

Comments to the IIRC Discussion Paper

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Comments provided by the Corporate Social Responsibility
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The World has Changed – Reporting Must Too (page 4)

- Q1. (a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?
- (b) Do you agree that this action should be international in scope? Why/why not?

Q1 (a): Yes, we believe. Company information is the resource that enables all the interested parties to determine the value of the entity, its financial situation and its profitability, past present and future; it constitutes the indispensable source for knowing the economic-financial reality of the company and its foreseeable evolution. But it is not possible for a company to survive if there is not a balanced monitoring of financial, managerial, social and environmental aspects of its activity, that is, if the company does not take care of a broad set of stakeholders, beyond a purely financial-economic view. So, as long as there is not a common set of standards to record and report key corporate information in an integrated way, that action is strongly needed.

Q1 (b): Sure. Only if a generally accepted framework for financial plus non financial information is issued and implemented, there will be possible to effectively compare companies and to achieve the essential analysis to make informed decisions. Additionally, national pre-existing projects and initiatives can be examined carefully, and must be taken into account in a global convergence process, using this international project as a channel to interchange these previous ideas and experiences.

Towards Integrated Reporting (page 6)

- Q2. Do you agree with the definition of Integrated Reporting on page 6? Why/why not?

Yes, but a couple of elements should be also present in this definition:

- When mentioning that the Integrated Report might move to an online environment, a clear mention should be placed there that this report might be supported by online standards that effectively assure its interoperability. Not only human-readable formats but also software-readable version like XBRL.
- When mentioning the effective communication with stakeholders, a mention should be made to the fact that, today, in a Web 2.0 and social media environment, stakeholders should also participate in the elaboration and public collaborative analysis of an Integrated Report, as stated by Eccles and Krzus in its *One Report*. Then, the Integrated Report is something dynamic and should be placed in an online platform that allows participation.

An International Integrated Reporting Framework (page 8)

- Q3. Do you support the development of an International Integrated Reporting Framework? Why/why not?
- Q4. (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?

Q3: Definitely yes. It is an essential conceptual foundation to develop a coherent set of indicators for reporting.

Q4: (a) No. Because, while this scenario becomes a reality, first for listed companies, there is a big concern in Europe and worldwide, regarding the competitive situation of small and medium sized companies (SMEs) which generate a major stake of welfare and employment. Additionally, the growing relevance of nonprofit organizations in the real economy and its cultural and social impact in social and cultural life in both developed and developing regions must be contemplated. For that reason, in our opinion, these entities should also be incorporated in the scope of all developments. In fact, Universities and other nonprofit entities have been the leading organizations reporting sustainability behavior (see Empirical Study on Spanish state of the art). It is also necessary to incorporate in future developments the way in which an Integrated Report will work in every industry –sector extensions procedure-. And it is also important to define ways for the Integrated Report to become required by regulators –procedures in main regions and dialogue with standard setters-. It is also recommendable to study several possibilities for a progressive and fast convergence between the Integrated Report and the current framework of regulatory files. The role of the management report or the management discussion and analysis disclosures can be relevant in this arena, and at an initial stage, to reach this goal.

(b) Not entirely, if they are not present since the beginning in the discussion process.

Business Model and Value Creation (page 10)

- Q5. 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?
- Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?

Q5: Yes. These concepts are essentials to evaluate the capacity of a given company to survive and grow in the future, identify its competitive advantages and clarify its units and structures.

Q6: Yes. It provides a clear distinction between key inputs to production processes. It also invites to a set of measurement tools for each type of capital and to start thinking in a Statement of Multiple Capitals Position as an evolution from current Balance Sheets.

Guiding Principles (page 13)

- Q7. 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?

Yes, they are collectively and individually appropriate. But, in our opinion, assurance and auditing issues should also be more intensively contemplated within these principles, also with a clear presence among the Content Elements.

Content Elements (page 14)

Q8. 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?

Yes, they are collectively and individually appropriate. But, taking into account how financial information is organized and how non financial information (strategy, context definition, non financial performance and prospects) could benefit from this previous background, there are some points to be highlighted when talking about Performance:

- It could be convenient to clarify more which this part consist of, with special attention to:
 - The use of statements of flow variables (evolving from our current income and cash flows statements)
 - The reporting of statements of position, and how they are connected with the definition of multiple capitals and their evolution (evolving from financial balance sheets)
- It is strongly necessary to require more concise and quantitative information. Qualitative information can play, in this context, the role that the *Notes to the Financial Statements* play under IFRS or other GAAPs.

