Frequently Asked Questions

Question 1 - What is Integrated Reporting?

Integrated Reporting (<IR>) is the language for sustainable business. It is the means by which companies communicate how value is created and will be preserved over the short, medium and long term. This information is used principally by investors to support their capital allocation decisions. It involves a set of processes and activities, one result of which is communication, most visibly through a concise, periodic “integrated report”, about the way in which an organization’s strategy, governance, performance and prospects lead to the creation and preservation of value.

<IR> represents an evolution in corporate reporting, building on recent developments in financial and non-financial reporting. Although intended to be a catalyst for integrating current forms of reporting, it is not designed to replace existing disclosures, which provide useful detail to report users with particular information needs and help to shine a light on the thinking and behaviour within organizations. Built into its DNA is the principle of materiality. An Integrated Report will communicate the factors most relevant to the creation and preservation of short, medium and long-term value. Organizations will also be able to provide additional disclosures and we anticipate that technological advances will assist both report preparers and users, supporting investor decision-making by producing value-relevant information in an easily digestible way.

The reporting processes and activities used by companies should be guided by the International <IR> Framework (the “Framework”) and by “integrated thinking”.

Question Two - What is Integrated Thinking?

Although Integrated Reporting represents an evolution in corporate reporting, it should also lead to fundamental changes in corporate behaviour and thinking, as organizations adopt new ways of measuring, managing and disclosing information. Large organizations are made up of interacting, interrelated and interdependent operating and functional units. “Integrated thinking” enables an organization to understand better the relationship between these different units, helping to break down internal barriers to working, monitoring and managing information and to communicate its value-creation process.

Integrated thinking can be contrasted with what is sometimes known as “silhouette thinking”, in that it requires an approach that takes into account the connectivity and interdependencies between the full range of factors that have a material effect on an organization’s ability to
create and preserve value in the short, medium and long term, including (but not limited to):

- The resources and relationships on which the organization depends or which it affects including the critical interdependencies of financial, human, manufactured, natural, social and intellectual capital;
- The external context in which the organization operates;
- The opportunities and risks faced by the organization and how it tailors its strategies to manage them;
- Activities, results and performance - past, present and future;
- Financial and non-financial information.

Three positive outcomes of this ‘integrated thinking’ should be:

- Better internal decision-making focusing on value creation and preservation over time;
- A more cohesive approach to reporting within the organizations; and
- Better quality dialogue between company management, investors and other stakeholders (including employees and customers).

**Question Three - What is an Integrated Report?**

An Integrated Report is the most visible and tangible manifestation of Integrated Reporting. It is a concise communication of the way in which an organization creates and preserves value in the short, medium and long-term. An Integrated Report should be prepared following the International IR Framework and the set of processes and activities referred to in this document as “Integrated Reporting”.

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Diagram 1 – Connection between Integrated Reporting, Integrated Reports and Value Creation in the Short, Medium and Long-Term

**Question Four - What is the desired outcome of Integrated Reporting?**

The desired outcome is better decision-making based on an understanding of, and communication about, the full range of factors that materially affect the ability of an organization to create and preserve value over time. <IR> is expected to support more efficient capital allocation decisions that are more likely to create short, medium and long-term value and to facilitate better alignment of external reporting with internal decision making.

**Question Five - What type of decision-makers will benefit from Integrated Reporting?**

The Framework currently being developed is primarily aimed at the information needs of investors interested in the ability of an organization to create and preserve value over time. <IR> will also be of benefit to:

- Management and those charged with governance, as they will have better information on which to base decisions about the organization’s strategic thinking and its ability to create and preserve value; and
- Other stakeholders interested in the short, medium and long-term performance and impacts of the organization.

The IIRC intends to undertake research to explore the information needs of investors and of broader stakeholders, how needs vary within and between stakeholder groups, and how this may affect future iterations of the Framework.
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*Question Six - Why focus primarily on investors?*

The IIRC recognizes the vital role of investors in resource allocation and that the current information set available to investors may not lead to optimal resource allocation decisions. Integrated Reporting enables investors to discharge their fiduciary duty to their ultimate beneficiaries by making more informed decisions.

