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# Integrated Reporting

## An introduction

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# Better Business Reporting

## The case for Integrated Reporting

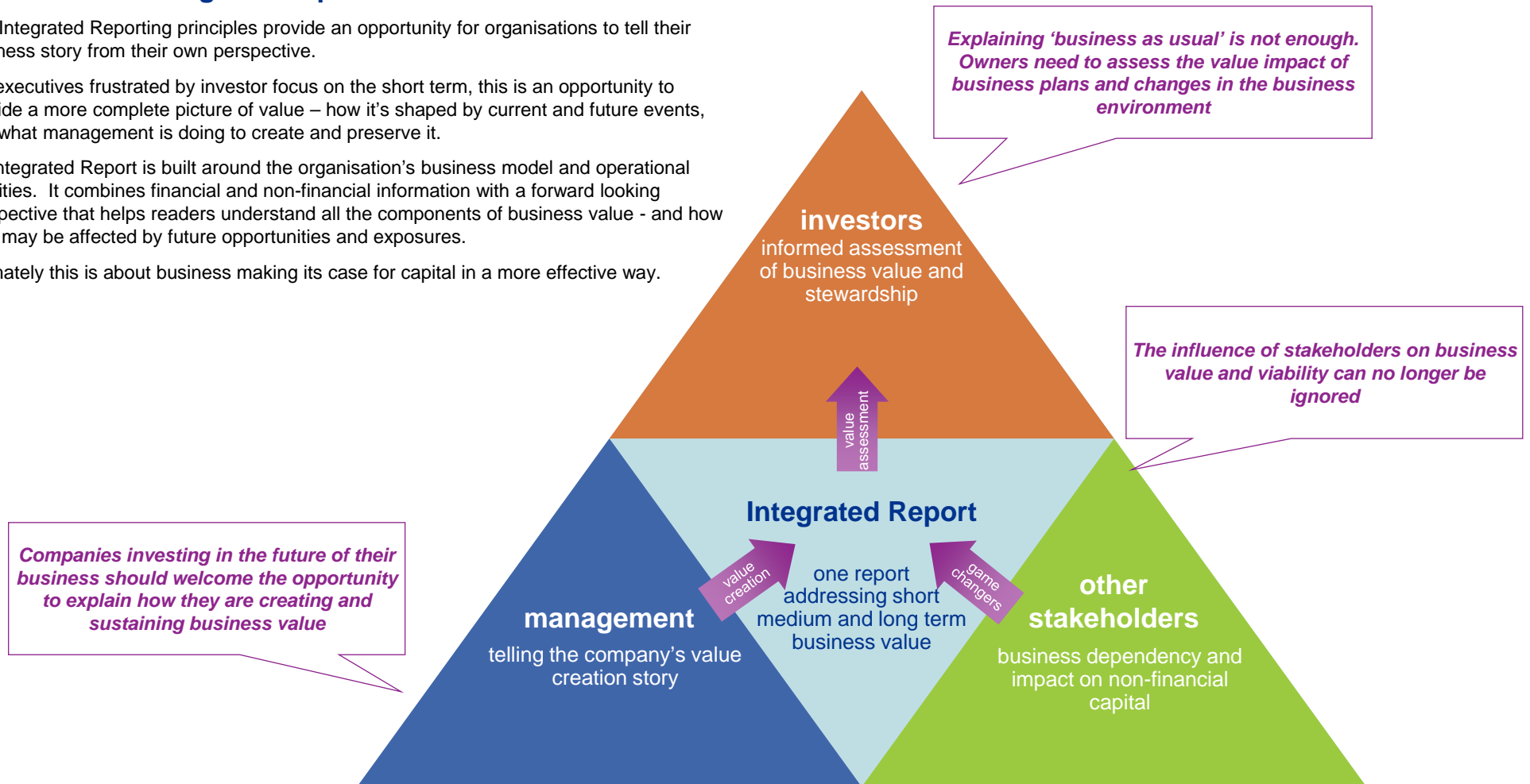
### The role of an Integrated report

The Integrated Reporting principles provide an opportunity for organisations to tell their business story from their own perspective.

For executives frustrated by investor focus on the short term, this is an opportunity to provide a more complete picture of value – how it's shaped by current and future events, and what management is doing to create and preserve it.

An Integrated Report is built around the organisation's business model and operational priorities. It combines financial and non-financial information with a forward looking perspective that helps readers understand all the components of business value - and how they may be affected by future opportunities and exposures.

