FOCUS GROUP A (15 participants)

Preparers of integrated reports

Multi-capitals approach

All organizations depend on various forms of capital. The International <IR> Framework classifies these capitals as financial, manufactured, intellectual, human, social and relationship, and natural. The Framework requires that integrated reports explain how the capitals relate to strategy and performance (ref: Paragraphs 3.3 and 4.30).

i What are the challenges and limitations to applying the multi-capitals approach?

Q1a

1. High comfort level with quantitative disclosures; limited understanding of, or comfort with, non-financial capitals, especially social and relationship capital. "Value" is not well understood in non-monetary terms.
2. Concern over controls on non-financial information = lack of trust and difficulty of monitoring
3. Investors are not necessarily aligned with report preparers on the importance of non-financial capital
4. Reporting silos, driven by the finance arm (which is less focused on, or able to report on, other capitals); lack of internal integration of non-financial information
5. Limitations to CFO competencies; can't necessarily transfer skills and expertise to the other capitals
6. Difficult to meaningfully capture and communicate the interrelationships of capitals
7. Financial reporting features standard metrics to allow comparability; this varies for the other capitals
8. Materiality assessment for non-financial capitals is a challenge

ii Are certain capitals more difficult to report on than others? Why or why not?

Q1a

Financial capital is generally the easiest. For the *other* capitals, ease is a function of industry. For pharma companies, intellectual capital is relatively easy. For services companies, human capital is relatively easy. In the case of natural and social and relationship capitals, it is often simpler to consider them from a risk, rather than a value, perspective. It is difficult to define outcomes and impacts on the non-financial capitals (e.g., it is difficult to measure the impact of a pharma company on a disease).

iii How can implementation of the multi-capitals approach be improved? Who should facilitate this improvement?

Q1b

- Need cooperation across the standard setters and framework developers to build suitable and comparable measures for the non-financial capitals
- Drive toward better controls for non-financial data
- Help investors understand the relevance of non-financial information; tackle this sector by sector (recognize that there is no 'one-size-fits-all' solution, but strive for comparability within a sector)
- The IIRC should be a steward in driving coherence in reporting; in other words, look for gaps between standards and frameworks and help to fill them.

Integrity of integrated reports

Paragraph 1.20 of the Framework requires a statement from those charged with governance. The statement should cover three key components, as shown in the first half of Paragraph 1.20 (see right).

i Do you agree that report integrity is supported by a statement from those charged with governance? Why or why not?

Q7a In principle, yes, the statement from directors supports report integrity.

ii In practice, Paragraph 1.20 is poorly implemented. Can you speculate why?

Q7a

- In practice, companies must comply with their jurisdictional requirements. It must been shown how Integrated Reporting helps companies fulfill their jurisdictional requirements.
- In compliance-driven regimes, if the statement is not legally required, some boards may see this additional disclosure as risky. There should, therefore, be alignment with regulatory frameworks.
- Internal materiality (for management purposes) does not always equal external materiality (for reporting purposes).
- Some view the Framework as more about the report than the process. Can the IIRC provide guidance to boards on how to approach Integrated Reporting?
- This requirement should not be confined to a reporting framework; it should also be part of governance frameworks.

iii Are any of the first three reporting elements of Paragraph 1.20 particularly problematic?

Q7a The three requirements are progressively difficult. The third bullet point is the most difficult as it requires a solid knowledge of the Framework.

ADVICE FOR THE IIRC:

- Demonstrate the connection between Integrated Reporting and directors' fulfillment of their legal duties.
- Convene a dialogue on how the MD&A, Management Commentary or similar communication would look if boards were to really engage in report oversight.
- Invite IIRC Council members to comment directly to the Corporate Reporting Dialogue on gaps between standards.

FOCUS GROUP B (15 participants)

Preparers of integrated reports

Value creation lens

In Integrated Reporting, material matters are those that significantly influence value creation. A recent IIRC review of integrated reports showed that 42% of organizations misapplied the Framework's definition of materiality. In these cases, organizations tended to disclose information based on stakeholder priorities, investor interests, and social and environmental focus -- with no demonstrable link to value creation.

i What factors do you think contribute to organizations' misunderstanding of materiality in the context of Integrated Reporting?

