INTEGRATED REPORTING <IR>

Creating Value

Value to investors

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Introduction

A range of factors are building global momentum behind Integrated Reporting <IR> – an evolution in corporate reporting. Our *<IR> Creating Value* series aims to be both inspiring and explanatory, drawing on evidence and commentary in the market to explain why <IR> is relevant to key participants in the capital markets and the benefits they could gain from its widespread adoption.

As we highlighted in the first issue in the series, *Value to the Board*, there is a recognized need to promote financial stability and sustainable development. Demonstrating the link between investment decisions, corporate behaviour and reporting is therefore one aim of the *Creating Value* series. We call it 'building a bridge from corporate reporting to capital allocation'.

In this publication we turn the spotlight on investors. <IR> can help to fill the information gaps investors face and support investment decisions based on a broader view of value creation.

Although the International <IR> Framework addresses providers of financial capital as a whole, this report focuses exclusively on investors because of their significance in the capital market chain.

Value to investors

Paul Druckman, Chief Executive, IIRC

Investors perform an essential role in the functioning of capital markets. Based on their decisions, capital flows within and across borders and fuels value creation within businesses. Members of the investment community therefore have power – their ability to allocate or withdraw funds can shape organizations' prospects and the profile of capital markets.

This means that investors have the power to influence the behaviour of the companies in which they invest. Interest in the engagement potential of the investor has grown in the years following the global financial crisis.

Many commentators and policymakers now see investors as needing to play a substantial role in corporate governance. As we note in this report, this can be seen in the introduction of investor stewardship codes in an increasing number of countries. The International <IR> Framework and performance reporting provide a welcome focus for this thrust – a direction made clear by the International Corporate Governance Network (ICGN) in its revised global principles of corporate governance, in which the production of an integrated report is included as an explicit principle.

Investors stand to benefit from widespread adoption of <IR>. Research indicates that investors use information on an increasing range of 'capitals' when making investment decisions, information that does not typically appear in traditional annual reports. <IR> aims to fill gaps, providing investors with insights in a broader context. It enables organizations to present this information in ways that help understanding of the business model, strategies and performance.

Inclusive capital market system

These developments are consistent with wider policy shifts that are necessary to align investment decisions with wider goals of financial stability and sustainable development. At the heart of this is a shift from short-term thinking to sustainable capital markets – with dialogue between investors and companies based on a wider view of strategy, the utilization of all relevant capitals and value creation over time.

By advocating a move from reporting silos to integrated reporting, investors can exert a major "pull" in the market, building a groundswell of support for the benefits of adopting <IR> around the world.

A long-term direction

We appreciate that investors themselves are not a uniform group and that there are multiple roles and functions involved in capital allocation. Nevertheless, we believe this report is relevant to the whole investor community. This is because we fundamentally believe that successful investment strategies will increasingly require consideration of factors beyond financial capital in a world where both financial stability and sustainable development are becoming mainstream concerns.

These trends create a magnetism that will pull all investors in a direction towards 'integrated investment' over time.

Investors in the forefront of reporting changes

Fiona Reynolds, Managing Director,
Principles for Responsible Investment (PRI)

Investors have enormous potential to effect changes in company behaviour and performance by using their financial clout to demand more transparency on issues such as environmental considerations, tax practices, executive pay and employee relations.

Investors are starting to see the correlation between sustainable development and financial performance. Since the global financial crisis, many have lost faith in traditional corporate reporting and are beginning to question the value of quarterly reporting. Instead of the business-as-usual short-term focus which has dominated the corporate world for so long, what investors now want is for companies to share information about their long-term strategies for creating value in order to better understand the company's decision-making process. They also want to understand how issues such as climate change, for example, could affect a company's business model.

By looking at wider considerations such as human capital, use of resources and similar factors, investors can be better equipped to make decisions about the companies they invest in.

This additional focus on the part of investors has led many companies to consider a more integrated approach to their reporting frameworks.

Both investors and companies stand to benefit from integrated reporting. Investors can use this additional information to improve their decision-making processes while businesses can benefit in the form of strengthening their financial reporting, fostering greater collaboration between departments and divisions, improving the robustness of their communications, and, most importantly, greater transparency could help them improve their access to capital.

