

Business Reporting Leaders Forum (BRLF) Outcomes from Meeting on 11 April 2011

Jane Diplock (IIRC Steering Committee) and **Paul Druckman** (Co-chair of the IIRC Working Group) presented to some 55 participants and observers at the BRLF meeting on 11 April. The objectives of the meeting were:

- a. To understand global activity towards integrated reporting and the IIRC's progress to date
- b. To discuss the key benefits and major barriers towards adoption of IR in Australia and New Zealand

Steve Vamos (Chair of the Society for Knowledge Economics (SKE) and the BRLF) opened the meeting by running through the Values, Purpose and Objectives of the BRLF, and made it clear to the participants and observers that the BRLF should only continue to exist if there was a need for this collaborative group, and they supported it.

The IIRC Steering Committee and Its Work

Jane provided a strong argument to promote the importance of integrated reporting (IR) for ongoing financial stability, covering:

- Lessons learned from the global financial crisis
- The need for governments, regulators, standard-setters and organisations to move to a new way of thinking in the new inter-connected and dynamic business world
- The importance of integrated reporting which focuses not just on the financial position and performance of the organisation, but also on the strength of its governance framework and the integration of responsible environmental and social outcomes.

Jane also provided an overview of the IIRC Steering Committee, Working Groups and their agenda for 2011 and beyond. She concluded that many jurisdictions (like RSA, Denmark) are already well on the way towards embedding integrated reporting.

Integrated Reporting – a new report

Paul then provided an update on the draft Discussion Paper on the Integrated Reporting Framework which had been debated at an IIRC working group meeting in London last week. The draft is still work in progress, but he wanted to share current thinking, including:

- IR is still evolving; it will require changes in behaviour and a change in the reporting regime. It is a new way of thinking and reporting against short, medium and long term strategic objectives
- IR is not combined reporting (of financials and CSR reports), or additional. It is a new and integrated report
- The objective is to publish the Discussion Paper in June for public comment, and Exposure Draft in 2012, and potentially a Standard in 2013 (subject to IIRC ongoing Governance debate)
- In addition, it is expected that a pilot program will run in parallel to trial aspects of the proposed framework over the two years – to ensure it is pragmatic and doable

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Paul then went through the likely content of the Discussion Paper, focusing on the key components of the framework, namely:

- The 5 capitals
- The focus on value creation over the short, medium and long term
- The proposed 5 guiding principles
- The proposed 7 content principles

Paul explained how momentum was growing for IR around the world, and how the IIRC was engaging with key stakeholders to explain the framework, and to prepare for the G20 Finance Ministers forum in October. Finally he discussed the pilot program – and the need for 50 iconic companies from several regions and across different sectors to work with the IIRC in discussing, debating, trialling and promoting the IR framework. More details on the pilots would be made available to companies wishing to be considered as pilots.

Copies of Jane and Paul's slides are on the BRLF website at www.ske.org.au/BRLF

Table discussion

The participants and observers then debated what they had heard, and addressed the following two questions:

- 1) What are your views on the proposed Integrated Reporting Framework – in particular the focus on the 5 Capitals, Guiding and Content Principles?
- 2) What do you think are the key steps required to successfully implement Integrated Reporting in Australia and New Zealand over the short, medium and long term?

Set out below are the responses from each of the table groups to the questions posed, for consideration by the IIRC when refining the Discussion Paper and planning its communications and engagement strategy together with next steps.

Table feedback

- 1) **What are your views on the proposed Integrated Reporting Framework – in particular the focus on the 5 Capitals, Guiding and Content Principles?**

5 Capitals

- Are capitals seen as 'assets' and 'risks' of the organisation to be managed?
- Is there anything else? Or indeed are we trying to cover too much?
- Do all 5 capitals affect value? Can they or should they all be quantified?
- Is social capital understandable? Should it be licence to operate? Can the organisation really be accountable for social capital? Does it really have any control?
- Will practitioners be familiar with and understand the capital concepts and terms – there needs to be an education component
- Will all the information required across each capital be accessible
- This appears to be a move away from traditional financials and GRI reports, but there is a need for a clear 'conceptual framework' to better understand the proposed mechanics

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- Will integrated reports based on the creation of value using the 5 capitals really be more or less comparable?
- **Is there a need for a potential 6th capital** to interconnect (be the glue) all of the capitals – **Cultural Capital?** This would include corporate governance, leadership, ethics, relationships, structural aspects (like incentive schemes, remuneration).

Guiding Principles

- One group were concerned that Governance by itself was not really a guiding principle, but the overarching glue (see Cultural Capital above). However, when it was explained that ‘governance’ in this context really referred to the need for active governance by the non-executive directors to ensure reporting is ‘balanced and fair’; they re-worded the Guiding **Principles as being ‘Integrated Reporting that is...:**
 - **Strategically aligned**
 - **Future oriented and historically informed**
 - **Inclusive and responsive to stakeholders**
 - **Connected and comprehensive**
 - **Responsibly governed**

Other comments included:

- Strategic focus could lead to commercial sensitivity issues – but the issue could be addressed partly by the level of detail given
- Future oriented leads to issues such as: the verifiability of the information, the need for assumptions for investors to understand and assess, and the D&O liability issue
- Is the IR really responsive to different stakeholders in its current format, or will it be in future?
- What does ‘connectivity’ really mean? XBRL? Explanation of links and drivers? How will there be consistency in how organisations present the ‘connectivity’?
- The principles appear to be at a very high level; will it be a case of ‘suck it and see’?
- Why are there 5, and what will bring the principles together (ie one overarching principle?)
- Should there be a principle to ‘reconcile metrics’ back to standard definitions?
- Examples in RSA to date seem to be more silo reports (ie combined); do these principles drive something different?

