

Straight away

Corporate reporting bulletin from PwC

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IIRC releases consultation draft of International Integrated Reporting Framework

What is the issue?

The International Integrated Reporting Council (IIRC)¹ has released a consultation draft of its International Integrated Reporting Framework.

The framework is intended to be a catalyst for a more cohesive approach to corporate reporting with a focus on how an organisation creates value in the short, medium and long term. The aim is also to enhance business accountability and stewardship, and support integrated thinking and decision making.

The framework provides an overarching structure and a set of principles to help organisations explain the critical links and interdependencies that are essential for effective communication of current performance and future prospects.

What's involved?

The framework has been tested during development through a pilot programme involving over 85 companies and 50 investors around the world. Emerging findings from this pilot programme reinforce the view that integrated reporting delivers benefits both for the organisation and for its stakeholders, including its investors. In particular, IIRC pilot companies find that integrated reporting:

- Provides a clearer view of the business model (95%)
- Breaks down internal silos (93%)
- Increases board focus on exactly what the KPIs for the business should be (95%)

- Leads to better quality data collection (93%)
- Leads to improvements in business decision making (88%)

The Framework is broken down into five sections:

1. Overview

The IIRC defines integrated reporting as, “a process that results in communication by an organisation, most visibly a periodic integrated report, about value creation over time”, and an integrated report as, “a concise communication about how an organisation’s strategy, governance, performance and prospects, in the context of the external environment, lead to the creation of value over the short, medium and long term”.

The framework proposes that the primary users of integrated reports are the providers of financial capital, however, it underlines that integrated reports will be of benefit and interest to all stakeholders. This has been a topic of significant debate and many businesses see integrated reporting as an opportunity to ensure that they present a consistent picture of the business to multiple stakeholders.

2. Fundamental concepts

The IIRC’s framework is based on three fundamental concepts:

- The relationship between the organisation and the resources and relationships that underpin its success, described within the framework by reference to six

¹ The IIRC comprises prominent individuals from business, the investment community, standard setters, regulators and the accounting profession. It aims to make corporate reporting fit for purpose in a rapidly changing world.

‘capitals’ (financial, manufactured, intellectual, human, social and relationship, and natural);

- Providing an explanation of the organisation’s business model; and
- The creation of value in the short, medium and long term.

3. Guiding principles

The framework sets out six guiding principles to help preparers determine what to report and how to structure it. The principles are:

- Strategic focus and future orientation
- Connectivity of information
- Stakeholder responsiveness
- Materiality and conciseness
- Reliability and completeness
- Consistency and comparability

4. Content elements

The framework proposes a series of core questions that an integrated report should answer. They take as a starting point established elements of reporting, such as the management commentary, financial statements and sustainability reports. However, when considered in the context of the ‘fundamental concepts’ and ‘guiding principles’, they suggest a broader scope of reporting that focuses more on: financial and non-financial drivers; companies’ dependence on key resources and relationships; a longer-term perspective; and alignment between internal and external reporting.

The seven content elements are:

- Organisational overview and external environment
- Governance
- Opportunities and risks
- Strategy and resource allocation
- Business model
- Performance
- Future outlook

5. Preparation and presentation

Additional guidance on how to prepare an integrated report is provided in the final section of the framework, covering areas such as materiality, reporting frequency, reporting boundary and use of technology.

Am I affected?

For most organisations, the primary reason to look at the IIRC’s consultation draft is to understand how it can help to improve decision making and make communications more effective. The IIRC has a strong focus on market led action through its international pilot programme of companies and investors which have tested the framework as it has been developed.

A number of standard setters and regulators are involved in the IIRC’s work, including the International Accounting Standards Board and the Financial Accounting Standards Board, and are starting to consider how the proposals within the framework influence their own work. By testing what works and what doesn’t before moving to regulation, the IIRC hopes that its work will lead to an enabling regulatory environment.

What do I need to do?

Read the consultation draft framework and consider commenting on the proposals by the deadline of **15 July 2013**. The draft and questions are available at www.theiirc.org

Assess what the implications of the proposals are for your reporting. Consider your full suite of external and internal communications. Ask yourself whether they present a connected and coherent picture of the organisation.

Consider whether there are ‘quick wins’ that you could implement in the next reporting cycle to gain competitive advantage.

For more detail on integrated reporting, examples of good practice and practical insights, visit www.pwc.com/corporatereporting

If you have any questions on integrated reporting and what it might mean for your organisation, please speak to your regular PwC contact or email: info@corporatereporting.com.