Integrated reporting is gaining momentum, with many individuals, organisations and multinational companies leading the way. For example, PRI is collaborating on the Sustainable Stock Exchanges (SSE) initiative, a peer-to-peer learning platform for exploring how exchanges, in tandem with investors, regulators, and companies, can enhance corporate transparency – and ultimately performance – and encourage sustainable investment. The Initiative supports an integrated reporting approach that covers both financial and sustainability reporting.

By taking a broader view of value, integrated reporting will allow organisations to better manage their operations, including risk, while communicating long-term value creation strategies to stakeholders.

Trends towards transparency

A new emphasis on investor stewardship and fiduciary duty in the wake of the financial crisis is contributing to a drive for greater transparency in the investment value chain.

The ongoing analysis of the global financial crisis – and how to prevent a similar economic meltdown in future – affects everyone involved in capital markets. One repercussion is a new interest in the role of the investor as steward or custodian of beneficiaries' capital, and what this means for investor engagement with investee companies. More engaged investment and clearer stewardship is important to help to rebuild trust in the decisions of institutional investors.

The importance of public policy for investors has grown in recent years due to legislative reform of the financial sector in the wake of the financial crisis and governmental need for investors as a source of long-term finance. Policy engagement by investors is a natural and necessary extension of an investor's responsibilities and fiduciary duties to the interests of beneficiaries.

The spread of stewardship codes

The development of stewardship codes indicates a groundswell of interest in the investor's role. Examples may be found in countries such as Malaysia, the Netherlands, South Africa and the UK, and these are increasingly codes that have teeth. Speaking at EY's 2014 Financial Outlook Conference, Stephen Haddrill, CEO of the UK's Financial Reporting Council, said, "We believe engaged shareholders are a key ingredient of a healthy capital market. We will now be monitoring closely whether fund managers are implementing the approach to engagement they committed to in signing up to the Code."

More recently, Japan's Financial Services Agency published draft Principles for Responsible Institutional Investors – Japan's Stewardship Code – in December 2013. The Code sets out seven principles introduced on a "comply or explain" basis "to promote sustainable growth of companies through investment and dialogue". According to the draft code, stewardship refers to "the responsibilities of institutional investors to enhance the medium-to-long-term investment return for their clients and beneficiaries by improving and fostering the investee companies' corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge on the companies and their business environment."

From an international perspective, the revised *Global Governance Principles* published in 2014 by the International Corporate Governance Network (ICGN) make a point of describing the responsibilities of shareholders, as well as those of boards. It states that investors should engage **"in the development of relevant public policy and good practice standards and be willing to encourage change where this is deemed helpful by beneficiaries or clients to the delivery of value over appropriate time horizons". It calls on investors to "engage intelligently and proactively with investee companies with the aim of preserving or enhancing value on behalf of beneficiaries or clients".** Principle 7.5 calls on companies to provide an integrated report.

Rui Mota Guedes, Head of European Equity Strategy, MainFirst Bank believes that investors have responsibilities as company owners. He says, "Investors are the owners of the companies and they have to become more proactive in demanding more from the management of those companies, not only in terms of financial returns but also social responsibility etc, given that that will have an increasing value for investors as the public and the customers value more and more the way that companies behave themselves."

A report by the Investment Leaders Group, which held its inaugural meeting in 2013 and whose members include global investment institutions, examines the moral, financial and economic case for responsible investment[1]. The report states, "By virtue of the fact that they collectively control and manage the flow of savings from the public, large asset owners and asset managers have a responsibility to avoid systemic risk in the financial system and economy. Given that markets cannot solve all problems, and market pricing can be far off from real value and real risk, this provides an important rallying point for responsible investors."

Longer-term outlook

As part of fulfilling their fiduciary duty, institutional investors such as pension funds are required to consider the needs of future as well as current beneficiaries. They must achieve financial returns over the long term to meet future liabilities. "CalPERS' fiduciary duty is paramount to achieving our mission... We clearly state that our focus is on the long term..." So says the California Public Employees Retirement System, the largest US public pension fund, in its 2014 report, *Towards Sustainable Investment & Operations: Making Progress.*

Recent research has found evidence of support for long-term investment among mainstream investors such as pension funds, although barriers to achieving such strategies remain. A 2014 survey[2] among 180 senior executives in major pension organizations around the world found "broad consensus ... that conceptually and aspirationally, long-horizon investing is a valuable activity for both society, and for their own fund". However, the researchers found "a significant gap between aspiration and reality".

