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Mr. Paul Druckman, CEO
The International Integrated Reporting Council (IIRC)
Clarence House
London SW1A 1BA
United Kingdom

By email to dpresponses@theiirc.org

Re: "Towards Integrated Reporting, Communicating Value in the 21st Century" Discussion Paper

Dear Paul,

The Institute of Management Accountants' (IMA) XBRL Committee welcomes the opportunity to comment on the International Integrated Reporting Council (IIRC) discussion paper, *"Towards Integrated Reporting, Communicating Value in the 21st Century."*

The IMA XBRL Committee is a standing advisory committee reporting to the IMA Board of Directors and is comprised of experts in internal/external corporate reporting, accounting and other standards, information technology, market adoption, research and academia, in addition to XBRL.

IMA is the worldwide professional association for more than 60,000 management accountants and financial professionals working in business, including CFOs and Controllers of both listed and private companies around the world. Our members include those who are certified in managerial accounting and hold the IMA's CMA certification.

It is from the perspective of a management accountant and the role of XBRL in integrated reporting that the IMA XBRL Committee is responding to the discussion paper.

Given the current global dialogue around sustainability, enhancing transparency, improving access to information, understanding material financial and non-financial risk factors, and strengthening governance practices, the IIRC discussion paper could not be timelier.

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General Comments on Integrated Reporting

The international market place is increasingly paying more attention to non-financial information about organizations to better understand their performance, value and reputation – all one need do is look to the trillions in assets under management of the signatories of the UN Principles of Responsible Investing (UNPRI), or for that matter, to the number of private equity, venture capital and hedge funds dedicating significant portfolio allocations to companies that measure and report on their operations as well as their environmental, social and governance (ESG) practices. It is important for the sustainability of organizations and society that we achieve a better balance between short-term financial performance and longer-term sustainability. Companies that don't follow good ESG practices face reputation and financial risks, as evidenced by global brands such as Nestle, Coca Cola and Nike whose shares were dropped from the portfolios of asset managers in the last several years for failing to deliver upon their ESG promises.

Action is needed now to improve how organizations gather and report information, both financial and non-financial (e.g., ESG information). Until the last few years, typical historical, backward-looking financial reports were widely used and relied upon for much of the decision-making among executives, analysts, investors and regulators. However, financial information alone is not the only indicator of a company's true performance, as we have come to find out with the increasing reliance on non-financial metrics as well as the advent of interactive data technologies such as XBRL that help us access information more easily and reliably. Current reporting models that focus on a single entity, short time-frames and historical cost accounting do not effectively define, capture or enable linkages to ESG business practices and, ultimately, financial value. Add to this that some of a company's value is *not* reflected in their disclosures and we have a paradigm in which often incomplete information is being provided for stakeholder decision making.

Integrated reporting is an opportunity to modernize corporate reporting and corporate culture, unlock data from corporate silos and restrictive presentation formats, link operational and ESG practices to financial performance, and make information relevant, machine-readable, meaningful and reliable for management and all stakeholders.

It begins with integrated thinking.

For integrated reporting to deliver real value to the organization, the process must begin with integrated *thinking* – a consistent 'tone at the top' where the Board and senior leadership commit to being a sustainable business and following good ESG practices; they define a corporate culture and mission focused on embedding strategies to be sustainable and economically viable for the long-term. Integrated thinking leads to integrated *management* – the operationalization of its sustainable thinking; the removal of silos and barriers to collaboration; and the establishment of processes, systems and controls to identify, measure, monitor and report on operational and ESG practices for the enterprise and relevant stakeholders in their supply chain. Only when integrated thinking and management are solidly embedded within the organization can it move to an integrated reporting process and, ultimately, a series of usable, *interlinked* or *interconnected* reports (as opposed to only a *single*, integrated report).

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As key stakeholders of any company, analysts and institutional investors today are sending a strong message to CEOs, CFOs, finance professionals and Boards of Directors that their non-financial performance is just as important in determining their attractiveness to the market as financial metrics. They are looking today for integrated reports – interlinked reports showing operational, supply chain and ESG data. This is not simply the stapling together of an annual report and a corporate social responsibility (CSR) report or sustainability report; rather, this is about companies integrating best ESG practices within their internal operations and measuring the performance of their supply chain and providing information on those integrated practices in an aggregated and highly reusable structured data (i.e., XBRL) format. This is not just about the company's own operational and ESG performance; it is about that of the upstream and downstream supply chain participants. The journey toward integrated reporting represents a fundamental shift in a traditional reporting paradigm in which management accountants will play a central role.