Q4a

- Confusion in terms of the audience for the integrated report. This influences materiality.
- Companies are using Integrated Reporting to report on everything relevant to all stakeholders → need to focus on strategy and value creation.
- Companies don't want to reveal the secret of their success.
- Many reporters have a sustainability background – the scope, audience and purpose of Integrated Reporting is often confused with the scope, audience and purpose of sustainability reporting.

ii How can this aspect of implementation be improved? Who should facilitate this improvement?

Q4b

- Companies *do* know their business model and value creation process, but prioritizing the interests and information needs of multiple stakeholders tends to dilute or detract from this information. More IIRC guidance is needed on the 'value creation-based' process for determining materiality.
- Boards are measured primarily on short-term performance, which creates misaligned incentives. How can the IIRC encourage boards to focus on the longer term, while recognizing that it is challenging for companies to tell a 'trusted story' on long-term value versus short-term value?
- Identify what makes Integrated Reporting attractive to government **regulators** (e.g., global competitiveness). Markets and regulators need to support each other.

Integrity of integrated reports

Paragraph 1.20 of the Framework requires a statement from those charged with governance. The statement should cover three key components, as shown in the first half of Paragraph 1.20 (see right). In the absence of a statement, the report should nonetheless explain the role, if any, played by those charged with governance. The report should also outline plans – and the related timing – for including a statement in the future.

i Do you agree that report integrity is supported by a statement from those charged with governance? Why or why not?

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ii Does the second half of Paragraph 1.20 offer a reasonable alternative on a transitional basis?

Q7a

Ultimately, the board's evaluation is a very subjective process, especially when compared to financial reporting. It is difficult for boards to evaluate and comment on the extent to which the Framework requirements have been applied.

iii How can this aspect of implementation be improved? Who should facilitate this improvement?

Q7b

- The issue of board statements will likely resolve later in the Integrated Reporting journey – after *other* issues are overcome. It will take several reporting cycles to get things right. For now, reports can show integrity by referencing and adhering to the International <IR> Framework, instead of relying on a Board statement.
- How can boards know they have all the right information to instill confidence and enable their sign off? One answer is to link the exercise to internal assurance processes.
- It is difficult to have trust in integrated reports without external assurance. Objective standards would bring assurance, but it's too soon. Companies are still experimenting. Guidance is needed over assurance now.
- Regulators need to give companies safe harbour while they are experimenting and early in the Integrated Reporting journey
- There needs to be thought leadership on the role of the board in Integrated Reporting
- An enhanced body of implementation knowledge is needed. This is not for the IIRC to develop; *companies* will develop best practice.
- Preparers need clearer metrics around all the capitals – these are not yet well established

FOCUS GROUP C (16 participants)

Users of integrated reports

Quality of Framework implementation

An important strand of the IIRC's strategy is the promotion of high-quality integrated reports. This measure is aimed at maintaining the integrity of the Integrated Reporting movement.

i As a user or potential user of corporate reports, what features or attributes contribute to high quality integrated reports? Please list up to five features.

Q10a A high quality report:

- Follows the framework
- Provides an overview of key points and context
- Provides substance and data, using online links as necessary
- Offers specific, comparable and quantifiable information
- Tackles difficult questions and addresses negative impacts with transparency
- Is consistent with other information sources and is embedded in the company's operations
- Is part of the primary investor communication (primary reference point)
- Has a good mix of quantitative and qualitative information
- Provides good insight into management behaviour

ii What is your experience with the current quality of integrated reports?

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iii What, if anything, should be done and by whom to ensure high-quality integrated reports?

Q10b

- Role of assurance to be clarified; can assist credibility
- The IIRC should clarify the role of 'value' as set out in the Framework
- The IIRC should demonstrate alignment with regional and national requirements

Enablers and incentives for Framework implementation

The International <IR> Framework is applied to varying degrees across some 30 countries. Adoption has flourished in regions such as South Africa and Japan, where regulatory, policy and cultural drivers have been useful catalysts.

i What are the key enablers and incentives for Framework implementation? Do these apply equally to all organizations, regardless of size, jurisdiction and form/structure?

Q11a

- Demand from investors
- Pressure from regulators
- Peer pressure from fellow companies

ii What, if anything, should be done and by whom to create a more conducive environment for Framework implementation?