Barriers to putting good long-horizon investing intentions into practice included:

- Regulations that force short-term thinking and acting
- A short-term, peer-sensitive environment that makes it difficult to truly think and act long term
- The absence of a clear investment model, performance metrics, and language that fit a long-term mindset.

The research also found evidence to suggest that "better-governed pension funds do indeed 'think smarter', and as a result, have more effective long-horizon investment programs". Participants commented that "The long-term investing belief is now firmly rooted" and that "...competitive advantage accrues to investors able to take a long view".

Andrew Bragg, Director of Policy at the Financial Services Council in Australia and a member of the ASX Corporate Governance Council, believes that information going beyond financial capital is essential for investors such as pension funds. He argues that, "As long-term investors, often with a 40-plus-year time horizon, superannuation trustees should take all risks into account and disclose their risk appetite as it relates to environmental and social factors." However, he notes that funds "do not always have enough information about companies as found in traditional financial reports".

Focusing Capital on the Long Term is an initiative of the Canada Pension Plan Investment Board and McKinsey & Company. Its recent report *A roadmap for focusing capital on the long term*[3] identifies four key actions:

As ‘active’ owners seeking long-term investment returns, investors can try to influence corporate behaviour and performance. But their ability to do so depends on receiving relevant information about that behaviour and performance. Global professional accountancy body ACCA’s report, *Understanding investors: Directions for corporate reporting*[4], concluded that investors and corporates both bear responsibility for improving corporate reporting. “There needs to be a constructive engagement on reporting issues from both sides so that the broader financial markets are served effectively,” it said.

One example of more active ownership can be seen through the establishment of the UN-backed Principles of Responsible Investment (PRI) organization. Created in 2006, the PRI is an international network of investors working together to put the six Principles for Responsible Investment into investment decision-making and ownership practices. PRI signatories must report annually on their approach to responsible investment, information the PRI uses to support relevant regulation and codes.

1. Reorienting the portfolio strategy and management of institutional investors
2. Unlocking value through engagement and active ownership
3. Improving the dialogue between investors and corporations
4. Shifting the board’s focus to support long-term strategy and sustainable growth.

Relevant reporting

An Aviva report, *A Roadmap for Sustainable Capital Markets*, asserts that "Integrated reporting by companies is fundamental to the ability to execute responsible investment strategies."[5]

Investors and others in the investment value chain are increasingly contacting companies to explain their reporting needs and influence improvements in corporate reporting. For example, in the run up to the 2015 reporting and proxy season Eumedion, the corporate governance platform for institutional investors, wrote to Dutch listed companies highlighting the main themes that Eumedion participants would focus on during their dialogues with companies. The first of these was Integrated Reporting. The letter stated that, "Eumedion believes that integrated reporting is a logical and necessary next step in corporate reporting… and for the important stewardship role that investors both want and need to exercise… The IIRC's integrated reporting framework draws an accurate picture of what long-term investors need for their investment analysis and their engagement activities."

Colonial First State Global Asset Management (CFSGAM), one of the largest fund managers in Australia, has also been experimenting with <IR>. The organization believes it has a fiduciary duty to invest in a responsible way, and uses shareholder rights on proxy voting and engagement to encourage better corporate performance and management of risks and opportunities.

"More scrutiny from our key clients and stakeholders will flow through the investment chain, and we may ask companies that we're putting those beneficiaries' capital into, more about their activities than perhaps we've ever done before," says Pablo Berrutti, Head of Responsible Investment Asia Pacific at CFSGAM.

Brazilian network brings together key market participants

The Brazilian Integrated Reporting Network, facilitated by the Brazilian Development Bank (BNDES), brings together several umbrella organizations, including the Brazilian Institute of Investor Relations and Association of Analysts, the Brazilian Institute of Corporate Governance, the Brazilian Association of Listed Companies (ABRASCA) and the Brazilian Federation of Banks (FEBRABAN). The network has formed an investor group bringing together investment banks and pension funds.