Information must be reusable, accessible and reliable – the XBRL standard is the solution.
Information is the lifeblood of business. Today, the myriad uses of information for management decision making, internal and external reporting, compliance, performance measurement, business intelligence, investment decisions, risk management, supply chain management and more means it must also be easily reusable and widely accessible in a secure, reliable, error-free and consistent manner. Context of information is also critical to the use of that information across these processes. XBRL already solves these challenges today – the global XBRL standard is currently required in the U.S., China, Japan, the U.K., Korea, Germany, India, Australia, Netherlands and many other countries. In fact, XBRL is used by companies representing more than 75% of the world's market capitalization for reporting financial information, and it is a logical assumption that XBRL would deliver the same benefits to reporting of non-financial/ESG information. XBRL taxonomies have already been developed for non-financial information (e.g., by GRI, IRIS) and are underway by other organizations covering ESG-related information.

XBRL and other industry specific supply chain standards may also be useful in assisting companies in accessing, validating, analyzing and reporting on the information contained within a broad range of proprietary information stores throughout the enterprise and related supply chain entities. The ability to access, validate, analyze and manage both entity specific and relevant supply chain information is clearly enhanced via international supply chain and information standards. We support the use of these information standards to drive and facilitate enhancements in the transparency of this information for management and possibly integrated reporting purposes.

Improving what companies already do.
We do not advocate increasing the reporting burden for companies. Companies small and large face significantly more reporting requirements today, and integrated reporting cannot be seen as an *added* burden if it is to be successfully adopted. Integrated reporting is simply a better way of doing something companies already do – gather, measure, monitor and report information. The market needs examples – a lot of them – of companies that have done or are planning to follow integrated thinking, management and reporting in order to understand the benefits of doing so

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even before any type of regulatory mandate is considered. Motivating organizations in this manner could be much more transformational and sustainable than with mandated requirements.

Novo Nordisk is an example of a company at the cutting edge of integrated reporting. The company has been providing integrated reports since 2004 – clearly an early trailblazer and example of best practice. Susan Stormer, Novo Nordisk's VP of Global Triple Bottom Line Management, indicated during the 2010 GRI Conference that producing integrated reports was not easy, but that the time was now to begin 'experimenting' even without an established reporting standard. This is what leads to innovation and creativity in the process. The 'big stick' of government mandates is not the only possible motivator to move companies along the evolutionary path to integrated reporting – large global brands have the power to drive best practice and serve as examples to the rest of the market. The calls from corporate giants like Tata Group, Wal-Mart, P&G and Puma go a long way towards incenting public and private companies to become more sustainable parts of larger supply chains.

Missing links in the evolution to integrated reporting.
To summarize, we see several missing links as the market evolves towards integrated reporting. These links must be established in order for the next level of corporate reporting to take hold and thrive. These missing links include:

- **Frameworks, best practice, continuous learning and education**. With its rise in importance, the need for frameworks and best practices associated with measurements of environmental and social responsibility economic indicators is emerging. Similar to how there are comparability challenges with *financial* information, non-financial measures need to be clearly defined to be useful to stakeholders. XBRL helps ensure comparability of the information. While continuous learning, frameworks and best practices are very important to the success of integrated reporting, equally important is empowering management to make appropriate judgments in reporting metrics that reflect the value of the enterprise.

- **Materiality**. The concept of materiality in non-financial measures needs serious consideration. Material risk factors *will vary fr*om company to company – *and* stakeholder to stakeholder! Companies need guidance on how to define these material factors, what they are doing to mitigate those material risks, and how they are *communica*ting with their stakeholders about their risk management actions so they better understand what it is that stakeholders find to be of material importance.

- **Simplicity**. The simplicity of measures and disclosures is another factor to be handled by the organizations collaborating on what financial and non-financial disclosures really should be in an integrated report. Complexity breeds confusion, inconsistency and lack of understanding; the global, uniform framework seeks to limit those. The simplicity of the framework is essential in order to lower barriers to adoption. XBRL, through its structure and self-contained, makes information significantly easier to access and use for analysis, thereby lowering some aspects of complexity.

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- **Stakeholder engagement**. Stakeholders are not limited to just shareholders; they include employees, supply chain partners, community members, regulators, analysts, media and others. The more engaged these stakeholders are in a company's practices, and the more companies shift away from one way, monologue-type communications to more of a 'multi-logue' approach with these groups, the better the impact on those stakeholders, the environment, community, and the marketplace.

