

Integrated Reporting Working Group

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Agenda Item 10-A

IAASB Meeting, December 4, 2014

New York, USA

Agenda

- Activities of the Integrated Reporting Working Group (WG)
- <IR> background research:
 - Market developments and needs
 - Preliminary feedback IIRC obtained in Roundtables
- Integrated Reporting WG:
 - Key issues
 - Key milestones
- Q&A

Integrated Reporting WG Activities

- Monitor developments in <IR> and assurance on integrated reports
- Consider demand for assurance and the scope of assurance engagements
- Consider assurance implications
- Assess potential threats
- Inform and update the IAASB and IAASB Consultative Advisory Group (CAG)
- Consider whether, in the public interest, assurance needs should be addressed through high quality standards developed by the IAASB or related initiatives
- Recommend actions

Interaction with Stakeholders

Interactions in addition to IAASB and IAASB-CAG:

- Assurance practitioners – private and public sectors
- Preparers of integrated reports
- Internal auditors
- Investors (providers of financial capital) – debt and equity
- IIRC
- IAASB-NSS
- FoF

Developments in 2014 in the <IR> Environment (1)

- B20 Panel of six international accounting firms refer to the relevance of <IR> in their recommendations to the G20
- Directive of European Commission addressing inclusion of more environmental and social information in the annual report – seen as first step towards <IR>
- IIRC introduces the Corporate Reporting Dialogue
- World Investment Forum: public meeting Sustainable Stock Exchange Initiative

Developments in 2014 in the <IR> Environment (2)

- UNCTAD: Workshop Future Direction of the Corporate Reporting Model
- IFAC, together with the IIRC, started a project on Materiality
- The Prince of Wales Accounting for Sustainability (A4S) launches actions via a global CFO network to promote integrated thinking
- World Business Council for Sustainable Development discusses assurance on sustainability reporting at its Council meeting
- IIRC issues two “Assurance on <IR>” papers and co-hosts roundtables around the world

<IR>: Internal and External Demand

	Decision Support	Oversight
Internal	<ul style="list-style-type: none">• Business strategy• Innovation and investment• Product development• Process improvements• Mergers and acquisitions	<ul style="list-style-type: none">• Supervisory boards• Non-executives
External	<ul style="list-style-type: none">• Investment (including potential investors)• Lending by banks and other financiers	<ul style="list-style-type: none">• Government and other regulators

Market Needs Surveys

Type of Survey	Organization
Reporting	PwC (2014), KPMG (2013), GRI (2014)
Company perspectives	Deloitte (2014), ACCA (2014)
Investor perspectives	EY (2014), UNCTAD (2014), Eurosif/ACCA (2014)

Market Needs: Company Reporting

- Annual Report: increase in information in annual report
 - Increase in information on core business strategy and inclusion of non-financial capital priorities
 - Increase in reporting on risks and opportunities
 - Increase in the reporting of KPIs: financial and non-financial
 - Increase in integrating sustainability information
- Early sustainability reporters moving to <IR>
- <IR> is new, but differences in uptake amongst jurisdictions is already apparent

Market Needs: Company Perspectives

- CFOs expect an increase in <IR> and move towards that direction while others wait until <IR> develops further
- CFOs note a strong link between sustainability performance and financial performance
- CFOs consider the main benefits of <IR>:
 - Ability to present the company as an advocate of sustainability
 - Help them to align the company's risks with its opportunities
 - Adopt a more holistic view of the true drivers of corporate performance
 - Build better relationships with external stakeholders

Market Needs: Investor Perspectives

- For key information categories (financial, governance, and environmental, social and human capital), the Annual Report is the top-ranked data source
- Prefer elements in one document to be used as a longer-term reference
- Relevance of <IR> to investor decision-making will increase
- Information should be more comparable across companies and better integrated with financial information
- Qualitative information is important, but quantitative KPIs are essential
- Accountability mechanisms should also be part of non-financial reporting, either through new board oversight mechanisms, third-party assurance and/or shareholder approval at AGMs

Market Needs: Assurance

- If assurance on <IR> follows a similar pattern to assurance on sustainability reporting then:
 - Majority of the assurance engagements will be focused on obtaining limited assurance
 - The scope and objectives of assurance engagements may differ from one to another
 - The majority of assurance engagements will be performed by major accountancy firms
- However, IIRC roundtables identify need for openness to further innovation

Assurance on <IR>Roundtables



Summary of IIRC Roundtables (1)

- Acceptance that we are at an early stage of evolution for reporting, let alone for assurance → willingness to explore and innovate, e.g., reports by stakeholders and PwC “maturity” model
- Keenness to consider broader issues of credibility and trust, including suggestions for disclosures by those charged with governance about why they believe the report to be credible and trustworthy as well as further consideration of the involvement of internal audit like the “combined assurance” model of King III
- Suitability of the Framework as “criteria” for an assurance engagement is still an issue to some

Summary of IIRC Roundtables (2)

- Jurisdictional differences are evident, e.g., the desire for regulatory involvement versus market-led solutions
- Understanding that early involvement of assurance professionals can:
 - Strengthen reporting processes
 - Help reporters better understand and implement <IR>
- Concern about cost benefit vis-à-vis the nature and scope of assurance engagements
- Mixed views about competency of accountants/accounting firms to perform assurance engagements on <IR>

Summary of IIRC Roundtables (3)

- Uncertainty about what providers of financial capital want/need from the assurance engagement as there is a wide variety in focus and horizon
- Communication, language and the form of the assurance report are important, e.g.,
 - Traditional short form report may add little value
 - Long form report can provide insight, but is not “concise”
 - Complicated reports (including detailed limited assurance reports) can be difficult to fathom and impossible to compare
 - Jargon and disclaimers impede understanding
- Concern about creating (or exacerbating) an expectation gap

Integrated Reporting WG observations

- Investors see value in assurance
- Narrative information, in particular on the business model and forward looking information, is an important part of the investment analysis by institutional investors
- Practitioners perceive a sliding scale between limited and reasonable, affected by, e.g., the strength of information systems and the maturity of measurement criteria
- Balance and clarity of the assurance report: short form vs long form

Key Issues – Preliminary Integrated Reporting WG Discussion

- Maturity of reporting and reporting process
- Variety in scope of the assurance engagement
- Boundary of the integrated report
- Assessing the suitability of a combination of generally accepted and specifically developed criteria
- Completeness of topics in the integrated report and the materiality process identifying them
- Connectivity principle
- Content of the assurance report

Integrated Reporting Working Group – Key Milestones

IAASB meeting	Document
December 2014	IAASB Update on Market Developments and Needs
March 2015	Staff Awareness Paper
September 2015	IAASB Discussion Paper
March 2016	IAASB Feedback Statement
June 2016	Project proposal to the IAASB

Q&A Session

- IAASB members are asked for their view on the proposed activities of the Integrated Reporting WG and its anticipated milestones:
 - Does the IAASB agree with the proposal of the Integrated Reporting WG to develop a Staff Awareness Paper for the IAASB's consideration at its March 2015 meeting?
 - Does the IAASB agree with the proposed interaction with stakeholders? Are there any other stakeholder groups with whom the Integrated Reporting WG should interact further in its information gathering activities?
- IAASB members are asked to share views about the relevant market developments on which the Integrated Reporting WG should obtain further information.



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