Becoming more transparent

As scrutiny of the role of investors increases, so institutions are looking for new ways to report on their own activities and impact. The Australian Institute of Superannuation Trustees (AIST) and the Australia Council of Superannuation Investors (ASCI) in 2014 launched a new initiative called the <IR> Pensions Funds Network, in conjunction with the IIRC. The forum is designed to help super and pension funds enhance their reporting by sharing experiences with their international peers. The funds see <IR> in part as a tool to help them compete to purchase privatised government assets and look for new infrastructure investment opportunities across the world.

Eva Scheerlinck, executive manager governance at AIST, told *The Australian*, “This provides funds with an opportunity to build a picture of their infrastructure investments. To highlight, for example, their environmental footprint, labour outcomes, social impact, etc. There are jurisdictions all over the world looking for Australian super fund involvement in their infrastructure projects. Integrated Reporting allows firms to talk about the real value they bring, and not just about the dollars.”

In 2014 VicSuper, a $13.9 billion strong not-for-profit superannuation fund with over 237,000 members and over 20,000 participating employers, became the first Australian superannuation fund to construct its annual report using both <IR> and the Global Reporting Initiative’s G4 Guidelines. The fund believes that the approach has helped it disclose how business performance, strategy and governance systems work together to create shared value for members and stakeholders over the short, medium and long term.

> ***“While VicSuper has been reporting on financial and non-financial performance for the past decade, we believe our transition to using the Integrated Reporting principles provides a lens through which we can examine our business more objectively. Integrated Reporting will allow us to provide our members and stakeholders with a more insightful, meaningful and balanced report.”***
>
> Michael Dundon, CEO, VicSuper

The report subsequently won the Australian Institute of Superannuation Trustees’ Award for Excellence in Annual Reporting.

Multiple uses for enhanced information

According to a February 2013 study by the PRI, investors use enhanced information that goes beyond financial capital in four key ways[6]:

- Economic analysis: to help them understand trends and externalities that could affect the economic outlook and hence value creation and capital formation
- Industry analysis: to understand factors driving competitiveness and the potential for sustained value creation in an industry
- Company strategy: to understand management quality and corporate strategy and evaluate a company's ability to respond to emerging trends
- Valuation: to adjust traditional valuation parameters and assumptions, including cash flow and weighted average cost of capital to reflect performance on material sustainability issues.

"With the growing prominence of fiduciary capitalism, non-financial information assumes greater significance for companies and investors. Investors want non-financial information that will help them reduce risk, improve returns, and make better informed investment decisions. How can they obtain the information in an effective, efficient manner that allows them to compare companies within industries?"

Douglas Y. Park, Director of Legal Policy and Outreach at the Sustainability Accounting Standards Board, writing in Business Law Today

"Leading investors ... have a role to play – either individually or collaboratively – in assisting companies to move beyond short-term financial reporting and to develop metrics which will provide a more complete view of value creation. Investors can also encourage companies to demonstrate how their corporate strategies will create shareholder value in the long term and how megaforces such as population growth, resource scarcity and climate change might impact the execution of those strategies and the creation of corporate value."

A New Vision of Value: Connecting corporate and societal value creation, KPMG 2014

> ***"All stakeholders will benefit from Integrated Reporting because of its focus on future orientation and ensuring a clear understanding of the story of value creation through developing one organizational business model. Investors, alongside other stakeholders, will benefit from <IR> [which supports] a culture of transparency and stability."***

Sandra Guerra, Chair, Instituto Brasileiro de Governança Corporativa and IIRC Council Member

How better reporting benefits investors

Enhanced corporate reporting can deliver benefits to investors, giving greater insight into risks, opportunities and value creation potential.

Research has found a link between longer-term investment and <IR>. The January 2014 report by George Serafeim of Harvard Business School, *Integrated Reporting and investor clientele*, focused on a sample of 1,066 US companies practicing degrees of Integrated Reporting[7]. It found that "more <IR> is associated with a more long-term investor base" and that "<IR> is positively associated with percentage of shares owned by dedicated investors and negatively with percentage of shares held by transient investors". This suggests that "firms practicing <IR> not only attract dedicated investors but also become unattractive for transient investors".