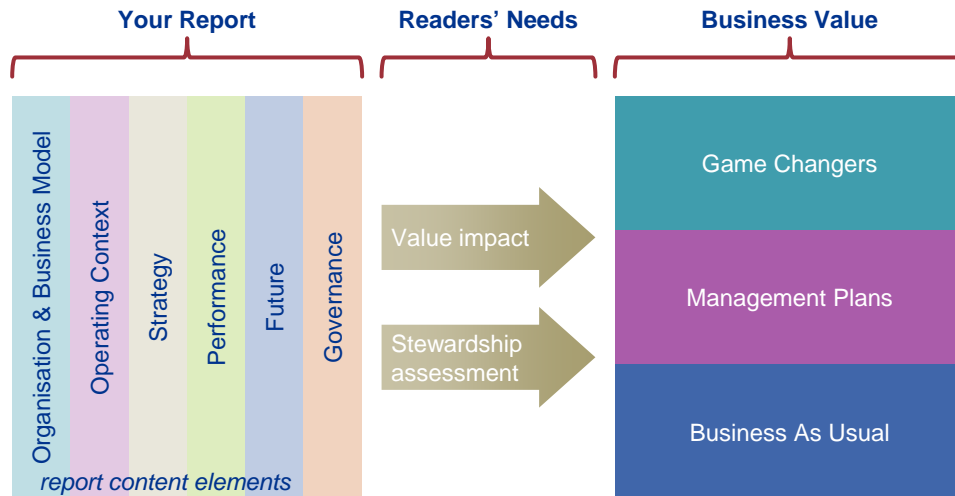
Ultimately this is about business making its case for capital in a more effective way.



# Better Business Reporting

## Applying Integrated Reporting principles

### Communicating business value



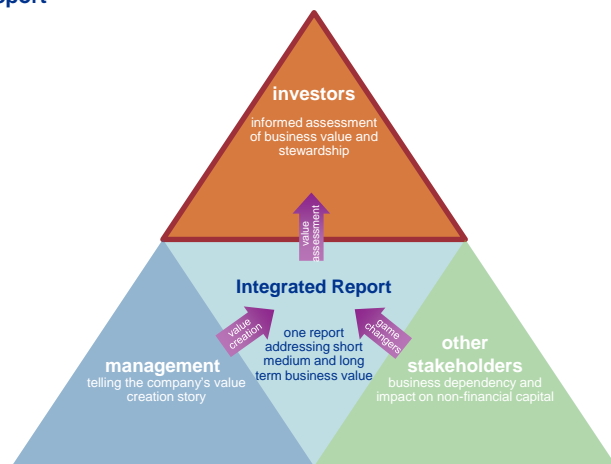
### Applying the principles in practice

- Build the Annual Report around your business model. The aim should be to tell the company's story from its own perspective rather than through a list of compliance disclosures
- The IR content elements provide a good overall structure for your report into which individual reporting elements can fit – provided that they are focused accordingly
- To provide a complete and balanced story a consistent thread of issues should run throughout the report – from the description of the business model through to business strategy and future outlook. A clear thread will reduce the risk that immaterial disclosures are introduced into the report
- The completed report should enable readers to form their own view on all three components of business value and how they may be affected by future events. This means anticipating readers' questions - each of the content elements will raise specific questions about value and stewardship that need to be addressed.

# Integrated Reporting

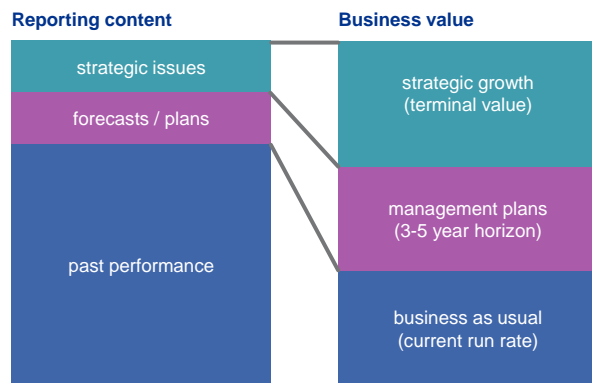
## Addressing owners' needs

### The Integrated Report



### The reporting mismatch

Current reporting does not reflect the underlying components of business value:



**Integrated Reporting should provide transparency over the key components of business value**

### Supporting valuation assessments

Shareholders have a basic need to understand business value. Current reporting does not address this. Typically, three broad components of value need to be understood:

1. A baseline value which takes into account only the current performance of the business. This is touched on by current reporting but the difference between actual and run rate performance that underpins this assessment is not always addressed.