Content principles

- Is there a hierarchy? Should there be in the case of conflict?
- Will these principles drive consistency? And will they also drive boilerplate reporting?
- Is the balance right? For example forward looking information may not be auditable? And its disclosure may add risk for the organisation and its D&Os.
- Should ‘reliability’ be added as a principle?
- Who assesses ‘materiality’ – the company or someone else?
- What type of assurance will be required on the various types of data disclosed?
- Does ‘faithful representation’ mean ‘transparency’ and/or ‘no spin’ or something else?

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- Some organisations value their intellectual capital in their 'brand value' (ie Leggo) – how would this be treated in an IR?

2) What do you think are the key steps required to successfully implement Integrated Reporting in Australia and New Zealand over the short, medium and long term?

Successful implementation

- What is the catalyst? Will it be regulation or incentive; voluntary or mandatory; or an 'if not why not regime'?
- Will there be less resistance to incremental change, rather than a step change?
- How can we re-use information already captured and used by companies in running their business? how can we get used to the notion of communicating the rationale for specific decisions?
- How do we address the competitive disadvantage of releasing the business/corporate plan?
- Do analysts really require IR? Can the IR take the place of the Review of Operations and Financial Condition?

Short term (1 to 2 years?)

- Create a safe harbour (especially to allow experimentation and presentation of future oriented information)
- Identify and focus on who the key stakeholders are, and what benefits will be for them through integrated information
- Develop a convincing case for a need for step change to IR
- Identify Australian pilots, and feedback experience (so others are involved in journey)
- Clarify definitions, guidance concepts, KPIs
- Reconcile with existing global frameworks (ie GRI – how do you bring relevant GRI information into the IR)
- Update ASX Corporate Governance Principle on Risk to include ESG; even better may be to include an 'if not, why not' principle for IR, to drive take-up and consistency in IR
- Drive awareness of IR/ communications/publicity/ have champions of change across sectors
- Need wider education and capacity building – to drive mindset change
- Framework needs to clarify how to report strategy, and how to assess materiality

Medium term (3-4 years?)

- Clear implementation timeline
- Driven by IASB through ASX (Regulation) or Law (Corps Act); mix of black letter law and principles based guidance
- IFRS questioned, and current disclosures challenged/ reduced
- Acknowledgement from regulators that IR is required

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- Successful pilot program leading to broader adoption by listed and unlisted organisations; tracking of successes and issues in implementation
- Prove that IR leads to better allocation of capital
- Defining a common suite of measurement with materiality focus
- More work on short term versus long term value creation
- Education programs available through accounting bodies for preparers and analysts
- Process for feedback on learnings from pilots and early adopters
- Focus on needs of long term investors (superfunds)

Long term (5-10 years)

- Significant use of XBRL/technology for re-usable reporting
- Global harmonisation of IR framework (presentation and measurement); used by all
- Industry specific KPIs
- Further research into attributed value of KPIs (to enable differentiation of use of capitals and creation of value between competing organisations)
- Clear measure of success (through stability of the capital markets, and positive action to address global mega-trends).

Conclusion

Michael Bray (Leader of KPMG's Global Better Business Reporting Group) then summarised the key messages coming out of the BRLF workshop:

- **Draft Framework.** There was in principle agreement with the concept of five capitals and the guiding principles and content principles. Aspects of comments made included:
 - **Strategic and value creation focus is good** - report the strategy, performance in implementing the strategy and insights about performance prospects (assuming the strategy is well implemented – not advocating reporting forecasts) in such a way that the *providers of the five capitals* can understand and make decisions upon.
 - **Strategic performance insights**, and not all the information that the provider of each capital needs. This is *not about more reporting*. It is about cutting reporting complexity.
 - **Benefits.** In addition to *improving the basis for capital(s) allocation, cost reduction opportunities* from consolidation of reporting processes, and *performance improvement opportunities* from improved internal clarity as to strategy and value creation will arise along the journey.
 - Some thought a sixth capital (cultural) may be warranted to wrap all of this together, including governance, leadership, ethics, relationships, structural aspects.
 - Five capitals cannot lead to five reports.
 - Is this for the big listed companies only?
- **Australian implementation** considerations.
 - There **must be a catalyst for change** as there will be a cost – it will not happen if it is just a good idea. A huge incentive would come from transitioning from the operating & financial review, or the annual report, to the integrated report.

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- An initiative to *enable convergence* of stock exchanges, regulators and standard-setters. A period of *experimentation*. *Safe harbour* desirable.
- Need to clearly **define success**.
- Need to promote wider **awareness** – clear communications. *What is it (the framework)? Who goes first (the pilots)?*
- **Industry KPI libraries** (Intra-industry comparability) and **XBRL taxonomy** (automation and speed of reporting) being developed by WICI will be important tools later on.
- **Get started now**. There is no need to wait until the end of the journey to get started!
 - **There is a problem today** with financial and sustainability reporting, and management commentary, as they have proven not to be effective drivers of capital allocation, when many and many industries (eg energy & natural resources) face significant investment / financing (capital allocation) challenges. There is a need to begin the journey to integrated reporting now, even though the IIRC will take some time to fully define an integrated report. That is what the pilot process is about.
 - **There is a strong body of first movers**. Good companies are already doing at least some of this. South African and Danish companies are experimenting under their stock exchange listing rules. We will soon have IIRC piloting experience. There is enough available momentum to get started or continue the journey, by enhancing financial and sustainability reporting, and better integrating management commentary, as part of the journey to integrated reporting.
- **Next steps for the BRLF:**
 - Participants to provide comments on draft IIRC Discussion Paper in June.
 - Find an appropriate group of Australian pilots (4-6).
 - Assess how to best support Australian participation at the G20 meetings.
 - Next BRLF meeting probably mid-June.