Why might this be? A likely reason is that integrated reports give investors information more relevant to decisions over the longer term – as opposed to quarterly snapshots of financial data that encourage investor churn. Major companies such as National Grid, Coca-Cola, Unilever and Google are taking steps to encourage longer-term investor relationships by signalling the end for quarterly reporting, seeking to move beyond financial value as the only recognized metric of business success. Research endorses such actions. An examination of the impact of regular earnings guidance, for example, found that "despite the benefits being intuitive, there is little evidence supporting regular issuance of guidance. On the other hand, the costs are real and can have a significant and negative impact on the firm's long-term competitiveness".[8]

The researchers concluded that investors' ability to allocate capital efficiently across investment opportunities would be enhanced in an environment without regular earnings guidance, "where corporations are striving to maximize the long-term profitability of their businesses rather than short-term financial results". The researchers endorse the creation of a regime where "more meaningful information about the long-term drivers of the business is communicated through Integrated Reporting", but note that investors "need to have the tools to collect, analyse and embed this information into valuation models".

A Harvard Business School study in 2011 found that "high sustainability" companies enjoyed better stock performance, lower volatility and higher return on assets and return on equity than "low sustainability" companies[9]. This in turn encouraged investors to ask for information on corporate governance-related matters, and on other areas such as human resources, intellectual capital or social matters.

According to Colin Melvin, CEO of Hermes Equity Ownership Services and Chair of the <IR> Investor Network, "Investors with a longer-term perspective will find information disclosed through Integrated Reporting useful if it looks at issues that are material, or could become so."

In a survey of 300 investors[3], 90% said it would be

"valuable for companies to combine financial and non-financial information into an integrated reporting model."

Investors identified the main benefit as being an

"enhanced understanding of the long-term outlook of a company."

More than two out of five investors believed that <IR> would provide a better explanation of the linkage between sustainability and long-term corporate performance.

"A company's social responsibility and sustainability efforts are integral to the longer-term wealth and health of the company and reputation. Integrated reporting would be a big help here – identifying asset categories that are not captured in current reporting and the value aspects of the company, and providing a degree of accountability as well."

Guy Jubb from Standard Life Investments

Better analysis going beyond financial capital

The 2014 EY report, *Tomorrow's investment rules: global survey of institutional investors on non-financial performance*, sampled the views of more than 160 senior decision-makers at financial institutions around the world. It found that, for nine out of 10 surveyed, "in the last 12 months, assessing non-financial performance had played a pivotal role in their investment decision-making process." The report concluded, "This demonstrates that the analysis of non-financial issues can no longer be dismissed as a niche approach to investment."

Marietta Miemietz, Director of Pharmaceutical Advisory Services, Primavenue, has no doubt that integrated reports and the broader information they contain are valuable to investors. "The pharmaceutical sector's success is very often about the success of specific drugs so a lot of information that can very much look like non-financial information at first glance could become very important financial information going forward," she says. "For example, if a company reports clinical data, putting that into perspective with clinical data reported by competing drugs can really help me to make a decision whether I think this is more likely to be a $3bn drug in five or eight years' time or more likely to be a $300m drug and that has a tremendous impact on the bottom line."

Martijn Bos, Policy Advisor – Reporting and Audit, Eumedion, sees strong benefits for investors when companies provide better information on strategy, future orientation and the business model. "Those factors affect our capital allocation decisions," he says. "So investors do not only rely on financial information – they need the complete picture. The start point of financial analysis is to understand the business and then look at the financial information. So the information is really critical for analysis."

Integrated reports have also been found decision-useful in ACCA research among 20 members of the South African institutional investment community. The July 2014 report, *South African institutional investors' perceptions of integrated reporting*, found that, "The interviewees were in no doubt about the decision-usefulness of integrated reports for investing."

The interviewees thought integrated reports provided a basis for investors to "dig deeper" into companies' activities. "An investment analyst perceived integrated reports as starting to move away from one-dimensional reporting. Further, for the institutional investors, integrated reporting was an opportunity to move towards more forward-looking reporting.... one investment analyst commented that if integrated reporting is 'done properly' it will provide a better picture of a company's business model and the risks inherent in that company."

Investors report taking a more formal approach to evaluating broader information relating to social and natural capitals. The proportion of respondents conducting a structured, methodical evaluation of such wider disclosures has increased from just under 20% to nearly 40% in just two years, according to EY's forthcoming study of over 200 institutional investors around the world.

