

INTEGRATED REPORTING <IR>

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Why we need Integrated Reporting

The financial crisis and damage to our planet's natural capital illustrate how we are battling 21st century challenges with 20th century reporting systems. IIRC Chairman Sir Michael Peat looks at why Integrated Reporting is so important and reports on progress.



When I took my first tentative steps as an accountant (they are still fairly tentative!), my grandfather told me that the essence of the job was to provide trust and confidence, vital prerequisites for commerce and prosperity. He added that accounting information should be clear and comprehensible - meaningful and powerful communication. The test was whether the information could be understood by an intelligent but non-financially literate person.

The Prince of Wales has always had a remarkable knack for putting his finger on issues of long-term importance. Fairly soon after I started to work for him, some eight years ago, he made it clear that he didn't believe that the accounting profession was providing the information needed to tackle the issues confronting the world economy at the beginning of the twenty-first century: increasing population, over-consumption of finite natural resources, pollution of land, sea and air, and climate change. His Royal Highness felt that the limited information provided to investors, managers, employees, and indeed consumers and members of the public, was a major barrier to the development of a more resource efficient, sustainable economy. He established The Prince's Accounting for Sustainability Project (A4S) to address this issue.

During its first four years the Project created a prototype Integrated Reporting framework and provided practical guidance for how organisations can embed sustainability into their day-to-day operations. In July this year, Integrated Reporting developed globally with the formation of the International Integrated Reporting Committee (IIRC). Members include representatives from A4S, the Global Reporting Initiative, the International Federation of Accountants, the main global accounting firms and bodies, the UN, the International Organization of Securities Commissions, the World Bank, the IMF, the Financial Stability Board (as observers), the International Accounting Standards Board and the Financial Accounting Standards Board, as well as from a range of businesses, investors, NGO's and academic institutions.

The role of the IIRC is to help develop a new internationally accepted approach to reporting; an approach which provides more comprehensive information about the full range of an organisation's impacts and performance, past and future, in a clear, concise, consistent and comparable manner. In other words, to help develop reports that not only provide financial information, but information about an organisation's governance, social and environmental performance; and not in disconnected sections or silos but in an integrated manner, which reflects the reality that all these elements (financial, governance, social and environmental) are closely related and inter-dependent and flow from the organisation's overall strategy.

This is a significant step forward and a daunting task, but it is a task that cannot be shirked if the information needed so urgently to meet the challenges of the twenty-first century is to be provided. Put briefly, Integrated Reporting is a vital building block to enable the world's economy to evolve and maintain standards of living for people who already enjoy a good quality of life, and create them for the hundreds of millions who do not, without the present unsustainable over-consumption of the world's finite natural resources.

Information of this kind would meet the test articulated by my grandfather all those years ago and, as Chairman of the IIRC, I could not be more grateful to everyone who is helping to work towards this great ambition.

Sir Michael Peat, Principal Private Secretary to TRH The Prince of Wales and The Duchess of Cornwall, and Chairman of the International Integrated Reporting Committee

A coalition with clout

Members of the IIRC are drawn from all over the world: from businesses, the investment community, financial markets, regulators, accountancy firms and standard setters. The IIRC is working hard to ensure that the composition of its working group, three taskforces and panel of experts reflect the right balance of stakeholders.

The IIRC and the working group bring together a powerful, international cross-section of representatives from the corporate, investor, accounting, securities, regulatory, and standard-setting sectors as shown below.



[\[click to enlarge chart\]](#)

The IIRC is supported by a working group of some 25 individuals. The working group is co-chaired by Paul Druckman, Chair of the Executive Board of The Prince's Accounting for Sustainability Project, and Ian Ball, Chair of the International Federation of Accountants.

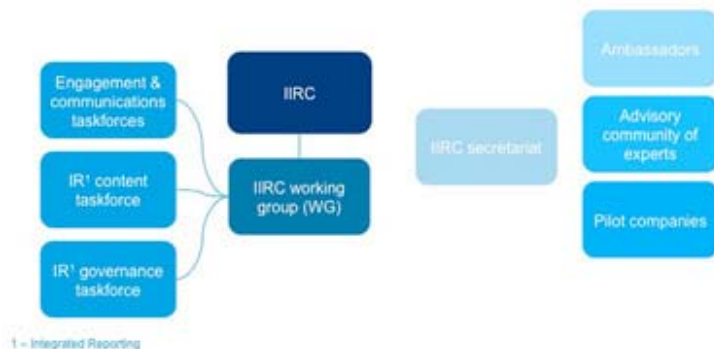
The working group is supported by the following taskforces whose members comprise additional experts and key stakeholder representatives in addition to working group members.

