

FEEDBACK OF ICWAI ON DISCUSSION PAPER OF INTEGRATED REPORTING FROM IIRC

The World has Changed – Reporting Must Too

Question 1(a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?

Current external business reporting is typically overweighed on financial performance, or where organizations disclose sustainability or ESG-related information, it is often presented in a disconnected way, so that its relationship to strategy, operations, and financial performance is unclear. This is also validated by the response to the IFAC survey that there is too much emphasis on compliance rather than on effective stakeholder communication (See IFAC's [Business Reporting Supply Chain Project](#)).

Therefore, there needs to be an emphasis on integrated reporting as a means for organizations to bring various aspects of organizational performance together to provide a coherent and transparent story of how sustainable value creation for stakeholders takes place. The financial reporting model was developed in an era of the paradigm of infinite resources. The shift to finite resources paradigm from 1991-2 cannot inherit the legacy of one stakeholder thinking.

(b) Do you agree that this action should be international in scope? Why/why not?

Yes. However, in countries wherein national guidelines like the one that exists in India on responsible business they should not be ignored and should be endorsed wherever convergence.

An international framework will certainly help evolve a common approach across jurisdictions, particularly in terms of concepts, principles, and terminology. We have only one earth and hence the IIRC has to be international in scope can be established at principle level.

Towards Integrated Reporting

Question 2 Do you agree with the definition of Integrated Reporting? Why/why not?

There are two parts to the definition: integrated reporting and the main output of integrated reporting being the *integrated report*. The core benefit lies in integrated thinking more than integrated reporting. The benefit of reporting will flow only after a quantum shift in the thinking of investors to responsible investing. A mechanism by which the management demonstrates the integrated thinking is very important.

The five guiding principles of integrated reporting and all the content elements recommended in the paper could also be applied to improve the annual report and accounts, particularly if the annual report already includes a management commentary and other narrative disclosures. Therefore, integrated reporting might be achieved through evaluating and improving existing reporting processes and communications channels.

Organizations might also be more willing to embrace integrated reporting if it is seen as improving something already existing rather than creating an additional burden. In this light,

the “2020” picture on page 7 of the Discussion Paper may need modification to better emphasize the pervasiveness of integrated reporting across the various strands of reporting. This is also contestable as such organizations will come only from that crowd embracing the sustainability platform of GRI.

An International Integrated Reporting Framework

Question 3 Do you support the development of an International Integrated Reporting Framework?

In principle yes. All nations in G 20 should be involved in moving forward without any exception. Otherwise it will be seen as a recipe cooked elsewhere unfit for universal consumption. Further, the decision to develop an IR framework, and the approach decided upon, should take into account the learning arising from the pilot programme.

Question 4 (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/why not? (b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?

The very idea of integrated reporting started on the concept of multi stakeholder thinking. It should not be initially confined to debt and equity providers only as stated in the discussion paper. This will defeat the very purpose. Even if it is difficult to establish a clear consensus, there should be a focus on wider stakeholders. Again, there is also a question of whether integrated reporting needs to be distinguished from an integrated report. While the IIRC might conceive that an integrated report might be focused on investors, this is not clearly the case for integrated reporting more generally.

The potential advantage of an explicit wider stakeholder perspective for the integrated report is to allow for a clearer link to sustainable stakeholder value generation in terms of achieving long-term sustainable organizational success as a public interest (or social) outcome for all stakeholders. This approach will also make the framework more relevant for other types of organizations than larger (publicly listed) companies. This is a very good way of presenting the case.

The Discussion Paper includes as a guiding principle, *responsiveness and stakeholder inclusiveness*, which (rightly) encourages an organization to pursue a structured approach to stakeholder engagement. It states that an integrated report provides insight into the organization’s relationships with its key stakeholders and how and to what extent the organization understands, takes into account and responds to their needs.

Stakeholder engagement is an important part of determining materiality of sustainability issues, including what needs to be communicated and disclosed. However, as the Discussion Paper points to an investor-focused integrated report as being the primary report, to avoid uncertainty over the application of materiality in relation to investors, it might also be necessary to clarify whether an organization needs to distinguish between the information needs of its various investors from that of other stakeholders, and how this is to be achieved.