*By focusing analysis around the business model an IR can provide a balanced explanation of current run rate that takes account of planned changes in business shape.*

2. An incremental value reflecting opportunities and risks identified by management's planning. Readers will need to form their own view of the impact and achievability of these plans but they need the information to do this.

*By adopting a forward looking perspective, an IR can provide a view of the business plan that enables the financial consequences to be assessed. This includes visibility over current business assets and operations on a basis that is consistent with the plans*

3. A long term view of strategic growth that looks beyond management's detail plans and takes into account the potential 'game changers' that can have a fundamental impact on the future of the business.

*By addressing the broader operating context, an IR can provide an understanding of the threats and opportunities that affect the long term future of the business, and a basis for assessing their potential impact*

It is important to note that an Integrated Report does not attempt to assign values to these components. Rather, it aims to provide the information necessary for a reader to form their own judgement of value.

### Supporting stewardship assessments

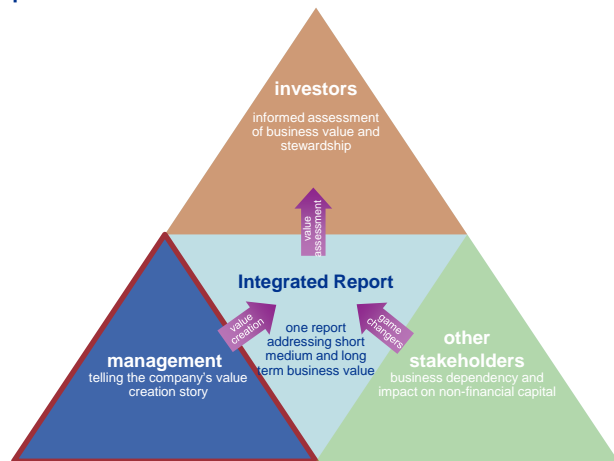
The broader definition of performance reporting applied in an Integrated Report should provide more transparency over management's performance in managing the *material* business issues, covering both risk and performance indicators.

The 'thread' running through an Integrated Report linking business operations to the operating environment, strategy, and risk provides a basis to focus governance reporting on the most material business issues.

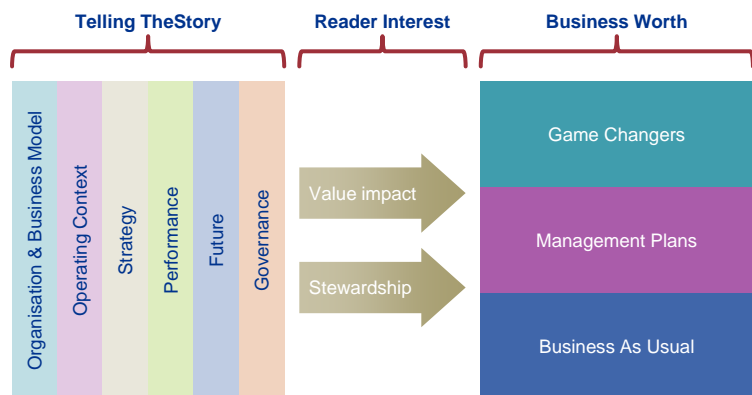
# Integrated Reporting

## The value creation story

### The Integrated Report



### A focused approach to reporting



### Telling the organisation's story

The Integrated Reporting framework provides a basis to present the organisation's value creation story from the perspective of the business. This makes it easier to communicate business performance and challenges than a traditional, compliance based approach.

The six reporting content elements provide a basis for explaining the most material issues and opportunities affecting the business in a way that enables readers to:

1. understand their valuation impact; and
2. to assess management's stewardship of the business.

*By focusing on all aspects of business value, rather than just current performance a more complete picture of business value can be presented.*

### Focusing on the key issues

An effective report should demonstrate a clear flow from the business model, operating context, and strategy through to current and future performance and governance. This approach can make it easier to explain the rationale and consequences for management decisions, taking more than just their short term performance impact into account.