The taskforces are:

- Engagement and Communications taskforce, chaired by Peter Dart, Director, WPP
- Integrated Reporting Content taskforce, chaired by Paul Druckman, Chair, A4S Executive Board
- Integrated Reporting Governance taskforce, chaired by Ian Ball, Chief Executive, IFAC

The composition of the IIRC, working group, and taskforces seeks to ensure that the relevant organisations and expertise are brought together to make the step-change in reporting. Throughout, a wider network of key stakeholders is involved, including investor and business representatives, to ensure that a framework is developed that is fit for purpose for the user and preparer groups.

An overview of the structure through which the IIRC works is shown below.



[\[click to enlarge chart\]](#)

Broad geographical representation has also been a key factor in the formation of the IIRC, working group and taskforces. The chart below reflects the current position we have achieved which includes 50% of members representing international organisations with wide membership networks. We look forward to updating you further on invitations that have been extended and to expand our international representation further.



[\[click to enlarge chart\]](#)

First steps towards a new framework

The IIRC is in the process of creating a globally accepted Integrated Reporting framework. A Discussion Paper and five regional roundtables are the first steps on the road to presenting proposals for the framework at the time of the G20 meeting in November 2011.

The IIRC was launched in August 2010 with the objective of creating a globally accepted framework for Integrated Reporting and to present proposals for a framework at the time of the G20 meeting in November 2011.



Professor King, IIRC Deputy Chairman and Chairman of GRI, has said: 'To make our economy sustainable we have to relearn everything we have learnt from the past. That means making more from less and ensuring that governance, strategy and sustainability are inseparable.'

The IIRC seeks to transform the current practice of corporate reporting by supporting the development of more comprehensive and comprehensible information about an organisation's total performance, prospective as well as

retrospective, to meet the needs of the emerging more sustainable global economy.

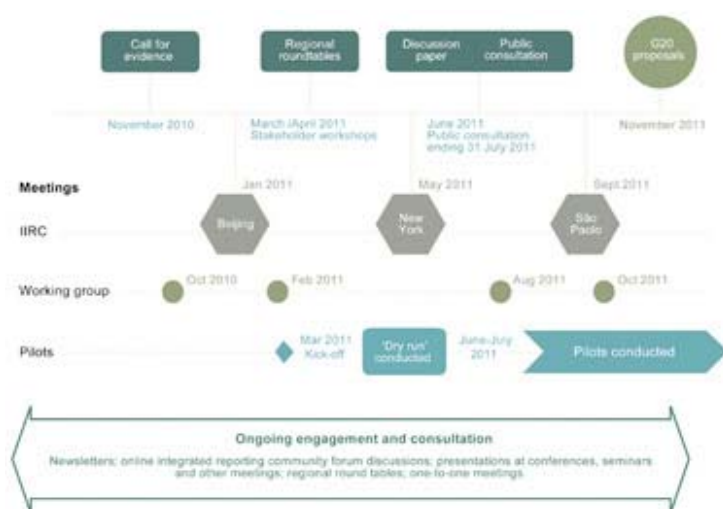
The framework would aim to provide the overarching concepts and guiding principles for Integrated Reporting. During the first phase of development, a Discussion Paper will be prepared for consultation which will set out:

- An overview of the issues related to Integrated Reporting and the business case for the development of an Integrated Reporting framework
- Proposals for an Integrated Reporting framework including illustrative examples
- Identification of priority areas where action is needed to agree international guidance in the near term and a plan for further development
- The potential role of the IIRC and other organisations in overseeing the framework’s further development and adoption
- Questions for consultation on core elements of the framework

Critical to the development of the framework is ongoing engagement and consultation across a wide stakeholder group. One of the ways that we will be doing this is through presentations at conferences and seminars.

We also plan to hold five regional roundtables to seek input from a range of stakeholders in different countries on the Integrated Reporting framework. Incorporating this feedback, the Discussion Paper will be released in June 2011 for public consultation. Following its release, the framework will be tested through a pilot programme involving a wide range of companies from across the globe.

A summary of the key milestones for the project over the coming year is set out below.



[\[click to enlarge chart\]](#)

Meet the people

Acting ethically isn't more important than making a profit, but the key to making a profit in the first place. Jane Diplock, Chairperson of the Executive Committee of securities regulator IOSCO (International Organization of Securities Commissions), brings valuable insights to the IIRC. In essence, she says, good governance is good business.

We will regularly feature some of the IIRC's members to understand what drives them to work towards the introduction of a global Integrated Reporting framework. In this issue, we speak with Jane Diplock.

- Chairperson of the Executive Committee of IOSCO
- Chairperson of the New Zealand Securities Commission since 2001
- Barrister and solicitor of the ACT and New South Wales Supreme Courts and High Court of Australia

Jane has been involved with the IIRC since inception and brings to the committee a unique, international regulator perspective as Chairperson of the Executive Committee of IOSCO (the International Organization of Securities Commissions).

