

### IAASB Integrated Reporting Working Group

## Briefing Paper—Market Developments in Integrated Reporting and Emerging Assurance Issues Relevant to IAASB

### Insight into Surveys on Integrated Reporting and Assurance

#### Background

1. The market for Integrated Reporting (<IR>) is gradually developing. In addition to developments in laws and regulations requiring disclosure of information other than financial information, stock exchanges are increasingly asking for this type of information from their listed companies. Further, the number of companies that report on this type of information on a voluntary basis is still increasing.
2. The International Integrated Reporting Council (IIRC) has undertaken a number of activities in the area of <IR> as follows:
  - Issued in December 2013 The International <IR> Framework (the <IR> Framework)<sup>1</sup> against which companies are starting to report.
  - Issued in July 2014 two papers discussing assurance on <IR>.<sup>2</sup> Feedback on a series of questions included in the paper, titled “An introduction to the discussion” has been requested by December 1.
  - Scheduled a series of co-hosted roundtables from September 2014 to discuss assurance on <IR>.
3. This briefing paper is intended to provide further insight into market developments with regard to <IR> and assurance.

#### Corporate Reporting: Some Statistics

##### *Report Content <IR>*

4. The <IR> Framework was launched in December 2013. However, companies already started to include the different Content Elements of the <IR> Framework at an earlier stage. The IIRC has included on its website<sup>3</sup> various extracts from corporate reports that demonstrate how the Guiding Principles and Content Elements in the <IR> Framework are being applied in practice. <IR> is developing and it is recognized that it will likely take a reporting cycle or more for companies to produce a complete integrated report under the <IR> Framework.

<sup>1</sup> IIRC (December 2013), *The International <IR> Framework*

<sup>2</sup> IIRC (July 2014), *Assurance on <IR>, An Introduction to the Discussion and Assurance on <IR>, An Exploration of Issues*

<sup>3</sup> *Examples Database*: <http://examples.theiirc.org/home>

5. PwC benchmarked over 400 companies against the different Content Elements of the <IR> Framework.<sup>4</sup> The research focused on the quality and integration of information in key company reports.<sup>5</sup>
6. Overall, the survey results show that many companies already successfully report Content Elements as described in the <IR> Framework, but find it harder to address the Guiding Principles such as connectivity and future orientation. Key global findings for reporting Content Elements include:
  - In their 2013 reports, 68% of the companies included some non-financial capital priorities in their core strategy compared to 40% in 2008<sup>6</sup>. However, only 33% of companies based this on strategic themes.
  - The reporting of risks and opportunities has improved since 2008, from 78% of companies outlining risks to 93% identifying their key risks in 2013. However, only 29% of companies clearly correlate risks with issues discussed elsewhere in the report and only 22% discussed how risks to their business are changing over time.
  - The reporting for performance elements has also improved from 48% of companies in 2008 explicitly identifying their key performance indicators (KPIs) to 74% in 2013. However, only 25% and 31%, respectively, aligned their KPIs with strategic priorities.
7. The table below shows the 2013 survey results by Content Element (extracted from PwC, 2014):

Content Elements	What's clear in 2013	Evidence of <IR> Challenges
<b>Organizational overview and external environment</b>	<b>86%</b> discuss future market trends	<b>31%</b> link market discussions to strategic choices
<b>Governance</b>	<b>65%</b> discuss leadership effectiveness	<b>54%</b> have some alignment of KPI outcomes to remuneration outcomes – 15% explicitly
<b>Business model</b>	<b>60%</b> make meaningful reference to their business model	<b>25%</b> explain the value-adding activities used to execute

<sup>4</sup> See Appendix 1 for a brief description of the Content Elements of the <IR> Framework

<sup>5</sup> Source: PwC (2014): *Integrated Reporting survey highlights areas to focus on*; <http://www.pwc.com/gx/en/audit-services/corporate-reporting/publications/world-watch/articles/integrated-reporting-survey-how-companies-performed.jhtml>

<sup>6</sup> Against 178 European, Australian and Canadian companies' results in PwC (2008) *Recasting the reporting model*

		strategy <b>21%</b> identify the material capital inputs to the business model
<b>Risks and opportunities</b>	<b>93%</b> identify their key risks	<b>29%</b> have clear correlation of risks with issues discussed elsewhere in the report <b>22%</b> discuss how risks are changing over time
<b>Strategy and resource allocation</b>	<b>94%</b> report strategic priorities <b>68%</b> include some non-financial capital priorities in core strategy	<b>33%</b> base reporting on strategic themes
<b>Performance</b>	<b>74%</b> explicitly identify their KPIs <b>86%</b> report the impacts of activities on non-financial capitals	<b>31%</b> align KPIs and strategic priorities
<b>Outlook</b>	<b>43%</b> explain financial funding plans	<b>20%</b> comprehensively consider the future availability of material capitals

*Report Content – Corporate Responsibility/Sustainability*

8. Companies that are implementing <IR> are often the companies that produced at an earlier stage a sustainability report, either as separate report or as included in the annual report. Therefore, the trend in sustainability reporting has also been explored. However, it must be noted that an integrated report is more than including sustainability information in an annual report, but rather is about the insight that is provided in the ability to create and sustain value on the short, medium and long term.<sup>7</sup>

<sup>7</sup> See Appendix 1 for a description of “integrated reporting” and “integrated report”

