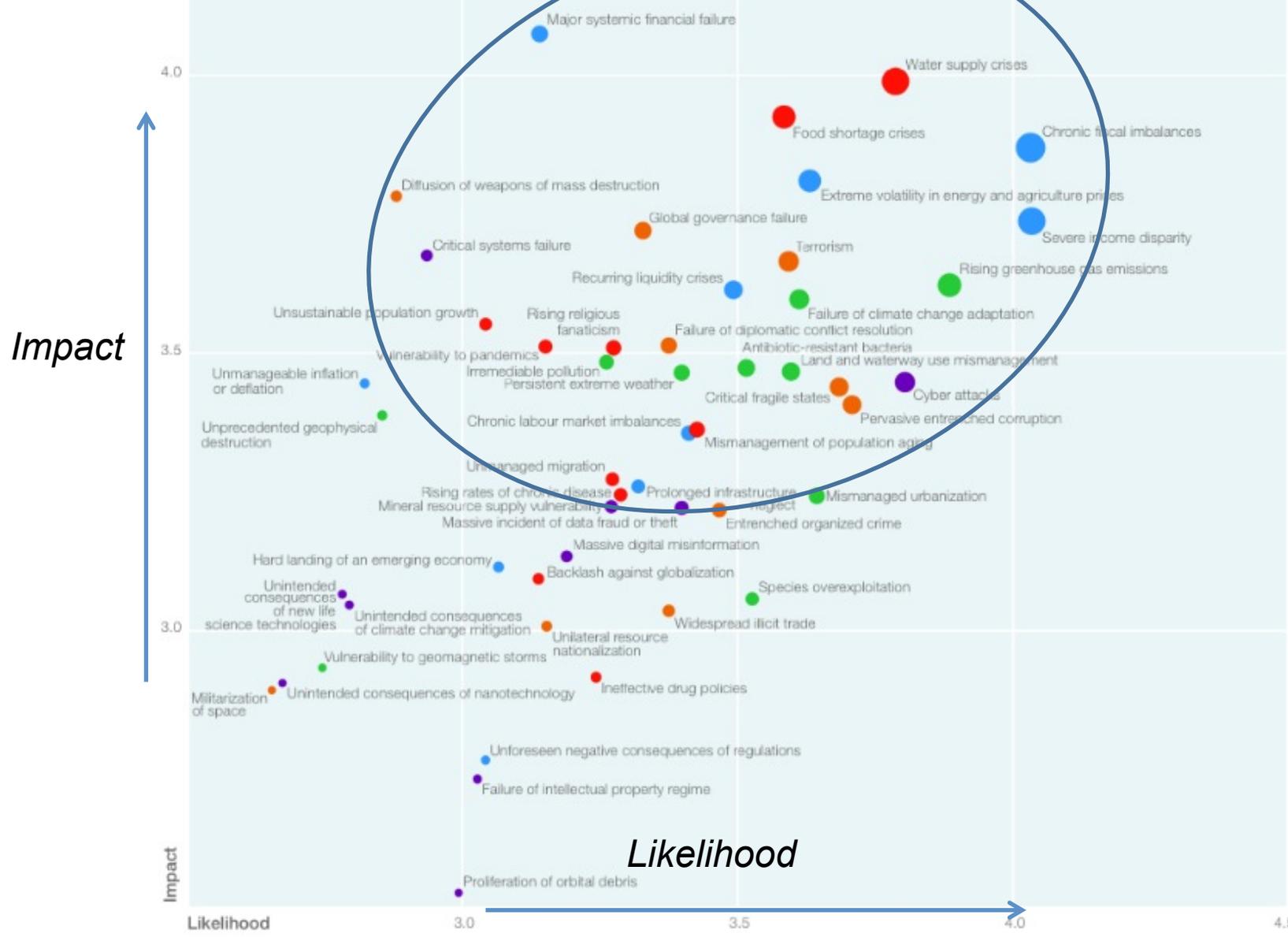
Environmental degradation jeopardizes people's quality of life
People living in areas of water stress by level of stress



