Global Conference on Sustainability and Reporting

Academic Track – Integrated Reporting

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Innovation.
Integration.
Information.

Comments based on review of the "Consultation Draft of the International Framework"

- The Integrated Reporting (IR) Academic Network Response to the IR Discussion Paper "Towards Integrated Reporting – Communicating Value in the 21st Century) launched in September 2011 was finalized and submitted to IIRC in December 2011.

- After months of silence and non-response the IR Academic Network is now defunct...

Objectives of Integrated Reporting

Overview – “<IR> aims to:

- Catalyse a more cohesive and efficient approach to corporate reporting that communicates the full range of factors that **materially** affect the ability of an organization to **create value** over time, and draws together other reporting strands
- Inform the allocation of **financial capital** that supports value creation over the short, medium and long term
- Enhance accountability and stewardship with respect to the **broad base of capitals** (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of the interdependencies between them
- Support integrated thinking, decision-making and actions that focus on the **creation of value** over the short, medium and long term” (**paragraph 1.5**).

Audience for Integrated Reporting

Overview

- ***"An integrated report should be prepared primarily for providers of financial capital in order to support their financial capital allocation assessments"*** (paragraph 1.6).
- "Although **providers of financial capital** are the **primary intended report users**, an integrated report and other communications resulting from <IR> will be of benefit to all stakeholders interested in an organization's ability to **create value** over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators, and policy-makers" (**paragraph 1.7**).
- "Those **providers of financial capital** who take a long term view of an organization's continuation and performance are particularly likely to **benefit** from <IR>. Their interests are likely to **align over time** with the interests of other stakeholders because both are focused on the creation of value in the short, medium and long term" (**paragraph 1.8**).

Focus on investors

Overview (and Preparation and Presentation) – "The <IR> process is intended to be applied continuously to all relevant reports and communications, **including analyst calls and the investor relations section** of an organization's website. In addition, it is anticipated that a stand-alone integrated report will be prepared annually **in line with the statutory financial reporting cycle**. Organizations may provide additional reports and communications (e.g., financial statements and sustainability reports) for compliance purposes or to satisfy the particular information needs of a range of stakeholders. The integrated report may include links to these other reports and communications" (**paragraphs 1.18 and 5.2**).

Guiding Principles – "The Guiding Principle *Stakeholder responsiveness* does **not** mean that an integrated report should attempt to satisfy all the information needs of all stakeholders. Rather, by focusing on matters that are material to short, medium and long term value creation, an integrated report will often provide relevant information in itself, as well as a clear reference point for other communications" (**paragraph 3.19**).

Capitals

Fundamental Concepts

"At the core of the organization is its business model, which draws on various capitals in one form or another as inputs and, through its business activities, converts them to outputs (products, services, by-products and waste). The organization's activities and its outputs lead to outcomes in terms of effects on the capitals. **Some of the capitals belong to the organization**, while **others belong to stakeholders or to society more broadly** (identified as "society" in Figure 3). The organization and society therefore share **both the cost of the capitals** used as inputs and the value created by the organization" (**paragraph 2.9**).

An integrated report identifies the key inputs. It also shows how those inputs relate to the capitals on which the organization depends, or that provide a source of differentiation for the organization, to the extent that they are material to understanding the robustness and resilience of the business model. The discussion provides a concise yet meaningful account of how these key inputs link to the capitals, opportunities and risk, strategy and financial performance (e.g., cost base). *For example, to enhance the intended report users' understanding of its* ***use of financial capital****, the organization ordinarily provides an overview of its* ***funding model***" (**paragraph 2.29**).

Value Creation

Fundamental Concepts

"Traditionally, the meaning of value has been associated with the present value of **expected future cash flows** and value creation has been understood as the change in that measure of value due to an organization's financial performance" (**paragraph 2.41**).

"Value for <IR> purposes, therefore, encompasses **other forms** of value that the organization creates through the increase, decrease or transformation of the capitals, each of which may ultimately affect financial returns. <IR>, therefore, considers the **broader context of the value** created in all the capitals. It is **not**, however, the purpose of an integrated report to measure the value of an organization or of all the capitals, but rather to provide information that enables the intended report users to assess the ability of the organization **to create value over time**" (**paragraph 2.42**).

Value Creation and Destruction?

Fundamental Concepts

"Although organizations aim to create value overall, this may involve the **diminution or destruction of value** stored in some capitals, resulting in a net decrease to the overall stock of capitals. In many cases, whether the net effect is an increase or decrease will depend on the perspective chosen; […]. In this Framework, unless otherwise stated, the term value creation includes instances when the overall stock of capitals is decreased (i.e., when value is diminished or destroyed)" (**paragraph 2.16**).

"In essence, an organization can create and maximize value by serving the interests of, and working with, all its key stakeholders, such as employees, customers, suppliers, business partners, local communities, legislators, regulators, and policy-makers. **Value created in this way manifests itself in financial returns** to providers of financial capital and also in positive or negative effects" (**paragraph 2.37**).

Thank you for your attention