9. The KPMG Survey of Corporate Responsibility Reporting<sup>8</sup> (the KPMG Survey) includes an analysis of the 100 largest companies by revenue in 41 countries (N100). It explores how companies in many countries are producing corporate responsibility reports and it explores other issues, such as the drivers for reporting, sector variances and the use of standards and assurance for corporate responsibility reports.<sup>9</sup>
10. The survey shows that companies are increasingly beginning to report on corporate responsibility in the annual report. In total, 51% of the companies surveyed include information on corporate responsibility in their annual report. This figure has risen dramatically from 9% in 2008 and 20% in 2011 indicating a growing acceptance that these issues are material to them.
11. Of those companies that include corporate responsibility information in their annual reports, the majority (58%) do so in a separate chapter, rather than integrating the data into the wider narrative on business performance and value. An increasing number, but still a minority (42%), are starting to make the link between corporate responsibility and business strategy by including corporate responsibility information in the Directors' report. Around 10% refer to having an integrated report with only 3% referencing the work of the IIRC. This can be attributed to the fact that the survey covered 2012 reports while the IIRC only published its framework in December 2013.

#### *Assurance Engagements*

12. The KPMG survey also shows that assurance engagements on corporate responsibility are still gradually increasing among the world's largest companies. For the N 100 companies in the countries that were included in both the 2011 and 2013 surveys, the rate of companies that obtained assurance on their corporate responsibility information increased from 38% to 41%.
13. The increase in assurance engagements is also confirmed by a Deloitte survey that interviewed the Chief Financial Officers (CFOs), or equivalent, of 250 companies in 15 industries and 15 countries.<sup>10</sup> 55% of organizations surveyed obtain assurance on their sustainability reports, up from 28% in 2012. Another 31% of CFO's plan to obtain such assurance over the next two years, up slightly from 29% in 2012. In the same vein, only 9% of CFOs do not plan to obtain assurance, down from 22% in 2012.
14. Of the N100 companies in the KPMG Survey that choose to obtain assurance on their corporate responsibility reports, 72% chose a limited level of assurance, 10% chose a reasonable level of assurance and 8% chose a combination of the two levels. Over half (52%) chose to obtain

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<sup>8</sup> The term is used to cover a wide range of reports referred to via different terminology such as Corporate Responsibility Reporting, Corporate Social Responsibility Reporting, Sustainability Reporting, but that include information on economic, social and environmental information

<sup>9</sup> Source: KPMG (2013): *The KPMG Survey of Corporate Responsibility Reporting 2013*

<http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/corporate-responsibility-reporting-survey-2013.pdf>

<sup>10</sup> Source: Deloitte (2014): *CFOs and Sustainability: Shaping their roles in evolving environment*. [http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Risk/dttl-risk-Deloitte-CFOs\\_and\\_Sustainability-2014.pdf](http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Risk/dttl-risk-Deloitte-CFOs_and_Sustainability-2014.pdf)

assurance on their whole report rather than selected indicators or chapters, and the majority (67%) continue to choose a major accountancy firm to provide assurance services.

15. In the United States of America (USA), the number of companies that are publishing sustainability information is still low but gradually increasing. GRI performed a survey based on sustainability data included in GRI's *Sustainability Disclosure Database*, raw data from the *Bloomberg Professional Service*, trend analysis from *The KPMG Survey of Corporate Responsibility Reporting 2013*, and interviews with representatives of US organizations that published externally assured GRI-based sustainability reports.<sup>11</sup> The USA companies publishing an externally assured sustainability report compiled using the Global Reporting Initiative (GRI) guidelines rose from 10% (26 out of 269 GRI reports) in 2011 to 16% (41 out of 266 GRI reports) in 2013. The majority of the US companies that publish such a report is publicly listed.

### Company Perspectives

16. The expected rise in <IR> is also confirmed in the Deloitte survey, indicating that the percentage of respondents that say that their company integrates non-financial data into the annual report increased significantly to 52% in 2013, from 36% in 2012. In addition, 34% mentions to plan to integrate non-financial data in their annual report in the next two years. 14% of companies is not planning to integrate that data into the annual report. In total, 73% of the respondents noted a strong link between sustainability performance and financial performance.
17. In 2013, the ACCA examined the current trends in reporting and the audit relationship from the perspective of the CFO, with a particular emphasis on both real-time reporting and on <IR>. This research was based on a survey of 200 CFOs and other senior financial professionals in the UK and Ireland, and a program of in-depth interviews with leading figures from the corporate financial community.<sup>12</sup>
18. The research indicates that nearly half the companies surveyed expected to move to an <IR> model within three years. Further, 37% of the companies surveyed are taking active steps to move towards an <IR> model and 5% have already implemented an <IR> model. Of the remaining companies surveyed 48% are adopting a 'wait and see' approach and 10% have no intention of making the move unless it is compulsory. The research also indicates that in general, companies that tend to have a higher proportion of long-term investors are more likely to prioritize the implementation of <IR>.
19. The CFOs surveyed consider that the main benefit of <IR> was the ability to present the company as an advocate of sustainability, but many also said that it would help them to align the company's risks with its opportunities, adopt a more holistic view of the true drivers of corporate performance, and build better relationships with external stakeholders.