The world could be running out of some resources
Global supply forecasts according to the implied ultimate recoverable resources of conventional oil, date of peak production and the post-peak aggregate decline rate



World Economic Forum Global Risk Report 2012



MIS- MEASURING OUR LIVES



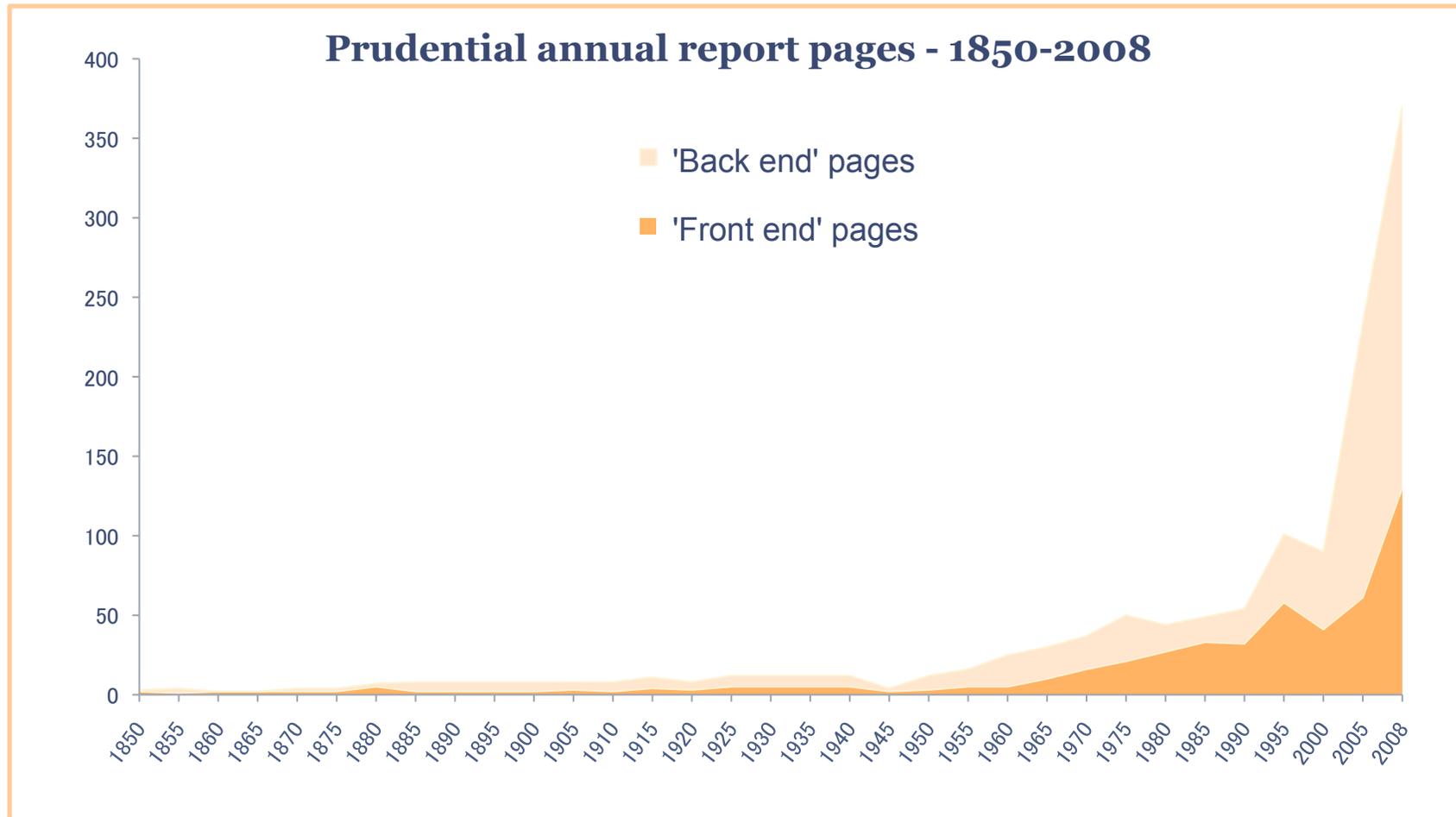
Why the GDP Doesn't Add Up

Joseph E. Stiglitz,
Amartya Sen,