*Question Seven - Will Integrated Reporting replace other existing forms of reporting?*

Professional standard-setting by well-established international bodies is needed to guarantee both the quality and comparability of financial and non-financial reporting. The IIRC will not set <IR> standards, but will publish principles-based guidance that will support the preparation of an Integrated Report.

<IR> helps an organization to communicate its strategy and business model. To do this the organization will draw on information and data that is material to the creation and preservation of value. At least in the short term, <IR> will not replace other forms of disclosure, but will ensure that the information most relevant to the execution of the organization’s strategy is communicated in a clear, concise and comparable way.

There are three main ways in which <IR> is expected to interact with existing reporting practices:

1. Existing reporting practices can be used to support Integrated Reporting. For example, to the extent that communication about an organization’s creation and preservation of value relies on conclusions or results from existing measurement, management, accounting, governance, reporting and valuation approaches, those conclusions or results should be used or referenced in an Integrated Report insofar as they are material to the creation and preservation of value.

2. Integrated thinking can be applied to the preparation of existing reports so as to communicate more effectively the way in which the organization contributes to the creation and preservation of value.

3. The incorporation of integrated thinking into existing management processes is expected to facilitate an evolution in corporate reporting.

*Question Eight - Does Integrated Reporting involve combining financial and sustainability reporting?*

Integrated Reporting is not about simply combining existing disclosures into a single report. Financial reporting and sustainability reporting are well developed forms of corporate reporting and elements of both would feature in Integrated Reporting to the extent that the information is material to how an organization’s strategy creates and preserves value. This requires assessing the connectivity and interdependencies between the organization’s business model (including its strategic objectives and how it is governed), the context in which the organization operates (including the risks and opportunities it faces), and the resources
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The Integrated Report will help to show which organizations are best placed to create and preserve value having taken into account the contribution of strategy and business model to value creation.

**Question Nine - What is the International <IR> Framework likely to cover?**

The Framework is under development and will be published in several stages to maximize the opportunity for stakeholder consultation. The Outline of the Framework was released in July 2012, the Prototype Framework will appear in Autumn 2012, the Draft Framework will be published in Spring 2013 and version 1.0 of the Framework will be issued in December 2013.

The Framework is expected to reflect the following general principles and characteristics:

- The Framework is designed for use by reporting organizations in practising <IR> and to inform investor decision-making;
- It will contain guiding principles and content elements for determining the content of the Integrated Report;
- It will focus on concepts and principles rather than the details of measurement and reporting on individual matters. However it, or supporting guidance, is likely to reference methods for measurement and reporting developed by others. The Framework will have to be flexible recognizing the wide variation between organizations but will enable the Integrated Report to coalesce around certain principles for the identification and presentation of information so as to achieve a degree of consistency of approach.

**Question Ten - What further work is the IIRC doing to develop <IR>?**

In addition to the development of the Framework, various activities are in progress including projects designed to provide clarification on crucial aspects of Integrated Reporting including:

- The definition of “business model” and “value” for Integrated Reporting purposes;
- How the concept of multiple “capitals”, (including financial, manufactured, human, intellectual, natural and social), can best be reported;
- Determining “materiality” for the purposes of preparing an Integrated Report;
- The definition and application of connectivity for Integrated Reporting purposes.

In addition to these work streams, the IIRC will conduct other projects on topics including assurance, the information needs of non-investor stakeholders and the relevance of Integrated Reporting to SMEs and the public sector.
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**Question Eleven – What is the IIRC’s Mission and Vision?**

The IIRC’s mission is to create the globally accepted Integrated Reporting (“<IR>”) Framework that elicits from organizations material information about their strategy, governance, performance and prospects in a clear, concise and comparable format. The Framework will underpin and accelerate the evolution of corporate reporting, reflecting developments in financial, governance, management commentary and sustainability reporting. The IIRC will seek to secure the adoption of <IR> by report preparers and gain the recognition of standard setters and investors.

Our vision is for <IR> to be accepted globally as the corporate reporting norm, benefiting organizations, their investors and other stakeholders by enabling informed decision-making that leads to efficient capital allocation and the creation and preservation of value. By encouraging a different way of thinking, <IR> will contribute towards the advancement of a more sustainable global economy.