Q11b

The IIRC should:

- Exploit the power of good examples
- Identify and encourage key influencers (the legal, accounting, analyst and advisory professions) to educate, build awareness and create a conducive environment
- Connect to the needs and networks of global organizations
- Given the high proportion of small- and medium-sized enterprises in most economies, demonstrate implementation among this class of businesses
- Explain and demonstrate the link between improved operational management (integrated thinking) and the ability to attract capital

GROUP D (16 participants)

Users of integrated reports

Quality of Framework implementation

An important strand of the IIRC's strategy is the promotion of high-quality integrated reports. This measure is aimed at maintaining the integrity of the Integrated Reporting movement.

i As a user or potential user of corporate reports, what features or attributes contribute to high quality integrated reports? Please list up to five features.

Q10a

A high quality report:

- Integrates elements of the ***capitals*** into ***strategy*** to support investment analyses
- Fulfills the information needs of users by telling the company's story
- Demonstrates integrated thinking (i.e., good organizational management)

- Communicates information concisely; covering *'everything'* is not the answer
- Is consistent with other reports
- Makes connections across the capitals (users want to see clear interrelationships/links and a demonstration that the company understands these connections)

ii What is your experience with the current quality of integrated reports?

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iii What, if anything, should be done and by whom to ensure high-quality integrated reports?

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Barriers to Framework implementation

Report preparers occasionally cite expanding regulations, emerging voluntary frameworks and survey fatigue as impediments to evolving their external reporting.

i Is a proliferation of reporting standards and initiatives a significant impediment to Framework implementation? If so, how can this situation be improved?

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ii What are other barriers to Framework implementation? Do these apply equally to all organizations, regardless of size, jurisdiction and form/structure?

Q11a There are a range of barriers, which differ by industry and region:

1. Limited and varied investor demand for Integrated Reporting – needs to move beyond "interest"
2. Mixed understanding among investors as to what Integrated Reporting is
3. Regulatory interest but limited endorsement due to business opposition to regulatory burden
4. Insufficient market drive – don't rely on companies alone to take the initiative
5. Confusion caused by proliferation of reporting standards, frameworks, surveys/questionnaires, etc.
6. Conflict for sustainability reporting practitioners – does Integrated Reporting somehow pose a threat to their field?
7. Notion that all that must be *reported* must be *measured*
8. Perceived difficulty of Integrated Reporting, particularly given significant burden of mandatory requirements
9. Not on the agenda of boards, board chairs and audit committees – conflicting priorities
10. Internal organizational barriers, including hesitation to depart from siloed financial and sustainability reporting
11. Concerns over quality and authenticity of implementation in terms of report length, use of promotional language and weak/inconsistent measurement across capitals
12. Lack of uniform implementation around the world; relatively limited expertise in developing nations
13. Continuous change in the reporting landscape
14. Prioritization of reporting initiatives (e.g., enhanced sustainability reporting, Integrated Reporting, questionnaires, ratings requests)
15. Prioritization of ***mandatory*** reporting over ***voluntary*** reporting
16. Absence of a clear path to Integrated Reporting
17. Mixed understanding of the core elements of Integrated Reporting; lack of implementation guidance
18. Confusion across stakeholder groups about: (i) how various report forms fit and (ii) the application of rules- versus principles-based approaches
19. Competing for attention against those with strong marketing voices

20 Integrated report as an ***additional*** report rather than an ***alternative***. Financial reporting, which covers some but not all of the capitals, will never disappear.

iii What, if anything, should be done and by whom to reduce or eliminate these barriers?

Q11b

Ideas to reduce barriers	By whom
Better coordination across standard setters and framework developers	Corporate Reporting Dialogue
Attention to quality and connectivity issues	IIRC to celebrate good examples and demonstrate connections across capitals, governance, prospective disclosures, etc.
Businesses need a road map to adoption – clarify opportunities to move	IIRC or others
Provide clearer direction on which standards and frameworks to use	IIRC or others
Build investor awareness/education	IIRC collaboration with relevant groups
Identify tipping points in various markets and industries; find key influencers	IIRC in consultation with local groups and industry associations
Coordinated education and strategy for *preparers*, *report preparers*	IIRC with others (e.g., IFRS foundation)
Education for boards of directors	IIRC to work with director associations
Encourage companies to "just get on with it", learn and improve over time	--
Build demand-side momentum	Government/regulatory encouragement
Help companies cope with continuous change in the reporting landscape	Allow Integrated Reporting to be realized in existing instruments
Integrated report as an ***additional*** report rather than an ***alternative***	IIRC to map relationship to traditional investor-oriented document; clarify how integrated report looks and how it relates to other disclosure vehicles