and Jean-Paul Fitoussi

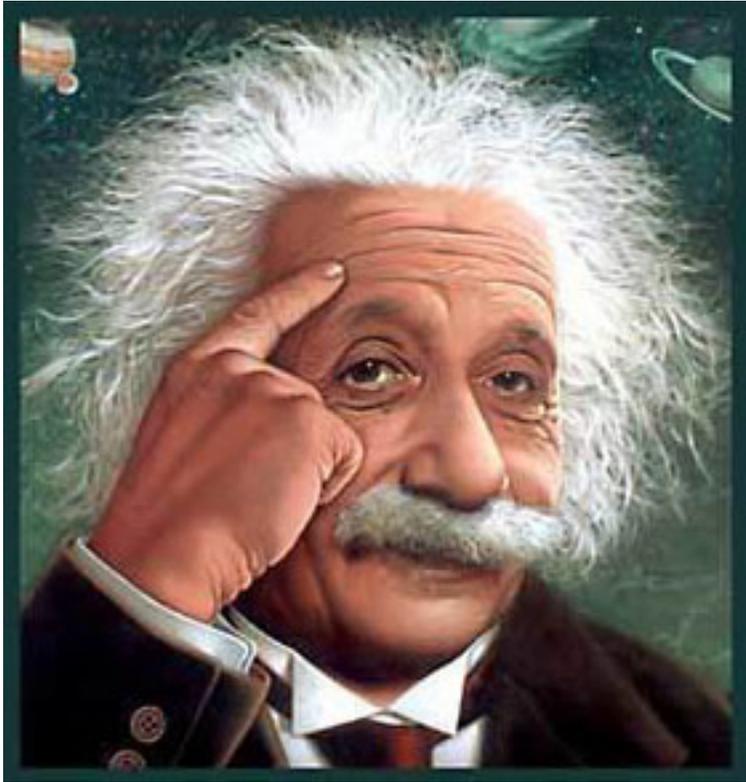
THE REPORT BY THE COMMISSION ON THE MEASUREMENT
OF ECONOMIC PERFORMANCE AND SOCIAL PROGRESS

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It is not enough to keep adding more

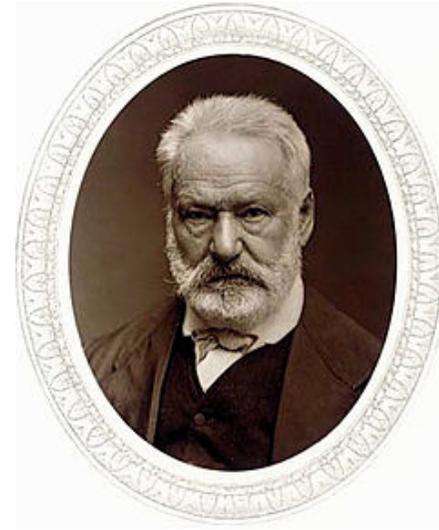


Source: Investis research



Albert Einstein

“we cannot solve our problems with the same thinking we used to create them”