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<sup>11</sup> Source: GRI North America: *Trends in External Assurance of Sustainability Reports: Updates on the US*: [https://www.globalreporting.org/resource/library/GRI\\_Trends-in-External-Assurance-of-Sustainability-Reports\\_July-2014.pdf](https://www.globalreporting.org/resource/library/GRI_Trends-in-External-Assurance-of-Sustainability-Reports_July-2014.pdf)

<sup>12</sup> Source: ACCA: *Understanding investors: the changing corporate perspective*: <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/financial-reporting/pol-afb-ui04.pdf>

## Investor Perspectives

20. EY surveyed a global sample of 163 institutional investors, to gain insight into their current practices and future needs, and interviewed 12 of those investors to gain further insight into their answers.<sup>13</sup>
21. The survey shows that the majority of investors felt that the integrated report was essential or important to their decision-making. The top response from investors as to which source of non-financial information was either essential or important to their decision making indicated the annual report (46.8% - survey and 29.8% - interviews). The second and third most essential or important sources were the integrated report (26.2% and 34.8%) and the company's website (including sustainability/corporate governance) (26.1% and 35.9%).
22. The survey also shows that 64.6% believe that statements and metrics on expected future performance and their links to non-financial risks would be beneficial, and 57.2% believe that an integrated report connecting non-financial and financial information would be beneficial. Only 23.0% believe an integrated report would be beneficial without such links, and 8.8% said no linkage between financial and non-financial performance would be detrimental.
23. Further research was conducted by PwC who interviewed 85 investment professionals from around the world, gaining insights into (a) how <IR> can deliver the most value to them, and (b) potential areas for improving current reporting.<sup>14</sup> The investment professionals surveyed say that the strategy, business model, risks and performance metrics in the company reports are all important to their analysis – as are wider market factors, relationships and dependencies. In addition, 63% of investment professionals believe that disclosures in an annual report about strategy, risks, opportunities and other value drivers can have a direct impact on a company's cost of capital.
24. In more detail the survey has the following findings:  
Business model disclosures
  - A company's overall explanation of its business model is considered extremely important for analysis purposes;
  - Investment professionals want a clear explanation for example, of the position of the business in the wider value chain and the company's dependency and impact on future supply of resources.
  - 70% of investment professionals want management to focus the discussion on how the company makes money today and how that value will convert to cash in the future.
  - 80% of investors find explanations of the business model at a segment level most useful.

<sup>13</sup> Source: EY (2014): *Tomorrow's investment rules Global survey of institutional investors on non-financial performance*; [http://www.ey.com/Publication/vwLUAssets/EY-Institutional-Investor-Survey/\\$FILE/EY-Institutional-Investor-Survey.pdf](http://www.ey.com/Publication/vwLUAssets/EY-Institutional-Investor-Survey/$FILE/EY-Institutional-Investor-Survey.pdf)

<sup>14</sup> Source: PwC (2014): *Corporate performance: What do investors want to know? Powerful stories through integrated reporting*; <http://www.pwc.es/es/publicaciones/auditoria/assets/informacion-corporativa-que-quieren-saber-los-inversores.pdf> and PwC Press Release "Lack of clear, cohesive reporting may impact cost of capital": <http://www.pwc.com/gx/en/audit-services/corporate-reporting/publications/world-watch/articles/investor-survey-integrated-reporting.jhtml>

### Strategy

- Survey respondents place high importance on a company's overall explanation of its strategy, of key priorities, actions for meeting objectives, progress made against meeting those priorities and of how the long-term strategy relates to the business model.
- Only 14% of investment professionals feel that companies generally disclose enough information on their future strategic plans to allow them to feel comfortable with the judgments they need to make for their analysis.

### Risk reporting

- Survey respondents say that effective risk reporting is specific, relates to strategy and gives management's view, not that of the company lawyers.
- Key risks to the business model and their management and mitigation is of extremely high importance to investors. There were large gaps between perceived importance and effectiveness of company reporting on risk.
- 76% of investment professionals say that today's risk disclosures are too boilerplate. Some say they look at bond issue prospectuses to get a better view of risks.

### KPIs

- Investment professionals surveyed wanted to know why management has chosen particular measures. Such an explanation may help users of accounts to understand the importance of a particular KPI and helps to put performance in context.
- Investment professionals place almost as much importance on operational KPIs (82%) as they do on financial KPIs (85%) – even though many companies report more financial than operational KPIs.
- 75% want to see a clear link from KPIs to remuneration policies.

### Linkage

- The vast majority of investment professionals (87%) agreed that clear links between a company's strategic goals, risks, KPIs and financial statements is helpful for their analysis.
- There were mixed views on what those links should look like with some preferring cross-referencing and others color-coding.
- Better linkage promotes cohesion, reduces repetition and highlights interdependencies within the business and its reporting.

### Reliability and Comprehensiveness

- Investment professionals have greater access to richer information from more sources than ever before, but they still value reliable and comprehensive annual reports – especially as a reference document.