“Despite an increase in the volume and frequency of information made available by companies, access to more data for public equity investors has not necessarily translated into more comprehensive insight into companies.

“Integrated Reporting addresses this problem by encouraging companies to integrate both their financial and ESG performance into one report that includes only the most salient or material metrics. This enables companies and investors to make better resource-allocation decisions by seeing how ESG performance contributes to sustainable long-term value creation.”

A Manifesto for Sustainable Capitalism, Al Gore and David Blood

“Investors already have to take risk and opportunity factors into account, but better disclosures can strengthen our assessments and improve the way we allocate money to make better risk-return investment decisions. The International <IR> Framework will accelerate uptake and help companies understand what to focus on in reporting.”

Susana Peñarrubia, Director, Deutsche Asset & Wealth Management (of Deutsche Bank AG)

Better risk assessment

Research by PwC looking at the impact of <IR> in South Africa found that investors were benefiting from clearer understanding of the risks companies faced. The report, *Value Creation: The journey continues – A survey of JSE Top 40 companies’ integrated reports*, found that, “Investors have specifically identified clear reporting of the connection between the business strategy, performance and prospects as a benefit. In addition, investors focus on the disclosures provided around key risks and opportunities faced by the business and how its governance processes address these. Ultimately, better reporting leads to a reduction in the cost of capital.”

The report added that, “Investment professionals will benefit from a more integrated understanding of the risks and longevity of the business model through better disclosures about the business’ key relationships and outcomes.

"At Aviva Investors we want to know that the companies we invest in are likely to deliver a healthy long term return on our investment. A focus on how they manage financial capital is an important part of the picture, but it is also incomplete. State of the art Integrated Reporting provides us with information on corporate performance across the full spectrum of financial, social, intellectual, and natural capital that is necessary for value creation. This gives us a much more complete picture of the long-term prospects of the business, and helps us make better investment decisions."

Euan Munro, Chief Executive Officer, Aviva Investors

"The biggest benefit of Integrated Reporting I have seen so far is that companies have made an effort to actually have a global integrated strategy and a way to present it to investors which makes it a bit more easy to understand how companies are moving forward and what types of business developments and business ventures they want to do in the future."

Rui Mota Guedes, Head of European Equity Strategy, MainFirst Bank

Better conversations

Pablo Berrutti, Head of Responsible Investment Asia Pacific at Colonial First State Global Asset Management, one of the largest fund managers in Australia, believes that <IR> will not just lead to better information for investors, but also to better quality conversations about complex issues in the context of long-term value creation. "It is not a panacea, but it is part of the puzzle to bring about a more informed investor community," he says.

Other investors are also signalling their interest in a new approach to reporting. David Shammai, Senior Governance Specialist at APG Asset Management, noted during the 2014 World Congress of Accountants that investors are increasingly inquisitive in their scrutiny across a range of issues relating to how companies create value. For example, supply chains are one area of interest, and one where Integrated Reporting can help companies communicate their efforts and achievements.

Better understanding

IIRC research conducted by corporate communications specialist Black Sun found a strong belief among companies that their investors understood them better as a result of <IR>. The September 2014 report, *Realizing the benefits: The impact of Integrated Reporting*, looked at entities that had published at least one integrated report. Among this group, 87% thought that providers of financial capital better understood the organization's strategy and 79% thought they had greater confidence in the long-term viability of their business model.

More integration, please

Research by PwC[10] among 85 investment professionals from around the world has found strong demand for the reporting of operational, as well as financial, KPIs, and clear linkage between different elements of company reporting.

Asked about the information needed for their analysis, investors said they place importance on:

87%
clear links between a company's strategic goals, risks, KPIs and financial statements

86%
how the company creates value

75%
dependencies on key relationships and resources

73%
how the business is positioned in its wider value chain

63%
the company's dependency and impact on the future supply of resources

The report concluded that,

"Given the areas where investment professionals see room for improved reporting – particularly around cash creation, key risks, dependencies on key resources and relationships, and operational KPIs – more integrated reporting could perhaps provide the solution. Developing more integrated reports could potentially better meet the needs of investment professionals, while also encouraging more cohesive decision-making within companies to support longer-term value creation."