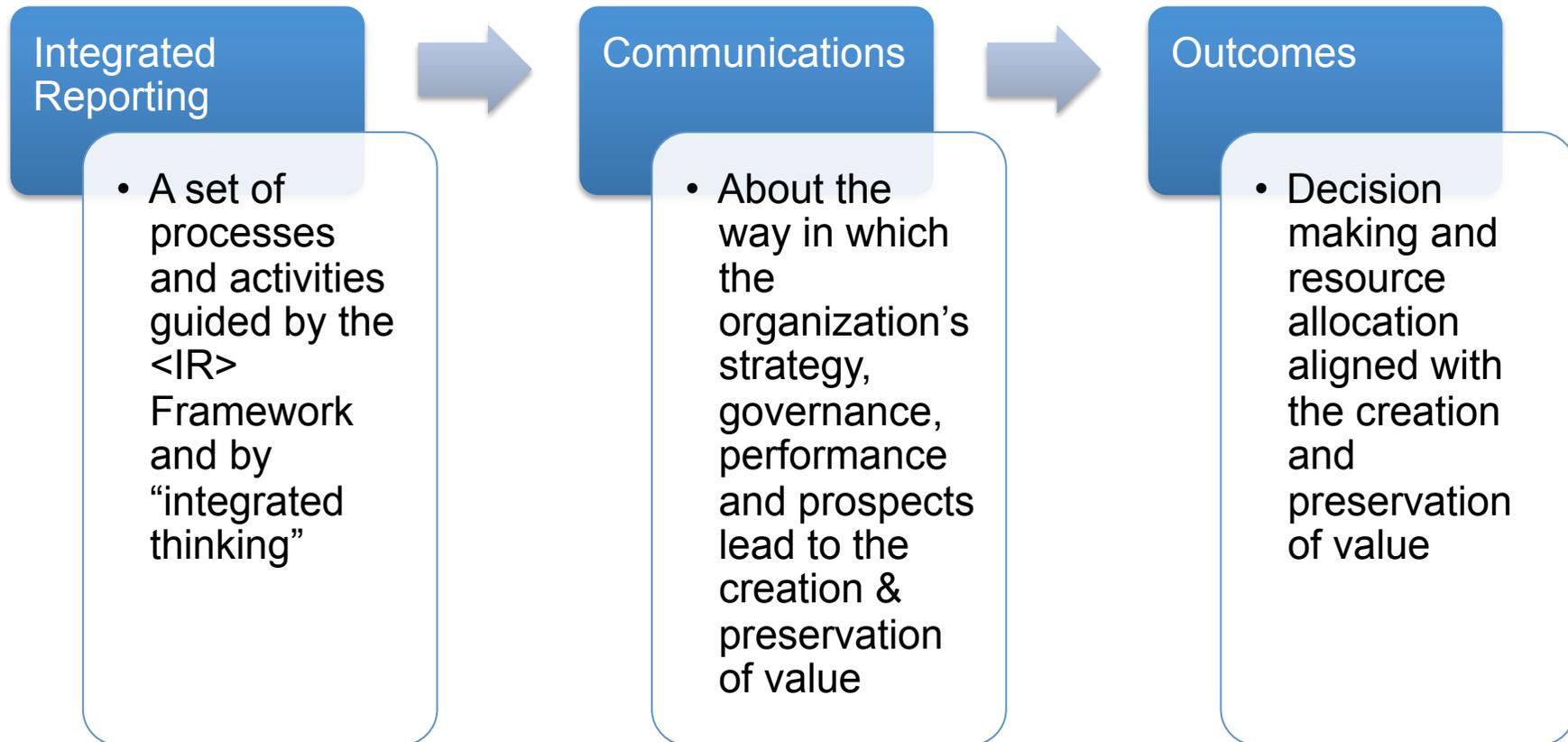
Victor Hugo

“nothing else is so powerful as an idea whose time has come”

The purpose of Integrated Reporting -Working hypothesis

Our vision is for <IR> to be accepted globally as the corporate reporting norm, benefiting organizations, investors and society by **encouraging sound and well-informed decision-making** that leads to **efficient capital allocation, sustainable growth and prosperity.**

What is Integrated Reporting? Working definition



Crucial questions – Value to whom?