In fact, this aspect is not anecdotic. In our opinion, the ability of the Integrated Reporting movement to popularize a set of performance indicators (financial, social, environmental and of corporate governance) is a key aspect in its success, given previous difficulties faced by the Enhanced Business Reporting and the Global Reporting Initiative (lack of comparability of company information when using primarily qualitative information to report performance).

- This Performance part should also incorporate specific explanation on measurement techniques and materiality policies, as it occurs with the Notes to Financial Statements regarding Accounting Policies.
- When creating KPIs and KRIs, balance criteria must be considered. This will evolve that way from un-balanced frameworks like GRI G3.1 (81 indicators, from which 9 Economic, 30 Environmental, Labor 14, Human Rights 11, Society 8, etc., along with indicators which classification is discussable like “local hiring” which is classified as Economic when could also be considered as social in nature). A special focus must exist in create only quantitative indicators with narrative support when needed, instead of qualitative indicators impossible to analyze effectively.
- The Future Outlook should be represented by means of budgets and prospective statements that were coherent with those used in the Performance section, in order to achieve appropriate comparisons and measure deviations.

It is also worth to note that Future Outlook contents were the less precise and complete according to our enclosed Empirical Study. As long as this information about the future is very important in the new proposed

framework, and considering also that this kind of data is not traditionally provided according to accounting rules and other standards, it is necessary to pay major attention defining these Future Outlook contents, pursuing accuracy and quantitative approach.

What Will Integrated Reporting Mean for Me? (Reporting organizations – page 21, Investors – page 22, Policy-makers, regulators and standard-setters – page 23, Other perspectives – page 24)

Q9. From your perspective:

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

From our double perspective of reporting organization and also being an organization which is listened when standard setters prepare regulation at the national and international level:

Q9 (a): Yes, but it can be recommendable to provide the sources for this list of benefits. Which companies identified these advantages?

Q9 (b): Yes but it is possible to point out some other challenges:

- The need for specialized and integrated assurance and auditing, and the need to introduce improvements respect to the different levels of assurance that exist in the current separate reports.
- The need to use an understandable language when reporting, to provide a report accessible to all kind of stakeholders.
- The need to provide time series to support forecasts. The risk of providing too optimistic prospects.

Q9 (c): Yes, but only if the format in which this information is provided is interoperable: that is, if measurement methods are also disclosed along with the data, and that also the data is provided in a standardized digital file.

Future Direction (page 25)

Q10. (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?

Q11. Do you have any other comments that you would like the IIRC to consider?

Q10 (a): Yes, this plan is appropriate and comprehensive.

Q10 (b): In our opinion, the Harmonization should have assigned a strong priority, as long as it is a key part to guarantee and integrated reporting at the global level. This will be intrinsically linked to the Measurement and reporting practices, from which results can the Harmonization be built.

Q11: Yes. It is the aim of the AECA to continue its collaboration with the IIRC in the elaboration of the conceptual framework and in the dissemination of this practice worldwide. But we perceive some risks that would like to face, as will be explained.

Since 1991, there were several projects which aim was to respond to this demand. In that year, the AICPA (American Institute of Certified Public Accountants), amid growing demands for an improved corporate reporting model established the Special Committee on Financial Reporting which is also known as the Jenkins Committee. This discussion forum was set up to analyze users' increasing demand for business information (focusing on investors and lenders) and develop the content of company business reporting to accommodate users' needs. In order to reach this goal, the committee created the EBR (Enhanced Business Reporting) framework. This framework organizes the disclosure of additional information not currently covered by Generally Accepted Accounting Principles (GAAP). The EBR Framework recommends companies to disclose information on corporate responsibility, in both its main perspectives: respect and protection of the natural environment, and commitment to social, ethical and charitable principles. In addition, the EBR framework stresses the importance of information technologies and suggests companies should explain how they ensure their technologies are operating as intended and how integrity and reliability of information are assured. This reporting framework also contained disclosure items related to the analysis of the environment and the strategy of the company, combining historical and prospective reporting items.