As outlined in the [IFAC Sustainability Framework](#), stakeholder engagement can also bring dilemmas and pose challenges on how to manage the trade-off between stakeholder expectations. Organizations require a process and criteria for managing trade-offs, and need to be transparent on how these have been managed. Therefore, it may also be necessary for an integrated reporting framework to specify that an organization should explain how it has dealt

with contradictions, for example where various stakeholders have a different perspective and set of concerns that are not easily reconcilable with each other, or with the organization's mission, goals and objectives, and strategy.

Business Model and Value Creation

Question 5 Are: (a) the organization's business model; and (b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/why not?

The concept of business model needs to be presented in a way so that even SMEs also understand and apply the concept while operating on a lower scale. We need to endorse the business model creating value as only then the extended value chain entities can be brought into value creation process.

Question 6 Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?

The concept of multiple capitals could be helpful in identifying and classifying those intangible value drivers of business performance that might exist in an organization and the necessary lagging and leading indicators to better understand future results and potential for sustainable value creation. However, the present construct is abstract and difficult to implement in practice, particularly in relation to many types of capital where there are no standard measurement methodologies. Without reliable measurement, it is not possible to understand whether performance is improving and whether a sustainable path is being achieved.

Further support might be needed to help organizations to recognize whether organizational strategies and operations are consistent with sustainable development. This might require providing guidance, or references to approaches and tools, that can help deal with significant challenges in achieving a sustainable business model (that might be relevant for some sectors more than others). For example, providing insights on sustainable value creation might require developing an understanding of what "assets" or "capitals" an organization needs to sustain to perform sustainably (which in some cases requires recognizing that there exist limits that cannot be safely breached without jeopardizing future well-being), and how to value certain assets, such as environmental assets, because adequate prices do not exist to value path-dependent assets (which is needed to manage the present use of an asset that irreversibly affects what is available to future generations).

IFAC members who play a direct role in the IIRC or its working group should be cautioned not to jump into domain now itself with measurement tools on various capitals. It may create confusion if the concept changes later. Further it creates an undue advantage for such member bodies as they have an advance information of emerging thinking in contrast to those who are not members. This creates an unfair advantage to few and disadvantage for the rest who are catching up with the rest of the world.

MCA should encourage development of cost accounting guidelines or standards on environment and social costing now itself. This will become major measurement tools of the future. They should insist on green and carbon accounting in the syllabus of CMA bodies.

Guiding Principles

Question 7 Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added? Why/why not?

In our view, scope and boundary are taken care by a business model view.

Content Elements

Question 8 Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added? Why/why not?

The above aspect has already been articulated in the MCA guidelines on doing business responsibly.

As part of the organization overview and/or strategic objectives, perhaps an organization needs to be able to articulate the key outcomes of its stakeholder engagement and how they have influenced strategy and operations, and provide a rationale on what it is disclosing.

What Will Integrated Reporting Mean for Me?

Question 9 From your perspective:

(a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?

It has to be seen through the pilot projects whether the benefits of integrated reporting to help ensure long term sustainable organization success and societal well-being can be attained.

We need a clear coordination between IIRC, GRI and A4S as all of them are now demanding fees leading to overlapping payments and cost increases. This will defeat the very purpose. Through a single membership payment, firms should get multiple benefits of membership of A4S, GRI and IIRC.

(b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?(c) Do you agree that Integrated Reporting will drive the disclosure of information that is useful for integrated analysis (from the perspective of investors)? Why/why not?

Yes. Directors' liability, especially in relation to forward looking information is a significant impediment to effective reporting that needs to be addressed.

Future Direction

Question 10(a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/why not? Are there other significant actions that should be added?(b) What priority should be afforded to each action? Why?

A key aim of the IIRC should be to ensure coordination and harmonization of how integrated reporting develops internationally. This might also involve harmonization in terms of metrics and methodologies used in connection to the various capitals and assets. It might also involve incorporating the key elements of other frameworks that have been developed by various agencies.

But we are clear that no more the Cost and Management accounting bodies can be kept out of the Mainstream stakeholder Reporting as that seems to us THAT the main platform of IIRC IS NOT PURE FINANCIAL REPORTING.