- From whose perspective should value be considered - to whom or what value is intended to apply/accrue?
- Should value for integrated reporting purposes always be shared value that accrues to the reporting organization as well as expanding the total pool of economic and social value”?
- Can value be communicated only when it is measured (eg: by reference to KPIs or financial performance) or are there other ways of expressing value?
- If value is to be considered from a wide perspective of the total pool or economic and social value, how is it to be assessed and reported and how does that affect the organizational boundaries of integrated reporting?
- Over what timescales should value and value creation be considered and how should organizations balance short-term performance with long-term success?

Crucial questions – What is integrated thinking?

the application of the collective mind of those charged with governance and management of the organization to map, monitor, manage and **communicate the full complexity of the value-creation process**.

takes into account the **connectivity and interdependencies** between the full range of factors that have a material effect on an organization's ability to create and preserve value in the short, medium and long-term.

Factors include:

- Resources and relationships
- Context
- Risks and opportunities
- Activities, results and performance, past, present and future
- Financial and non-financial information

How is Integrated Reporting different?

Thinking	Disconnected	Integrated
Stewardship	Financial capital	All types of capital
Focus	Past, financial capital	Past & future, connected, strategic
Timeframe	Short term	Short, medium & long-term
Trust	Narrow disclosures	Greater transparency
Adaptive	Rule bound	Responsive to individual circumstances
Concise	Long and complex	Concise & material
Presentation	Paper	Technology enabled

IIRC – practical strategy – working hypothesis

Strategy

- engage with the corporate, investment, accounting, securities, regulatory, academic and standard-setting sectors, civil society + Investor Network and Pilot Programme
- develop the <IR> Framework
- promote adoption of <IR> by report preparers, regulators and investors
- create a context in which the move to <IR> in developed and emerging economies is seen as inevitable

<IR> - *The Framework*

- Development and consultation stage – examination of relevant models
- <IR> Framework is expected to reflect the following general principles and characteristics:
 - designed for use by reporting organizations for the purposes of integrated reporting;
 - comprise reporting criteria, including how information for <IR> purposes should be determined, prepared and presented;
 - focus on concepts and principles rather than the details of measurement and reporting on individual matters.

<IR> - What next?

- **Threshold issues**

- Business model

- Value

- The capitals

- Connectivity

- Materiality

- **<IR> in the corporate reporting landscape**

- **<IR> Framework Development**

Landscape overview

MANDATORY



Illustrative examples on Climate Change

- National Greenhouse & Energy Reporting Act 2007 (Australia)
- Act on Promotion of Global Warming Countermeasures (Japan)
- Financial Statements Act (Denmark)
- EU Emissions Trading Scheme
- CRC Energy Efficiency Scheme (UK)
- Canadian Environmental Protection Act
- Greenhouse Gas Mandatory Reporting Rule (USA)
- Climate Change Response Act 2002 (NZ)

VOLUNTARY REPORTING – NATIONAL, GLOBAL, INDUSTRY

CARBON DISCLOSURE PROJECT



INDICES/RATERS



STOCK EXCHANGE

- Australia
- Brazil
- Canada
- China
- Hong Kong
- Korea
- Malaysia
- Singapore
- South Africa
- Turkey