- **Independent Verification/Assurance**. There is also debate over how independent assurance should be given around integrated reports, particularly where non-financial, ESG type information is concerned. After all, the stakeholders will be relying on this information for decision making. They need to feel comfortable that this information has been consistently measured against a standard and verified for accuracy. That is accomplished through independent verification or assurance of the information. Traditionally, accountants have provided that market comfort through their opinions. Should accountants provide the same assurance on integrated reports? It is a logical conclusion if they are already assuring the financial information in the report; however, accountants may also have to learn new skills to provide assurance around ESG information. XBRL is capable of embedding evidence of various types of assurance services on company information provided through integrated reporting.

- **Trust**. Closely related to assurance around integrated reports is the notion of trust in what is measured and reported. On one side, we have trusted financial information reported and verified by accountants, trust that has been built through well-established domains (e.g., financial statements), standards/frameworks (e.g., U.S. GAAP), standard setters (e.g., FASB), and well understood regulatory oversight (e.g., the SEC). On the other side, we have a less well-known domain (e.g., non-financial reporting/ESG), lack of a uniform standard/framework (so far), and unclear authority for standard setting and regulatory oversight. This imbalance undermines trust in integrated reports until we bring them into equilibrium.

In addition to our perspectives provided above, we have responded below to those questions in the discussion paper most relevant to our perspective.

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?

Yes, we believe that action is needed to evolve corporate reporting to a new level that is more transparent, comprehensive, relevant, timely, accurate and meaningful. Integrated reporting is that next stage in the evolution of corporate reporting. It is not without its challenges – as previously stated, there are key missing links in the evolutionary process that need to be filled in, including defining materiality in ESG risk factors, reducing complexity in the reporting process, ensuring comparability of information, linking economic value to non-financial elements, lowering reporting burden, and making the data machine-readable.

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

Yes, a global framework for integrated reporting will help ensure consistency and comparability across jurisdictions/geographies. There needs to be a common language or terminology in the framework, along with a shared sense of what those terms *mean*. This too is not without its challenges, however; cultural and societal differences will need to be addressed somehow in a global integrated reporting framework.

Towards Integrated Reporting

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

Integrated reporting flows out of integrated *thinking*, integrated *management* and integrated *processes*. A series of interlinked or interconnected reports are one possible outcome from an integrated reporting framework. We do not believe that a single integrated report should be the ultimate objective– information flows for financial, operational, environmental, social and governance practices will, in reality, have varying periods and measurement points and we see an interlinked view for series of interlinked reports instead of a vision of just one integrated report. Financial information may in fact be flowing in a real-time constant stream; other measures such as labor practices may have a less frequent flow. We believe that an organization that is fully integrated in its thinking, management, processes and reporting will produce a set of meaningful linked reports for sharing with its internal and external stakeholders.

An International Integrated Reporting Framework

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

Yes, as previously stated, global problems need global solutions. We currently have a 'patchwork quilt' of competing frameworks that touch on various aspects of sustainability reporting, carbon/environmental reporting, social responsibility reporting, responsible investing and others. From the user's perspective, this is confusing, inconsistent and unusable at best. Absent a consistent, uniform global framework, companies and their stakeholders will be unable to assess and compare performance and future sustainability, at least not without a lot of pain to gather, harmonize and analyze information coming out of systems using disparate frameworks. The world needs a common, *international* integrated reporting framework to remove confusion, ensure consistency and ease analysis and decision making built around one global, machine-readable information standard – that standard is XBRL.

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?

In theory, if global problems require global solutions, and we are each part of the solution, then a framework should be developed with all sizes and types of organizations in mind. In practice,

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however, we can perhaps learn from observing recent regulatory changes to financial reporting such as in the U.S. whereby the U.S. Securities & Exchange Commission (SEC) required all registrant companies to file financial statements and footnotes to those statements in XBRL format. The SEC followed a three-year, phased in approach, beginning with the largest companies first. Although the process was not without challenges, it gave a structured approach to adoption and implementation. A similar phased-in approach may be appropriate to bring small and medium sized companies along for the journey to integrated reporting.

The information needs of investors – and all other stakeholders, for that matter – will vary with respect to materiality, risk, impact on value and complexity etc. Therefore, it is unclear whether it will in fact be possible for IIRC to develop a global integrated reporting framework tailored *first* to investors in larger companies and then to bring small and medium companies along.

The reality is that whatever is developed, it will *de facto* be developed for most, if not all, stakeholders anyway. Is it truly possible to isolate one group of stakeholders for the purpose of developing the initial version of the framework? Does that approach contradict the principle identified in the discussion paper for “stakeholder inclusiveness?”

The framework that is ultimately developed must work for smaller entities as well as large.

What Will Integrated Reporting Mean for Me?