- 72% think that having all the elements of an annual report present in one document is important, so it can be used as a longer-term reference source.
  - For three key information categories (financial information, governance information, and environmental, social and human capital information), the annual report was the top-ranked data source.
25. The ACCA interviewed 20 members of the South African institutional investment community to discuss their reactions to integrated reports published by South African listed companies.<sup>15</sup>
26. Key findings include:
- The South African institutional investment community welcomes the introduction of <IR> and, despite identifying concerns and obstacles, its participants look forward to its development and progress, viewing <IR> as an improvement in disclosures for investment decision making.
  - The institutional investors argued that integrated reports require assurance and that a framework should be developed for the necessary assurance process.
  - Several areas where they believed that <IR> should be improved include:
    - Reports should be shorter and less complex; they need to be decluttered;
    - Repetition should be avoided; and
    - A box-ticking, compliance approach should be avoided.
  - Several obstacles to the development of <IR> were identified including:
    - The need to avoid domination of the agenda by auditors and reporting consultants;
    - The need to avoid 'impression management', i.e., the introduction of misleading bias, by corporate preparers; and
    - The need to address a lack of financial literacy among trustees of pension funds.
27. Eurosif and the ACCA conducted a survey of investors, analysts and other stakeholders to gather views and opinions on their use of environmental, social and governance information and the European Commission's proposed reporting requirements for disclosure of non-financial information for all large companies in the European Union. The information is based on 94 completed surveys in 18 countries.<sup>16</sup>
28. Key findings include:

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<sup>15</sup> Source: ACCA (July 2014): *South African institutional investors' perceptions of integrated reporting*.  
<http://www.accaglobal.com/ab109>

<sup>16</sup> Source: Eurosif - ACCA (June 2013) : *What do investors expect from non-financial reporting?*,  
<http://www.accaglobal.com/content/dam/acca/global/PDF-technical/sustainability-reporting/tech-tp-wdir.pdf>

- The most important sources of non-financial information for investors are sustainability/corporate social responsibility (CSR) reports, followed by annual reports and the company website.
  - 69% of respondents agree that current non-financial information published by companies is linked to the CSR policy. 73% of respondents disagree that current reporting is linked to business strategy and risk, and 93% of respondents disagree that current levels of non-financial disclosure are sufficient to assess materiality.
  - In order for non-financial information to be useful to investors it must be comparable across companies. 92% of respondents stated that current non-financial reporting is not sufficiently comparable and agreed that non-financial information should be better integrated with financial information.
  - 76% of respondents believe that qualitative policy statements are important to assess financial materiality, but 96% of respondents viewed quantitative KPIs as essential.
  - Respondents believe that accountability mechanisms should be part of non-financial reporting, either through new board oversight mechanisms (88%), third-party assurance (84%) and/or shareholder approval at AGMs (74%).
29. The Prince's Accounting for Sustainability Project (A4S) and the GRI, commissioned Radley Yeldar to undertake research into how investors and analysts source, use and are influenced by extra-financial information. Between March and September 2011, a survey of 34 investors and 35 analysts was undertaken, of which overall 68% identified themselves as working primarily in the Socially Responsible Investment (SRI) field, with the remainder in mainstream investment or analysis with a primary focus on financial considerations.<sup>17</sup>
30. The research revealed the following:
- Over 80% of investors and analysts surveyed believe that <IR> will deliver benefits to their analysis and company assessments.
  - The majority of the sample state that <IR> will be useful or very useful for increasing the reliability, accessibility, relevance and comparability of extra-financial information, as well as improving assessments of future company performance.
  - The initiatives most commonly used by investors and analysts in this sample include the GRI Sustainability Reporting Framework (70%), the Carbon Disclosure Project (54%) and KPIs created by industry associations (32%).
  - The majority (77%) of investors and analysts questioned rate external assurance as very important or important for non-financial reporting. However, the content of limited assurance reports is identified as less influential than reasonable assurance reports.

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<sup>17</sup> Source: The Prince of Wales's Accounting for Sustainability Project (A4S), GRI, in collaboration with Radley Yeldar (2012) *The value of extra financial disclosure: What investors and analysts said*, ; <https://www.globalreporting.org/information/news-and-press-center/Pages/Investors-and-analysts-use-extra-financial-information-in-decision-making-suggests-new-research.aspx>

## Emerging Assurance Issues Relevant to IAASB

31. The issues below are based on preliminary discussions only and do not represent a complete list of issues. During its information gathering activities the IAASB Integrated Reporting Working Group will further explore new and emerging issues.
32. *Subject and focus*—The assurance engagement can be related to, for example, the information in the integrated report, the reporting process or both. The focus of the IAASB Integrated Reporting Working Group will initially be on the information included in the integrated report, either as part of the annual report or published as a separate report. The <IR> Framework itself focuses also on the report content and the underlying guiding principles and less on the reporting process. Although national developments in <IR> differ amongst jurisdictions, they have in common that entities increasingly include the topics referred to in the <IR> Framework in their annual reporting. These developments often start with disclosing information on business models, sustainability, corporate governance, risk management and internal control. Given the differences in the jurisdictional reporting environments and the different stages in reporting, the IAASB Integrated Reporting Working Group will initially use a holistic approach exploring <IR> and during the information gathering activities narrow down its focus on the subject on which assurance is obtained. As a result of developments in tailor-made reporting supported by new information technology, including reporting on a more frequent basis, it is possible that, in the near future, assurance on the reporting process may be more appropriate than on the integrated report itself.
33. *Maturity of reporting and reporting process*—Reporting entities are transitioning their corporate reporting by further integrating the value creation process into the different elements of reporting. The <IR> process, including the internal controls around preparing the integrated report, is still less developed and may be different in maturity for different types of Capital<sup>18</sup> compared to that of financial reporting. This may pose challenges not only as to whether sufficient appropriate evidence can be obtained, but whether the reporting entity itself has a reasonable basis for the disclosures that it is making. A question can be raised whether users of integrated reports, at this stage, are better served with an overview that provides insight into the maturity of the reporting process<sup>19</sup> around the different types of Capital. Similarly, users may benefit from insight into the extent to which integrated thinking is embedded in strategy, risk and opportunity management, and corporate governance structures. This would demonstrate the maturity of integrated thinking.
34. *Scope of the assurance engagement*—The <IR> Framework that will be used as the criterion to assess the subject matter information focuses on the content of the entire integrated report and the underlying guiding principles. However, in practice, the entire report is not always the subject of an assurance engagement; for example, assurance might only be obtained on KPIs. Therefore there may not be any conclusion that the integrated report is prepared, in all material respects, in accordance with the applicable criteria, as these criteria include not only the Content Elements but also the Guiding Principles. In particular, application of the materiality and the completeness Guiding Principles, and whether an integrated report discloses all material information about