VERIFICATION



International Federation of Accountants **AA1000**

STANDARDS

ASTM Standard

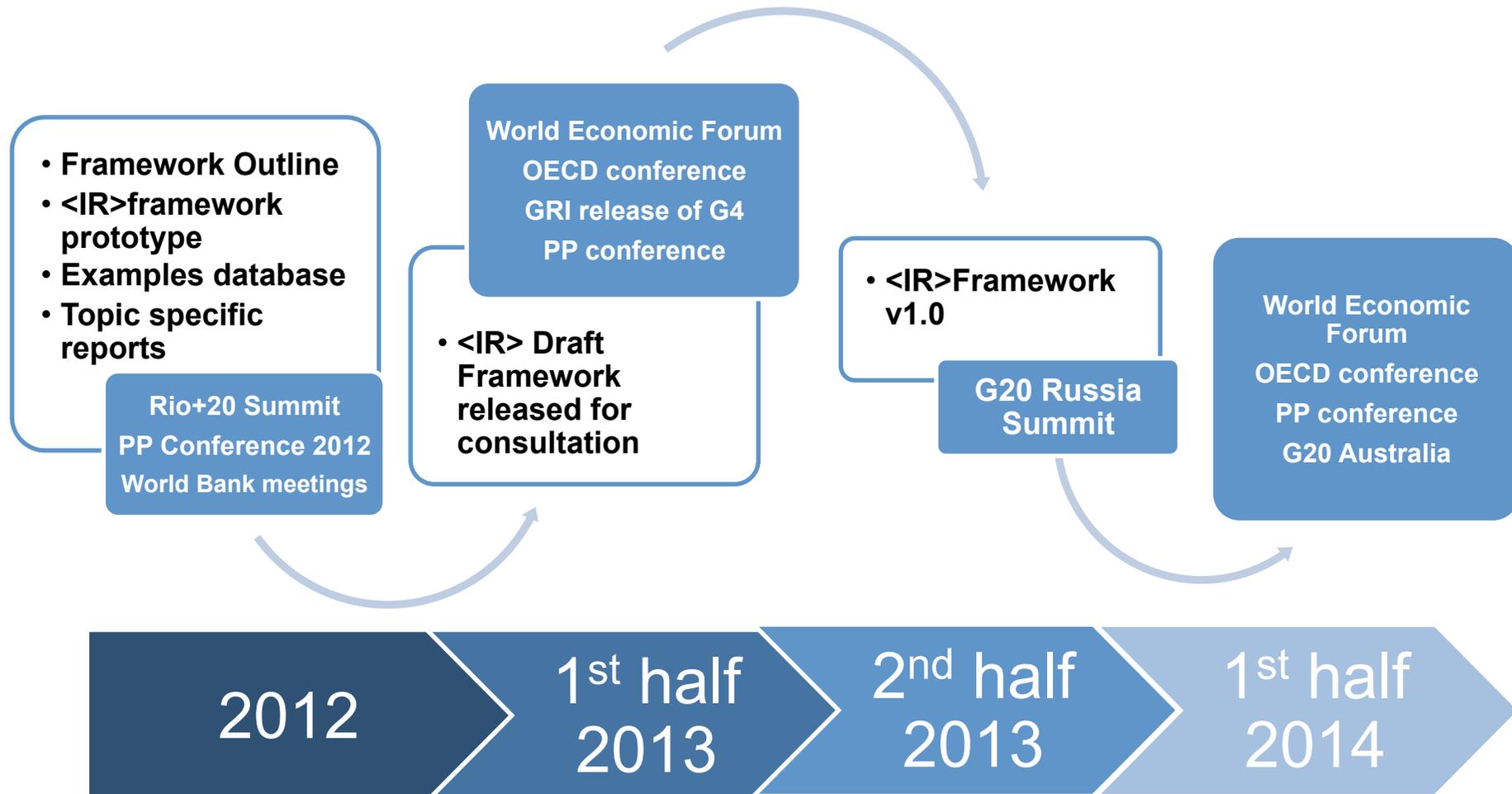


The Greenhouse Gas Protocol Initiative
The foundation for sound and sustainable climate strategies

<IR> - How will it interact with existing practices?

1. Existing reporting practices can be used to support Integrated Reporting.
2. Integrated Reporting processes and activities can be applied to the preparation of existing reports so as to communicate more effectively the way in which results and information contribute towards the creation and preservation of value.
3. The incorporation of Integrated Reporting processes and activities into existing reporting mechanisms is expected to facilitate an evolution in corporate reporting.

Draft indicative timeline



Thank you

The IIRC
www.theiirc.org

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