Subsequently, in 1997, an international organization based in Amsterdam, bringing together numerous agencies, associations and enterprises, launched the Global Reporting Initiative or GRI. At present, over 1,500 organizations around the world organize the dissemination of information based on the GRI guidelines that summarizes the disclosure under the tenets of GRI. GRI proposes a set of indicators of economic performance, environmental behavior and social aspects.

Despite these indispensable previous steps and efforts, the lack of concreteness and concision of the resulting generated report was as such that, if in one hand the availability of corporate social responsibility information from companies increased, in the other hand it was completely impossible to compare these reports across the time and the organizations, and these organizations do not easily perceive a clear return on the investment required to measure and report these indicators.

The Spanish Accounting and Business Administration Association (AECA) has been the first global institution that promoted the use of the XBRL standard (eXtensible Business Reporting Language), for the production and submission of corporate social responsibility information by Internet. XBRL is a language for the electronic communication of business data which is revolutionizing business reporting around the world. It provides major benefits in the preparation, analysis and communication of business information. It offers cost savings, greater efficiency and improved accuracy and reliability to all those involved in supplying or using financial data. The idea behind XBRL, is simple. Instead of treating financial information as a block of text - as in a standard internet page or a printed document - it provides an identifying tag for each individual item of data. This is computer readable. For example, company net profit has its own unique tag. The selection of tags and the relationship between them (human-readable tags in different languages, calculations, references to legal texts, etc.), which consist in an XBRL taxonomy, is the task of the consortia when organized to design the reporting framework. The introduction of XBRL tags enables automated processing of business information by computer software, cutting out laborious and costly processes of manual re-entry and comparison. It is an open standard, free of royalties, with a major acceptance by European regulators. That is why XBRL plays an interesting role when promoting and implementing new standards, like the IFRS. Currently, the availability of XBRL taxonomies and reports invites to a next step in XBRL development: its mining, preferably by means of open access tools.

In recent days, the aim of the IIRC is to create a globally accepted integrated reporting framework which brings together financial, environmental, social and governance information in a clear, concise, consistent

and comparable format. The aim is to help with the development of more comprehensive and comprehensible information about organizations, prospective as well as retrospective, to meet the needs of a more sustainable, global economy. For that, one of the most important items to be incorporated to the reporting framework is the set of International Financial Reporting Standards, issued also in XBRL format by the IFRS Foundation (IFRS Foundation, 2011). Both IFRSs and XBRL are intended to standardize financial reporting in order to promote transparency and to improve the quality and comparability of business information, therefore the two form a perfect partnership.

With previous international experience of AECA applying also XBRL to CSR reports, there exists a great opportunity to develop this integrated reporting framework also in the best digital format, free of royalties and using open technologies.

But, while this scenario becomes a reality, first for listed companies, there is a big concern in Europe regarding the competitive situation of small and medium sized companies (SMEs) which generate a major stake of welfare and employment. With the aim to provide a realistic first step in the proposed direction, and to contribute with an scenario in which SMEs could gradually acquire the skills that will be needed in the new framework, the aim of AECA is to perform an international XBRL project that will provide an integrated reporting toolkit for both listed and SMEs based on:

- the availability of International Financial Reporting Standards for both listed and Small and Medium Sized companies, along with national equivalent taxonomies for financial data
- the existence of internationally acknowledged framework of Corporate Social Responsibility for both listed and SMEs proposed by AECA, and acknowledged by XBRL International
- the advantages of XBRL and open source applications to promote the integrated reporting and an efficient validation, reutilization, rendering, sharing and analysis from corporate data

The technical and conceptual applicability of this proposal will be tested with real companies, and reported to the pertinent interesting parties, like the IIRC and the IFRS Foundation.

This contribution will be divided in two parts: a **conceptual proposal** for KPIs (financial, social, environmental, corporate governance and remuneration), and in the other hand, being firstly applied to that, a tested **XBRL architecture** that will also be available to be used in the forthcoming IR XBRL Taxonomy.

This project will provide the IIRC with new data on technology driven company reporting and will enrich the possibilities of collaboration among those mentioned standard setters and consortia. So, as long as the IIRC will open more opportunities to publicly contribute with answers and comments to their issued documents, AECA will provide and update of this developments.

IFRS Foundation 2011. <http://www.ifrs.org>

CSR in XBRL by AECA 2011. <http://www.aecareporting.com>

XBRL. <http://www.xbrl.org>