

THE INTEGRATED REPORTING INITIATIVE

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In the context of the current combined economic, social and environmental crisis, it is now crucial to react as a responsible player and support businesses which provide solutions. The International Integrated Reporting Council (IIRC), which shares and supports this approach, is central to this, as it aims to respond to investors' need for adequate information to allow them to make responsible investment choices.

The second IIRC Pilot Programme conference since the launch of the initiative was held on 18th and 19th September 2012. It now seems relevant to look into this initiative and the theoretical and practical advances that have been made so far.

Summary of the Integrated Reporting Initiative <IR>

The IIRC, which was founded in 2010 by the Prince of Wales's Accounting for Sustainability project and others, **now works in collaboration with more than 100 organisations** (issuers, investors, auditors, NGOs, etc.) **with the aim of developing a new type of reporting capable of communicating the way in which organisations create value for shareholders and stakeholders alike**, whether it be in the short to medium or long term.

The IIRC is chaired by Professor Mervyn E. King, and Paul Druckman is CEO. The IIRC is made up of:

- The *Council*, a forum for senior representatives of the IIRC's member organisations, which advises on the mission, role and governance of the IIRC and provides thought leadership, intellectual contribution and strategic insights relating to the IIRC.
- The *Working Group*, external experts who provide practical guidance in developing positions and making recommendations in respect of the development of the international <IR> Framework, and promoting the initiative.
- The *Secretariat* ensures the planning, coordination and execution of initiatives, activities and interactions undertaken in support of the IIRC's mission and role.
- The *Board* oversees the coordination and interaction between the Council, the Working Group and the Secretariat, and between the subcommittees and task forces, as well as with external stakeholders and other parties.

Two network groups provide feedback on the business and investor perspectives on <IR> respectively.

Theoretical approach

Between 2010 and 2011, opinions on the fundamental principles of <IR> were gathered at successive round-tables and in response to a Discussion Paper. A working draft of the 'Prototype <IR> Framework' was published on the IIRC's website in September 2012, as a medium for companies to develop their own integrated report.

The <IR> Framework encourages companies to approach corporate reporting in a way that draws together all information (financial and non-financial) necessary to communicate the full range of factors that materially affect the ability of an organisation to create value over time.

The aim of an integrated report is to provide all material information necessary to communicate the way in which a company creates value including the economic, social and environmental context in which it operates and the short, medium and long-term strategies implemented to create value. <IR> should therefore benefit managements, investors and the companies' stakeholders alike.

‘**Integrated reporting encourages companies to adopt a reporting model which binds together all information, financial and non-financial, in order to highlight those factors which significantly affect the capacity of an enterprise to create value over time.**

To assist companies in the preparation of their integrated report, the draft Prototype <IR> Framework establishes a specific nomenclature.

- **The capitals** –The draft Prototype <IR> Framework refers to the following types of capital: financial, manufactured, human, intellectual, natural and social and relationship. These capitals are the inputs to the organisation's business model and are increased, decreased or transformed through the value-adding activities of the organisation. The company's impact on these capitals will inform decisions about the extent to which the company creates value.
- **Seven content elements** are identified as being necessary for inclusion in an integrated report: organisational overview and operating context; risks and opportunities; strategy and resource allocation; governance; performance and outcomes; future outlook; business model.
- **The six guiding principles** are specific requirements to be met by the information contained in the integrated report. They are: strategic focus and future orientation; connectivity of information; stakeholder responsiveness; conciseness and materiality; reliability; comparability and consistency.

The approach of the business model through the capitals constitutes an interesting angle of attack to define a company's strengths and weaknesses, and the content elements appear to cover its different aspects.

In our opinion, the fundamental principles surrounding the quality of information provided in the integrated report seem to address the current needs for transparency and material, though we are still awaiting a more precise definition of the notion of materiality. Indeed, if the aim of this report is only to provide relevant data of significant importance, the notion of materiality is crucial, and largely depends on who the information is addressed to, the company's risk appetite, and the more or less long-term approach the company finds itself in.

As a responsible investor, Mirova defines the notion of materiality with regard to the interests of long-term investors and thus considers 'material' as being any activity that has a significant social or environmental impact.

Putting theory into practice

Organisations from around the world have joined the IIRC's Pilot Programme business and investor networks.

- **The 'Business Network' is made up of more than 80 organisations from the public and private sectors** which are evolving their own reporting and are contributing to the development of the International <IR> Framework.

- **The 'Investor Network' is a group of over 25 institutional investors** who regularly communicate, via conference calls, on the Draft Framework and the significance of <IR> for the investor community. They also provide feedback on integrated reports developed by members of the Business Network.