### Presenting the report

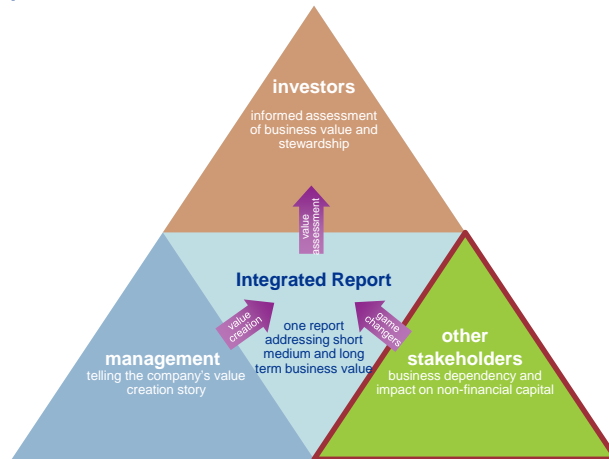
Though the framework provides an effective structure for telling the organisation's story it does not need to replace the traditional annual report elements – such as the Chairman's Statement. Instead, by adopting a focused approach to drafting, these elements can be grouped under the relevant framework heading in the report.

***Integrated Reporting should explain how business value is created and protected***

# Integrated Reporting

## Stakeholder dependencies and impact

### The Integrated Report



### The relevance of non-financial capital

Businesses depend on non-financial capital (natural, manufactured, intellectual, human, social) in addition to financial capital. The dependency and impact on these stakeholder capital providers needs to be explained if long term business value is to be understood.

### Changes to traditional reporting

Not every stakeholder issue should be reported on. *A small number of issues that have the potential to reshape the business will need more detailed and focused reporting than has traditionally been the case.* Other issues should require little or no reporting coverage.

Failure to prioritise issues creates 'green clutter' that risks obscuring key shareholder messages. A separate CSR report can provide more detail if required.

### Prioritising stakeholder issues

#### Game changers

Matters that could fundamentally change the long term shape of the business (positively or negatively)

*Example: Loss of operating license*

These issues have a fundamental impact on long term business value. The 'thread' underlying the issue should be apparent throughout the Integrated Report – this means:

- Identifying how the business model depends on (and impacts) the stakeholders providing the capital
- Explaining the strategy for managing the issue including demonstrating appropriate levels of governance over it
- Reporting indicators of risk and performance in managing the issue measured against management's plans

Sufficient context is required for report readers to form their own assessment of likelihood and potential value impact.

#### Near term issues

Issues expected to have a material impact on underlying performance

*Example: Carbon tax*

Issues where a business impact is expected imminently. The potential impact of these issues needs to be explained as a basis for understanding the future run rate of the business. Where uncertainty exists over the scale of impact readers will need enough information to make their own judgement under different outcomes.

#### Hygiene reporting

Matters that should not have a major impact on the business if managed effectively

*Example: Product quality*

For the more significant issues readers will need visibility over the key risk indicator(s) as well as an understanding of how the issue is being governed.

For less significant issues it should be sufficient to explain how the issue is being governed.

#### Compliance reporting

Matters not material to business value but required by regulation

*Example: GRI disclosures not covered above*

Typically information that is required by specialist report users only. Consider reporting separately if volume is excessive (for example in a separate CSR report)

***Integrated Reporting should provide focused reporting that concentrates on the 'game changing' issues***



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# Additional information

# Appendix

## The role of the IIRC

### The IIRC

The IIRC has a membership which should carry influence and have the power to initiate change. Its Discussion Paper is the first step in the process and sets out the case for Integrated Reporting. The next steps for the IIRC will be:

- A pilot programme is being run between 2011 and 2013 to ensure that the Framework can be applied in practice
- Development of an Exposure Draft, followed by a final version of the Integrated Reporting Framework

In parallel the IIRC will:

- Work with others on measurement and reporting relevant Integrated Reporting
- Explore with regulators etc opportunities to harmonise reporting requirements within and across jurisdictions

### The South African experience

Integrated reporting became a requirement for JSE-listed entities for years commencing on or after 1 March 2010. This was by virtue of the King Code of Governance Principles for South Africa 2009 (King III) which recommends that organizations should adopt Integrated Reporting, albeit on the Code's 'apply or explain' basis.

There have been significant achievements in terms of rebalancing the structure and focus of corporate reporting but most implementers recognise they are on a journey to full Integrated Reporting. In future years we expect that companies will focus more on providing detail to explain the value impact of the wider range of business issues they are now reporting.