She is passionate about driving reporting change, especially in the aftermath of the financial crisis. Speaking about her personal motivations, she says: 'None of us can afford to forget the lessons of the global financial crisis. It isn't that behaving well is *more* important than making a profit. It's that it's necessary to behave well *in order* to make a profit. Good corporate governance is good business.'

This is not the pursuit of ethical behaviour for its own sake, but because it is a vital plank in investor protection. There is a growing expectation that companies address the challenge of climate change. Investors are increasingly expecting to see an understanding of sustainability embodied in company policies and practices.

Smart companies are recognising the power of this kind of transparency to drive investment. They are aware of the need to guard their own reputational risk, and they know that good governance – which must include sound policies and reporting on ESG (environmental, social and governance) issues – is good business. What investors and the wider community want is a panorama that takes in not just a wider view, but a longer-term one – one that accounts for the overall impact of corporate behaviour, and relates to the sustainability of the enterprise.

The way to present this panorama is via Integrated Reporting. Admirable though it is to report on ESG issues in separate documents, the very fact of their separateness can limit a company's vision and policies. Combining all these elements in one report ensures the financial management perspective is married up with the wider social, governance and environmental perspectives. While integrated reporting alone cannot ensure sustainability, it is nevertheless a powerful mechanism for helping us all make better decisions about the resources we consume and the lives we lead. I believe we will look back on the creation of the IIRC as a turning point in the development of corporate reporting.'

About IOSCO

IOSCO is recognised as the international standard setter for securities markets. Its membership regulates more than 95% of the world's securities markets and it is the primary international cooperative forum for securities market regulatory agencies. IOSCO members are drawn from, and regulate, over 100 jurisdictions.

Event diary

Ongoing engagement across the globe will be a key success factor. Since its launch, the IIRC, working group and taskforce members have been speaking at a number of high-profile events and conferences.

Some of the events in which we have been participating are set out below:

- In October 2010 Professor Nelson Carvelho spoke on the need for Integrated Reporting at the UNCTAD ISAR conference.
- At the Harvard Business School Workshop on Integrated Reporting in October 2010, Paul Druckman and Ian Ball provided an update on progress that the IIRC is making. The e-book, *Landscape of Integrated Reporting*, following on from the conference is in issue and can be accessed for free via <http://www.hbs.edu/environment/integratedreporting/ebook/>. It contains reflections on Integrated Reporting from a number of our members.
- At the World Congress of Accountants in Malaysia, in November 2010, Professor Mervyn King and Paul Druckman spoke about Integrated Reporting. At the same conference the Chairman of the Malaysian Securities Regulator said 'the efforts of the IIRC to develop an overarching Integrated Reporting framework to promote a global standard for reporting both financial performance and sustainability in a single report are to be lauded'.

This month, we talked about Integrated Reporting at the World Intellectual Capital Initiative (WICI) Symposium in Japan and at the annual event held by The Prince's Accounting for Sustainability Project in London.

In the next quarter, we will be participating in the World Economic Forum (Davos) in January 2011. Also, we will be jointly running an investor conference on Integrated Reporting in India. These will be followed by a series of regional roundtables around the world as part of our consultation process to develop the Integrated Reporting framework.

Getting involved

Your involvement, engagement and participation is crucial to the success of a new Integrated Reporting framework. By providing evidence for the business case for change, piloting the draft framework in your organisation, or engaging in the formal consultations, your input could be decisive.

1 Call for evidence

As part of the framework's development, we are asking for submissions on the following subjects. Submissions can be made at any time but would be particularly helpful if received by 21 January 2011. Please send your responses to contact@integratedreporting.org.

Please forward or reference any research that you believe would be useful for the preparation of the Discussion Paper:

a) Why Integrated Reporting

- Public policy, financial markets, environmental and social context
- Rationale/business case for the development of an Integrated Reporting framework
 - i) Current landscape and trends
 - ii) Evidence of need for integration
 - iii) Potential challenges and barriers

b) Proposed Integrated Reporting framework

- Examples of frameworks, guidelines and reports of relevance to Integrated Reporting
- Evidence on priorities for development

2 Pilot companies

A critical stage in the development of the framework will be the company piloting programme and we are looking for broad sectoral and geographical representation. We currently have a group of leading businesses which have signed up to help develop and pilot the draft framework. If your organisation would be interested in participating, please contact us at contact@integratedreporting.org.

3 Formal consultations

More details will follow in the 2011 newswires of regional roundtables and the public consultation process. The next newswire is scheduled for January 2011. For further information on anything you have read or to contact us, please send an email to contact@integratedreporting.org.

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