Question 9 from your perspective: reporting organization.
(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?

In looking at the benefits and challenges shown in the discussion paper for reporting organizations, those listed are compelling. As with the adoption of anything new, those who are passionate, early adopters will see the value without the need for much evidence or convincing. They see the market advantages that integrated reporting can bring them and will embrace it. The bigger hurdle, however, is to convince the bulk of organizations that will not be as easily convinced. The IIRC pilot programme will hopefully yield measurable results that will serve as evidence of the benefits outlined in the discussion paper. For reporting organizations, any change to the current process is often viewed as a risk if short-term ROI cannot be demonstrated. A simple example is mandatory filing of external financial statements in XBRL that has been viewed by some large caps in the U.S. as a “social tax.” There is an education and learning process required, as the low perceived ROI in this case is often driven by the choice of XBRL systems to be implemented (e.g., integrated solutions vs. “bolt-on”). Compelling evidence of the value of integrated reporting is not only a *nice-to-have*, but also a *must-have* to help move them along on this journey to integrated reporting. The IMA looks forward to the results of the pilot program and hopes that it yields results that support the move towards a global integrated reporting framework.

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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?

We support the next steps of the IIRC in working towards a draft framework for integrated reporting. Socializing the concept and building awareness through roundtables, articles, dialogue and outreach is essential before beginning the drafting process. Market feedback and measurable pilot data is also crucial. A market driven approach to collaborating with stakeholders to collectively study the benefits and challenges of integrated reporting is a powerful way to develop something that the market will actually adopt. As the next stage in the evolution of corporate reporting, an integrated reporting framework would take into account the needs of *all* stakeholders and ideally lead to a solution that works for reporting organizations as well as investors, analysts, regulators and local communities.

We also recommend that the IIRC include the development of an XBRL taxonomy for integrated reporting as part of its work plan for the next 12 months – to develop this in parallel to the framework.

Recommendations:

The IMA XBRL Committee encourages IIRC to do the following:

1. **Leverage the benefits of XBRL for the integrated reporting framework**.
   (A) Incorporate XBRL into the framework as a standards-based way to structure the data reported through the integrated reporting framework.

   (B) Begin the XBRL taxonomy development process *now* – do not wait until the framework is built to then retrofit an XBRL taxonomy.

   (C) Establish working group(s) of XBRL experts now to strategize and develop a taxonomy for the integrated reporting framework.

   (D) Collaborate with XBRL International, the global standard setting body of which IMA is a founding member, on the taxonomy development effort.

2. **Study and learn from other frameworks**. At a minimum, study the best elements of other frameworks (e.g., from GRI, CDP, IRIS, MIX, EBRC and WICI) and incorporate into the global IIRC framework – avoid 'reinventing the wheel' where it makes sense.

   (A) Identify liaisons (if they do not already exist) with each of these organizations to establish a formal dialogue and sharing of information.

3. **Plan your market adoption strategy from the beginning**. Follow a simultaneous, parallel strategy – begin now to lay a solid foundation for market adoption of an integrated reporting framework through a robust communications, thought leadership and outreach

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program while also developing the framework itself. A market adoption strategy should be a forethought, not an afterthought.

(A) Create detailed guidance, best practices literature and/or jumpstart toolkits to help organizations begin and make progress on their journeys to integrated reporting.

(B) Develop case studies of companies spanning industry sectors, sizes, and geographies that have moved to integrated reporting to serve as examples and to illustrate the ROI and value derived from integrated reporting.

4. **Undertake a deliberative process**. Follow a deliberative approach and continue to gather feedback and insight from as wide a stakeholder group as possible - including management accountants – that spans cultures, geographies and types. However, do not do this to the detriment of the development timeline; a framework is needed and should be drafted within the next 12 months.

(A) Develop a mechanism to *widely* share the pilot programme results, including both positive learning and pitfalls to be avoided.

(B) Ensure that the perspectives of a sampling of key stakeholders (e.g., investors, analysts, NGOs, community groups) are included and tested in the pilot programme – do not limit the pilot to just reporting organizations.

5. **Keep it simple**. Develop a framework that will be simple and inexpensive to integrate – adoption will be greatly hindered if it is expensive, too complex or otherwise overly burdensome to implement, particularly for small to medium sized organizations.

Thank you for the opportunity to comment on the discussion paper. Please do not hesitate to contact me about any of our comments in this letter. I welcome further discussions on how the IMA XBRL Committee can continue supporting the work of the IIRC.

Regards,

Brad J. Monterio
Chair, IMA XBRL Committee
Board Member, IMA Global Board

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