To date, a number of members of the Business Network and companies outside the IIRC's Pilot Programme have begun to prepare integrated reports. Extracts of some of these, providing practical examples of the implementation of the guiding principles and content elements from the draft Prototype <IR> Framework, can be found in the IIRC's database.¹

The next steps

The IIRC will release for public consultation a draft International <IR> Framework in mid-2013 and, after this process, will publish v1.0 of the Framework.

The Pilot Programme has thus been extended to September 2014 to capture the experiences of those using v1.0 of the International <IR> Framework.

For this third year, the Council is also looking for a broad promotion campaign that is geared towards both companies, (encouraging them to use this new generation of report) and regulators. Indeed, the integrated report is based on the idea that adequate information for investors is information that integrates long-term financial and non-financial significant data. This represents a substantial philosophical change affecting regulatory information; therefore regulatory intervention seems necessary as a result to confirm the progress made by the IIRC.

Conclusion

Although the outcome of this long-term project will require many more years of work in terms of promotion and exchanges, as a responsible investor, Natixis AM is regularly confronted with the needs of transparent, adequate, material and full information.

The Integrated Reporting approach could represent a significant qualitative jump in terms of information. It is for this reason that Natixis Asset Management and Mirova, its responsible investment division, decided to support this initiative by joining the Investor Network in early 2012 and actively participating in collaborative work.

(1) Database of some examples of integrated reports: <http://examples.theiirc.org/home>.

Q&A – CEO Paul Druckman gives us an interesting insight into International Integrated Reporting Council

PAUL DRUCKMAN



Paul is Chief Executive Officer of the International Integrated Reporting Council (IIRC).

Following an entrepreneurial career in the software industry, Paul operated as a non-executive chairman and director for companies in a variety of sectors before taking over this post. Formerly a Director of the UK Finan-

cial Reporting Council, member of the City Takeover Panel, and President of the Institute of Chartered Accountants in England and Wales (ICAEW), his high profile work on sustainability matters has included chairing The Prince's Accounting for Sustainability Project (A4S) Executive Board and the FEE Sustainability Group.

“ What do you see as the main obstacles to the development of IIRC in the near future?

We have been fortunate over the last year in gaining the support of a broad coalition of very influential business leaders, investors, regulators, standard setters and NGOs. Maintaining this active engagement, particularly as we move towards publication of the Consultation Draft of the <IR> Framework in April 2013, is our biggest ongoing challenge.

Another significant challenge is market confusion around the many initiatives and organisations involved in corporate reporting reform. While we believe many of these initiatives represent stepping stones towards Integrated Reporting, businesses and investors need certainty. We therefore intend to play a significant role in helping to set out a road map towards Integrated Reporting, enabling a greater degree of coordination and consistency in this area.

What kind of effective drivers or leverage will lead the IIRC towards success?

Integrated Reporting is a market-led initiative, so the support of businesses and investors will be the critical drivers of our success. If we look at the capital markets today, there is a real sense that we can't go back to business as usual. Corporate reporting systems should underpin financial stability and encourage forward-looking decision making by investors and businesses.

What is really interesting is the degree to which stock exchanges and listing authorities are taking an interest in this debate, embracing the idea that better quality reporting can be attractive to inward investment and encourage economic growth. This trend is increasing.

What kind of added value can the investors expect from Integrated Reporting?

Integrated Reporting will offer investors greater visibility over a wide range of factors that contribute towards value creation over time. Critically, these factors will be integrated

into the financials of the business to ensure a holistic representation of value creation. With its focus on providing more future-oriented information, mainstream investors will have a better underpinning for their decisions. Integrated Reporting also offers investors assurance that the company is properly joined up internally, that risks are better managed and that the Board has a clear sense of its strategy and how its business model delivers value.

To what extent can Integrated Reporting benefit companies in terms of management, corporate governance, and so on?

We are learning from the companies in our Pilot Programme. They are beginning to apply the principles of Integrated Reporting to their own reporting practices. We would expect the following early benefits to emerge:

- a better quality of engagement between the business and its investors, as the reporting process unlocks more investor-relevant information
- a better control of the company's message, which will be presented in a more coherent and consistent way, as a result of the breaking down of silos within the business
- Better quality decision making by those charged with the governance of the business; this is the result of integrated thinking, the process of working in a more cohesive way across the business to present a concise communication of value.

We recognise that the move to integrated reporting is a journey which will often take multiple reporting cycles to achieve. The involvement of company Boards and the leadership team has driven this journey most successfully in the businesses that have started to evolve their reporting practices.

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