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<sup>18</sup> See Appendix 1 for a description of the different types of Capital

<sup>19</sup> See for example PwC (2014) *Trust Through insight*

matters that substantively affect the organization's ability to create value over the short, medium and long term is not evaluated if only particular KPIs are part of the subject of an assurance engagement. Consideration may be given to whether it is possible that only certain parts of the <IR> Framework apply as criteria to assess the subject matter information, for example, the KPIs, or whether it would be more appropriate for the practitioner to assess the integrated report as a whole against the <IR> Framework in its entirety. Also the responsibilities of the assurance practitioner for other information in the integrated report that is not the subject of the assurance engagement as well as the procedures that would need to be performed to consider material inconsistencies between that other information and the information subject to assurance, would need to be explored further.

35. *Scope of the assurance engagement*—The integrated report includes much narratives, including information on strategy, governance and management. Although there is some guidance, there remains a great deal of flexibility on how to report on these topics. Therefore, assessing such narrative information requires a higher degree of professional judgment than is often needed with regard to quantitative information. In addition, a skeptical attitude to assessing the narrative information is needed and may require in-depth discussions with the management of the reporting entity. Also the materiality threshold for narrative information might be more difficult to define than for quantitative information. Further, the assertions with respect to the narrative information needs to be defined clearly to prevent an expectations gap that an unqualified conclusion includes conclusions on the sufficiency and effectiveness of, for example, strategy, governance and management, which would extend beyond an assurance conclusion about whether the information is materially misstated.
36. *Boundary of the integrated report*—The connectivity principle may provide some challenges as to where the subject matter information begins and ends. The <IR> Framework describes how the reporting boundary can be determined. Information is not only provided on matters within the financial reporting entity, but also as far as relevant to the ability to create value for matters beyond the financial reporting entity (“the effects on capitals up and down the value chain”), such as of labor practices or greenhouse gases, where information from for example suppliers may be disclosed. Although the <IR> Framework states that “an integrated report identifies its reporting boundary and explains how it has been determined,” the issues above place challenges on the availability and accessibility of evidence for the assurance practitioner.
37. *Suitability of criteria*—In addition to the discussion of whether the <IR> Framework is suitable to be used as criteria, there is a view that assurance on <IR> would always be a combination of generally accepted- and specifically-developed criteria. The <IR> Framework is a principles-based framework that is primarily focused on the report content and contains no particular measurement criteria. Therefore, in addition to the <IR> Framework, the preparer always has to use additional measurement and process criteria. This places more emphasis on professional judgment regarding the suitability of criteria, as well as proper documentation of the judgment process. This may raise the discussions such as on the due processes that might be expected in developing generally accepted measurement and reporting criteria. In addition, different company-specific indicators are not addressed in existing measurement frameworks and reporting entities are developing their own

measurement criteria for particular indicators. The concept of ‘suitability’ of criteria therefore may need to be further operationalized.

38. *Completeness*—A key issue surrounding completeness is that the most relevant types of Capital and related performance indicators can be different for each entity. The <IR> Framework therefore provides sufficient flexibility for reporting entities to select those that are most relevant. The <IR> Framework requires that the reporting entity discloses a summary of the materiality determination process. This gives the user of the integrated report insight as to how the most material issues have been selected. From the viewpoint of the practitioner it is also used as a specifically developed criterion, in particular for assessing the completeness assertion (whether all material issues are included in an integrated report). Except for the high-level guidance in the <IR> Framework, there is no particular guidance on how to perform the materiality determination process and with what depth. In practice this leads to a variety of approaches, which challenges the suitability of generally accepted and specifically-developed criteria for assessing disclosures contained in an integrated report. The extent to which the materiality determination process is already sufficiently operationalized may need to be further explored to enable consistent evaluation.
39. *Connectivity principle*—The <IR> Framework includes the guiding principle of connectivity of information, which means that the integrated report shows the interrelatedness and dependencies between the factors that affect the reporting entity’s ability to create value over time. However, such interrelatedness and dependencies are not always straight forward which may result in subjective evaluations. This could make it complex to assess whether there is a material misstatement in applying the connectivity principle and whether connectivity is sufficiently visible in the information disclosed in the integrated report.
40. The IIRC Roundtables are also exploring different issues relevant to assurance engagements on integrated reports. The feedback statement of the IIRC consultation on its assurance papers is expected to be released in the first quarter of 2015 and will provide relevant input to the further work of the IAASB Integrated Reporting Working Group.

