

Straight away

Corporate reporting bulletin from PwC

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IIRC integrated reporting paper to shape the future of corporate reporting

What's the issue?

The International Integrated Reporting Committee (IIRC)* has released a discussion document – *Towards integrated reporting: Communicating value in the 21st century* – setting out the case for developing a new reporting model – ‘integrated reporting’. It explains the nature of the information that entities need to report and the key principles that should underpin that information.

The paper is expected to stimulate international debate; more specific proposals are likely to emerge in 2012, reflecting responses to this paper and experiences gained from the IIRC’s pilot programme with companies and investors to explore innovative ways of reporting. This could significantly change the nature of the information that companies report to the markets.

The IIRC is expected to engage with the G-20 later this year on the need for integrated reporting and how to provide the institutions and governance to support its development. The role of the audit (and the profession) will be part of this.

Changing business dynamics

The IIRC’s initiative was triggered by changing business dynamics and recognition that current financial reporting needs to be integrated with other critical performance information

(rather than reporting in silos) to show how an organisation creates value and the context in which it operates.

The world has changed with globalisation, regulatory responses to financial and governance crises, and lack of resources. Management teams are planning the changes they need to make to succeed in a riskier environment where more is demanded from business. And this is all starting to affect the way people look at their business models and companies’ future prospects.

The integrated reporting framework

To respond to these changes, the IIRC wants a different reporting model that explains how a business creates and sustains value now and for the future.

The integrated reporting framework builds on established elements of reporting, such as the business review and financial performance. It also “brings together material information about an organisation’s strategy, governance, performance and prospects in a way that reflects the commercial, political, social and environmental context within which it operates.”

The framework recognises that meaningful reporting must include stewardship of all forms of capital (for example, intellectual, natural and social). It must also report on the risks and opportunities across companies’ entire operations, including their suppliers,

customers and critical elements outside the legal entity, and the accounting definition of 'control'.

Integrated reporting reflects integrated thinking, which creates significant challenges for how we report; but there are already examples of companies breaking the traditional reporting mould for competitive advantage, such as Puma's recent environmental income statement.

Benefits expected from integrated reporting include:

- enabling a meaningful assessment of the long-term viability of a company's business model and strategy;
- meeting the information needs of investors and other stakeholders, and improving their understanding of the business model and dependency on key relationships and resources, as well as the links between market dynamics, strategy, risk and KPIs; and
- effective allocation of scarce resources

Am I affected?

The publication of the IIRC discussion paper is likely to affect you. First, the scope of the change in the proposed reporting model is likely to be central to the future development of reporting and is already starting to influence regulation.

Integrated reporting is already a legal requirement in South Africa, for example, and a number of governments and regulatory bodies around the world, including the European Commission, are considering its implications for the development of the reporting model. IOSCO, the international stock exchange organisation, is also considering whether integrated reporting has a role to play in the listing requirements of major stock exchanges around the world.

Secondly, it provides an opportunity to explore more 'integrated thinking' and

discuss a broader set of business information that communicates clearly about the value-creation process and how this contributes to success over time. The aim would be to give better insights to management and the board and enable external stakeholders to understand the future prospects of businesses as well as current performance.

Leading companies are not waiting for regulation and have already started to change the information they use to inform their business decisions and communicate to others about them.

What do I need to do?

Management should consider its views on the framework for integrated reporting outlined in the IIRC's paper and share its thoughts on the benefits and challenges for business by the comment deadline on 14 December 2011. The paper is available at www.theiirc.org

PwC's paper – [*Integrated reporting: What does your reporting say about you?*](#) – may also help to inform management views on this topic. See www.corporatereporting.com

Management should consider where its organisation is on the spectrum, from compliance reporting to 'integrated' thinking and reporting; it should be aware of the lessons being learned by the companies experimenting with their reporting in the IIRC's pilot programme.

It will be important for management to consider how the business creates value and assess the scope and quality of current reporting, in this context – both internal reporting to management and the board, and external to stakeholders – so that gaps can be addressed.

If you have any questions on integrated reporting and what it might mean for your organisation, please contact your PwC engagement partner, or email: mark.j.osullivan@uk.pwc.com