### The influence to succeed.....?

Sir Michael Peat, Principal Private Secretary to TRH The Prince of Wales and The Duchess of Cornwall (Chairman)  
Professor Mervyn King, Chairman, King Committee on Corporate Governance and Chairman, Global Reporting Initiative (Deputy Chairman)  
Helen Brand, Chief Executive, ACCA  
Robert Bunting, President, International Federation of Accountants  
Professor Nelson Carvalho, Universidade de São Paulo, Brazil and Chairman, 25th Session of UNCTAD's ISAR  
Paul Clements-Hunt, Head of Unit, UNEP Finance Initiative  
Jane Diplock, Chairman of the New Zealand Securities Commission and Executive Committee of the International Organization of Securities Commissions (IOSCO)  
Robert Eccles, Professor of Management Practice, Harvard Business School  
John Elkington, Founding Partner & Executive Chairman, Volans  
Tim Flynn, Chairman, KPMG International  
Robert H. Herz, Chairman, Financial Accounting Standards Board  
Ishaat Hussain, Chief Financial Officer, Tata  
Michael Izza, ICAEW Chief Executive, Global Accounting Alliance  
Georg Kell, Executive Director, UN Global Compact  
Professor Angelien Kemna, Chief Investment Officer, APG  
Thomas Kusterer, EDF Energy Chief Financial Officer, EDF Group  
Huguette Labelle, Chair, Transparency International  
Dennis Nally, Chairman, PricewaterhouseCoopers International Limited  
Jeremy Newman, Chief Executive Officer, BDO International  
Edward Nusbaum, Chief Executive Officer, Grant Thornton International  
David Nussbaum, WWF-UK Chief Executive, WWF International  
Roberto Pedote, Executive Vice President and Finance, Natura  
Russell Picot, Group Chief Accounting Officer, HSBC  
Jim Quigley, Chief Executive Officer, Deloitte Touche Tohmatsu  
Atsushi Saito, President & CEO, Tokyo Stock Exchange Group, Inc  
Rick Samans, Managing Director, WEF and Chairman, Climate Disclosure Standards Board  
Jim Singh, Chief Financial Officer, Nestle  
Björn Stigson, President, World Business Council for Sustainable Development  
Charles Tilley, Chief Executive, CIMA  
Jim Turley, Chairman and Chief Executive Officer, Ernst & Young  
Sir David Tweedie, Chairman, International Accounting Standards Board  
Doug Webb, 100 Group of Finance Directors  
Christy Wood, Chair, International Corporate Governance Network



# Appendix

## The Integrated Reporting Framework

### Five guiding principles

- Strategic focus
- Connectivity of information
- Future orientation
- Responsiveness & stakeholder inclusiveness
- Conciseness, reliability, materiality

### Six report content elements



Source: IIRC Discussion Paper

### The Framework

The IIRC has provided a framework for an Integrated Report that covers principles and report content elements.

The IIRC has not published a pro forma or model report. It expects the content of each report to be unique, reflecting the unique business model of the Company. In practice, we expect examples of good reporting to evolve.

### Practical application

Likely to lead to:

- Reports being built around a thorough understanding of the company's business model (all elements integrated into this)
- Much greater focus on forward looking information and prospects, with content typically covered on investor roadshows being brought into the report
- More relevant corporate social responsibility reporting with measures targeted at those specific issues which could affect the long term viability of the business

# Appendix

## Key IR differences

### The Integrated Reporting difference

Three features of Integrated Reporting will represent a significant change to current practice:

1. An holistic view of performance requires reporting to **move beyond traditional financial metrics**, recognising other measures of performance.
2. Its longer term and **forward looking** nature will provide a better understanding of how current and future events affect value.
3. Its integration of information with the **business model** will provide greater transparency, by linking performance to strategic objectives.

### Changes to current reporting identified by the IIRC

Feature	Current reporting		Integrated Reporting
Thinking	Disconnected , Isolated	➔	Integrated
Stewardship	Financial capital	➔	All forms of capital
Focus	Past, financial	➔	Past and future, connected, strategic
Timeframe	Short term	➔	Short, medium and long term
Trust	Narrow disclosures	➔	Greater transparency
Adaptive	Rule bound	➔	Responsive to individual circumstances
Concise	Long and complex	➔	Concise and material
Technology enabled	Paper based	➔	Technology enabled

**Ultimately, the difference is one of attitude – the preparer of an Integrated Report needs to ask themselves what information shareholders need, rather than what information the company is required to provide**



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