## Appendix 1

### The International Integrated Reporting Council

1. The IIRC is a global coalition of regulators, investors, companies, standard setters, the accounting profession and non-governmental organizations, which shares the view that communication about value creation should be the next step in the evolution of corporate reporting.
2. The IIRC's long-term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by Integrated Reporting (<IR>) as the accepted corporate reporting norm. This envisages a cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, acting as a force for a more financially stable economy and sustainable world.

### International <IR> Framework<sup>20</sup>

3. In December 2013, the IIRC released *The International <IR> Framework* (the <IR> Framework). The <IR> Framework notes that <IR> aims to:
  - Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.
  - Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time.
  - Enhance accountability and stewardship for the broad base of the types of capital (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies.
  - Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.
4. The <IR> Framework defines the terms "<IR>" and an "integrated report" as follows:
  - *<IR>*—A process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation.
  - *Integrated report*—A concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.

An integrated report is not a report that is merely a package of separate reports on different subject matters collated and presented in a single report. It is rather a more cohesive and efficient approach to corporate reporting to explain the interrelationships of the factors that enable an organization to create value over time.

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<sup>20</sup> This overview is a summary of the more detailed text in the <IR> Framework: <http://www.theiirc.org/international-ir-framework/> and other IIRC sources.

### Scope of the <IR> Framework

5. The <IR> Framework is written primarily in the context of the private sector, and for-profit companies of any size, but it can also be applied and adapted as necessary, by the public sector and not-for-profit organizations.
6. The IIRC outlines benefits to both businesses and investors as follows<sup>21</sup>:

#### *Benefits to Businesses*

- Better articulation of strategy for the business and how its business model is responding to changing needs and expectations in the marketplace.
- Enabling better dialogue between the business and providers of financial capital.
- More connected departments, breaking down silos.
- Improved internal processes.
- Lower cost of capital.

#### *Benefits to Investors*

- <IR> makes clearer the connections between an organization's strategy, governance, performance and prospects—investors are therefore able to assess more effectively the combined impact of diverse factors.
- The disclosure of key risks and opportunities as management views them enables investors to assess the short, medium and long term impact.
- More effective capital allocation decisions leading to better long-term investment returns.

### Key Concepts of <IR>

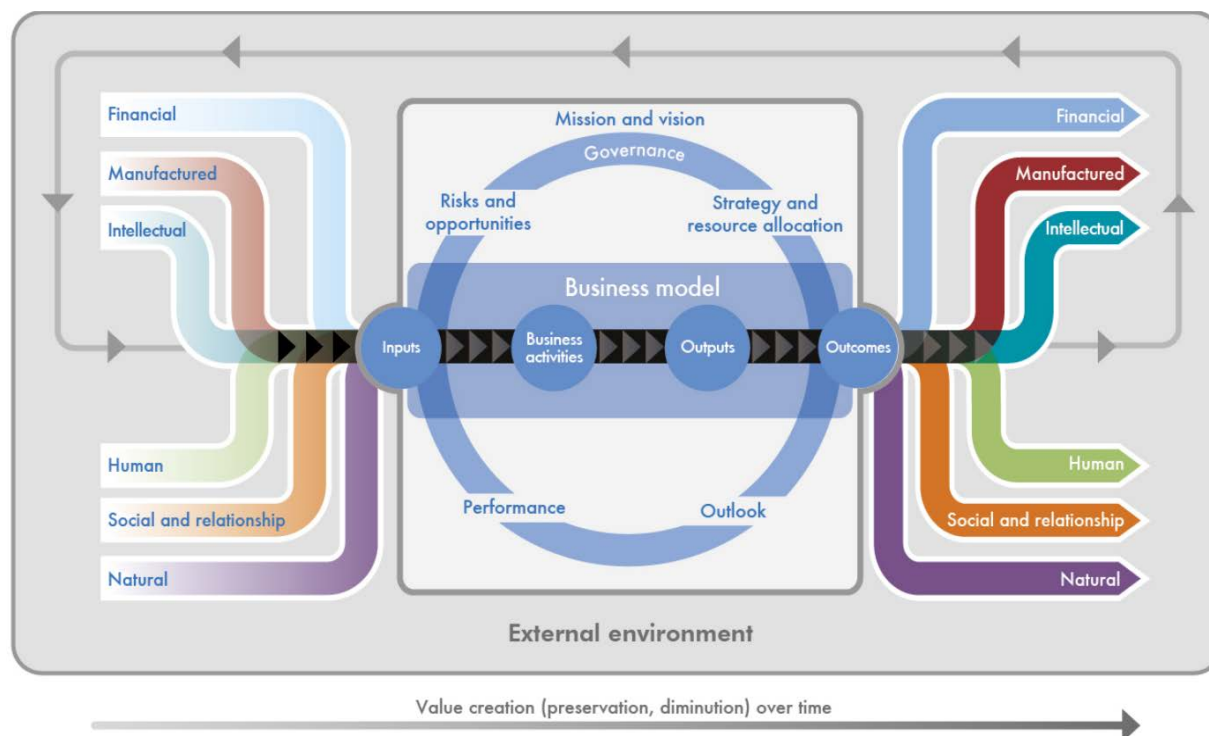
7. <IR> has three fundamental key concepts: (i) value creation for the organization and others, (ii) the capitals, and (iii) the value creation process.
  - (i) *Value Creation for the Organization and Others*—Value has two interrelated aspects: (1) value created for the organization itself, which enables financial returns to the providers of financial capital and value created for others (i.e., stakeholders and society at large). (2) The ability of an organization to create value is influenced by the external environment; is created by and linked to relationships with stakeholders and the value it creates for others; and is dependent on the availability, quality and affordability of resources. An integrated report explains how an organization creates value over time.
  - (ii) *The Capitals* —The <IR> Framework identifies the following capitals, which are stocks of value that are increased, decreased or transformed through the activities and outputs of the organization:

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<sup>21</sup> <http://www.theiirc.org/the-iirc/about/aboutwhy-do-we-need-the-iirc/>

- *Financial capital*—The pool of funds that is available obtained through financing, such as debt, equity or grants, or generated through operations or investments.
- *Manufactured capital*—Manufactured physical objects that are available to an organization for use in the production of goods or the provision of services, including: buildings, equipment and infrastructure.
- *Intellectual capital*—Organizational, knowledge-based intangibles, including intellectual property (such as patents, copyrights, software, rights and licenses and “organizational capital” such as tacit knowledge, systems, procedures and protocols.
- *Human capital*—People’s competencies, capabilities and experience, and their motivations to innovate.
- *Social and relationship capital*—The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being, including shared norms and values, key stakeholder relationships and intangibles associated with brand and reputation.
- *Natural capital*—All renewable and non-renewable environmental resources and processes that provide goods or services, including air, water, land, minerals and forests, biodiversity and eco-system health.

(iii) The Value Creation Process is depicted below:



## Integrated Report

8. The <IR> Framework established Guiding Principles and Content Elements for the preparation of an integrated report.
9. The Guiding Principles in the <IR> Framework are as follows:
  - *Strategic Focus and Future Orientation*—An integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term and to its use of and effects on the capitals.
  - *Connectivity of Information*—An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time.
  - *Stakeholder Relationships*—An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.
  - *Materiality*—An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term.
  - *Conciseness* —An integrated report should be concise.
  - *Reliability and completeness*—An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.
  - *Consistency and comparability*—The information in an integrated report should be presented:
    - On a basis that is consistent over time; and
    - In a way that enables comparison with other organizations to the extent that it is material to the organization's own ability to create value over time.

### *Content Elements of an Integrated Report*

10. The eight Content Elements in an integrated report are:
  - *Organizational overview and external environment*—What does the organization do and what are the circumstances under which it operates?
  - *Governance*—How does the organization's governance structure support its ability to create value in the short, medium and long term?
  - *Business model*—What is the organization's business model?
  - *Risks and opportunities*—What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term and how is the organization dealing with them?
  - *Strategy and resource allocation*—Where does the organization want to go and how does it intend to get there?

- *Performance*—To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
- *Outlook*—What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
- *Basis of preparation and presentation*—How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?

#### *Types of Information to Be Included in an Integrated Report*

11. The types of information that might be included in an integrated report can be classified as:

- *Quantified measurements*—including statistics, which may be internal (derived from an organization's reporting system) or externally obtained.
- *Factual narrative*—information that is supported by events that have occurred, which may be evidenced in a number of ways, including reporting systems and their resulting reports, or in information reported externally by other organizations.
- *Soft narrative*—information internally generated that may contain views or judgments of management and those charged with governance but the substance should be reflected in various reports, internal communications, and the organization's internal or external websites, and in the organization's operating practices.
- *Quantified estimates*—estimated amounts or percentages, such as related to a future-oriented matter or the effect on a capital that is measurable.
- *Qualitative estimates*—directional indications of an effect or anticipated outcome (for example, increase/decrease, favorable/unfavorable).
- *Diagrams*—may be used as pictorial representations in conjunction with or instead of a narrative.

#### *Reporting Boundary*

12. The <IR> Framework defines the reporting boundary as the boundary within which matters are considered relevant for inclusion in an organization's integrated report. While it states that the financial reporting entity is central to the reporting boundary for the integrated report, it also states that identifying and describing outcomes may require disclosure of the effects on capitals up and down the value chain. In an integrated report a description is provided on the reporting boundary and how it has been determined.

## Appendix 2

### Overview of Recent Developments Relevant in the Area of <IR>

1. A B20 Panel of six international accounting firms (BDO, EY, Deloitte, KPMG, PwC, Grant Thornton) recommended that the 2014 B20<sup>22</sup> makes the following recommendation to the G20: *“Encourage corporate reporting innovations and initiatives that provide investors with a longer-term and broader perspective on shareholder value creation to complement historical financial performance and current financial position perspective provided by financial statements. The B20 notes the particular relevance of integrated reporting as an example in this respect”*.
2. The European Parliament and the Council adopted the Directive on the disclosure of non-financial and diversity information by large companies and groups in 2014. Although <IR> is seen as a step ahead, the developments in <IR> will be monitored. The Directive introduces measures that will strengthen the transparency and accountability of large public-interest entities (listed companies and particular unlisted entities such as banks and insurance companies) with more than 500 employees. An estimated total of 6,000 companies in the European Union will be:
  - Required to report on the following matters: environmental; social and employee-related; human rights; anti-corruption and bribery.
  - Required to describe their business models, outcomes and risks of the policies on the above topics, and the diversity policy applied for management and supervisory bodies
3. The IIRC introduced the Corporate Reporting Dialogue (CRD) with the objective to promote greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements relevant to <IR>, leading to improved efficiency and effectiveness. The CRD represents a response to market calls for alignment of corporate reporting frameworks, standards and related requirements and a reduction in the reporting burden, by promoting proactive engagement between the key organizations. Participants are: CDP (formerly Carbon Disclosure Project); Climate Disclosure Standards Board; Financial Accounting Standards Board; GRI; International Accounting Standards Board; IIRC; International Public Sector Accounting Standards Board; International Organization for Standardization and Sustainability Accounting Standards Board.
4. The 2014 Global Dialogue of the Sustainable Stock Exchanges Initiative was held at the World Investment Forum 2014 in October which convened securities regulators, stock exchange executives, institutional investors, CEOs and ministers to identify ways to harness capital markets for sustainable development.<sup>23</sup> The 2014 Sustainable Stock Exchanges Report<sup>24</sup>, which was

<sup>22</sup> The B20 Coalition brings together leading independent business associations from G20 economies and advocates on behalf of more than 6.7 million small, medium and large companies.

<sup>23</sup> Global Investment Forum 2014: Sustainable Stock Exchange Global Dialogue: <http://unctad-worldinvestmentforum.org/programme/sessions/sse-global-dialogue/>

<sup>24</sup> <http://www.sseinitiative.org/wp-content/uploads/2012/03/SSE-2014-ROP.pdf>

presented at the meeting, states that a review of sustainability initiatives at 55 stock exchanges finds substantial progress and engagement in stock exchange sustainability initiatives, including:

- Over one-third of the exchanges provide either sustainability reporting guidance or training to the listed companies on their exchange;
- Twelve of the 55 exchanges require aspects of environmental and social reporting for at least some of their companies, with 7 of those exchanges requiring such reporting for all listed companies.<sup>25</sup>

5. At the Workshop on the Future Direction of the Corporate Reporting Model of UNCTAD-ISAR on October 13, 2014, participants discussed current challenges in corporate reporting and ways to address them in order to provide fair and useful information on enterprise economic activities, as well as activities on corporate social responsibility, environment protection, corporate governance, and impact on sustainable development. The following questions were debated:

- What are the main current challenges for corporate reporting and specific implications emanating from post-2015 development agenda?
- What are the main existing reporting models and how do they address these challenges?
- What are major achievements, good practices and lessons learned in the area of financial reporting, non-financial reporting and integrated reporting in the context of sustainable development?
- How to ensure that corporate reporting provides its critical input towards achieving Sustainable Development Goals?<sup>26</sup>

6. The United Nations Conference on Trade and Development (UNCTAD) published the UNCTAD 2014 World Investment Report. The report provides analysis that will inform discussions about how to accelerate progress towards a more sustainable future. The report states: “Reorientation of financial markets towards sustainable development needs integrated reporting ... This is a fundamental step towards responsible investment behavior in financial markets and a prerequisite for initiatives aimed at mobilizing funds for investment in Sustainable Development Goals; integrated reporting is at the heart of Sustainable Stock Exchanges.”

7. The International Federation of Accountants, together with the IIRC, started a project to (a) identify and address challenges in the implementation of the materiality guiding principle, including how its application in <IR> relates to other forms of reporting, and (b) provide guidance, including examples, to support the implementation of the <IR> Framework.

8. The IIRC has published two assurance papers that provide an overview of assurance issues with regard to <IR>. The papers are intended to stimulate global discussion for those interested in assurance.<sup>27</sup>

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<sup>25</sup> Source: The Sustainable Stock Exchange (2014): *2014 Sustainable Stock Exchange Report*; <http://www.sseinitiative.org/wp-content/uploads/2012/03/SSE-2014-ROP.pdf>

<sup>26</sup> UNCTAD: Workshop on the Future Direction of the Corporate Reporting Model <http://unctad.org/en/pages/MeetingDetails.aspx?meetingid=493>

9. The first paper, *Assurance on <IR>: An introduction to the discussion*, provides a high-level outline of the benefits of assurance, and addresses practical and technical challenges. The paper notes that mechanisms, such as assurance, are “likely to be important for the long term credibility of integrated reports.” However, there are current challenges that need to be addressed to ensure consistency and robustness in assurance processes.
10. The second paper, *Assurance on <IR>: An exploration of issues*, provides a detailed look at the issues when applying assurance to integrated reporting, which include:
  - The suitability of criteria.
  - Auditing or assurance standards that might be applicable or considered to be useful in developing assurance methodologies related to <IR> and related implications.
  - Whether assurance should be obtained in relation to the process of preparing the integrated report or the integrated report itself.
  - Potential levels of assurance, including the reasonable and limited level of assurance, varying levels of assurance and discussion on carve-out of areas on which other assurance practitioners reported.
  - Considerations when performing an assurance engagement, including those regarding narrative information, future-oriented information, connectivity, and using the work of others.
11. At the World Business Council for Sustainable Development (WBCSD) meeting in November 2014, various preparers, assurance practitioners and standard-setting organizations were convened to discuss the commencement of a project for WBCSD organizational members to obtain assurance on their sustainability reports. The WBCSD will form a working group to develop a proposal for its December 2015 meeting. The WBCSD currently requires that its members prepare a sustainability report but it does not prescribe a framework to be used.
12. Accounting for Sustainability launched the CFO Network and at its December 2014 summit it will launch different publications on promoting integrated thinking. These publications discuss how global leaders from the finance and accounting community can play a role in moving business and the economy onto a sustainable pathway.

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<sup>27</sup> Source: IIRC: <http://www.theiirc.org/resources-2/assurance/>