Stock exchanges recognize the need for innovations in reporting

Stock exchanges play a central role in capital allocation. They can also influence developments in corporate governance and reporting as they seek to maintain stable markets that encourage investor participation.

“As the world begins a long shift toward a higher share of market-based financing, effective disclosure will become even more important. In the future, integrated reporting may well play a bigger role. Opacity and complexity destroy sound, sustainable financial markets... If...too many parts of financial markets remain off-limits and impenetrable, overly complex and ‘black box’ in nature, expect property markets to boom and long-term investment to fail.”

David Wright, Director-General, IOSCO

“By improving reporting requirements for organizations, Integrated Reporting can bring additional information, in particular about the longer-term costs of climate change, to feed into markets and inform decision-making and policy-formulation by institutions. If achieved, it will lead to better-informed and more sustainable long-term investment, for the benefit of society.”

Mark Carney, Governor of the Bank of England

“The Securities Commission, together with professional bodies and other stakeholders, is exploring avenues to enhance the quality of information available to the capital market. One of the options being considered is the eventual introduction of Integrated Reporting.”

Datuk Seri Najib Tun Razak, Prime Minister of Malaysia

USA

NASDAQ is also supporting the concept of <IR>. "Given NASDAQ's position in capital markets, we're delighted to be part of this evolution and to profile this important initiative. The philosophies underpinning Integrated Reporting are very much aligned with our own," said Meyer S Frucher, Vice Chairman of NASDAQ.

Germany

The Deutsche Börse was the first stock exchange to sign up to take part in the IIRC's Pilot Programme to trial the emerging <IR> Framework. The exchange explained its interest in the <IR> Framework in the context of investor information needs and the importance of enhancing trust between companies and investors.

"Deutsche Börse is proud of its role in fostering the conditions for high quality investment," said Frank Klaas, Managing Director, Global Public Affairs, Deutsche Börse. "The integrity of the information provided by businesses is crucial in enhancing the transparency and trust between businesses and investors."

Brazil

The Brazilian Stock Exchange, BM&F BOVESPA, based in São Paulo has been supportive of the IIRC's work for several years. The exchange now issues its own annual integrated reports. It also requires businesses listed on its platform to produce an integrated report or a sustainability report on a "report or explain" basis.

South Africa

A requirement to produce an integrated report formed part of the 'King III' Corporate Governance Code, which was incorporated into the Johannesburg Stock Exchange (JSE) listing rules in 2010. South Africa's Integrated Reporting Committee has expressed support for the International <IR> Framework and its intention to converge practice in South Africa with the principles set out in the Framework.

Stock exchanges and capital markets authorities see the value of <IR>

A number of stock exchanges around the world are specifically backing Integrated Reporting.

India
"Whether Integrated Reporting should happen or not is no longer a question. We should look at how to implement it in a manner that is not disruptive", says Mr U.K. Sinha, Chairman of the Securities and Exchange Board of India (SEBI)

Singapore
Developments in Singapore are closely linked with the ambitions of the Ministry of Finance to, in the words of Singapore Accountancy Commission (SAC) Chairman Michael Lim, "transform Singapore into a leading global accounting hub for the Asia Pacific region by 2020". The SAC and the Institute of Singapore Chartered Accountants (ISCA) both view <IR> as an integral part of the roadmap to achieving this ambition. Dr Ernest Kan, Chairman of the ISCA <IR> Steering Committee, has stated that "<IR> is the future of corporate reporting".

"Capitalism needs financial stability and sustainability to succeed," says Jane Diplock AO, Director Singapore Exchange Limited, Former Chairman of the International Organisation of Securities Commission. "Integrated Reporting will underpin them both, leading to a more resilient global economy."

Momentum behind stock exchange support for the reporting of non-financial information is being supported by the Sustainable Stock Exchanges (SSE) initiative, convened by the PRI, UN Global Compact, UNEP-FI and UNCTAD as a UN partnership. The SSE is a peer-to-peer learning platform for exploring how exchanges, in collaboration with investors, regulators and companies, can enhance corporate transparency – and ultimately performance – in relation to non-financial issues.

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The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting.

The International <IR> Framework has been developed to meet this need and provide a foundation for the future.

Further information about the IIRC can be found on its website www.theiirc.org

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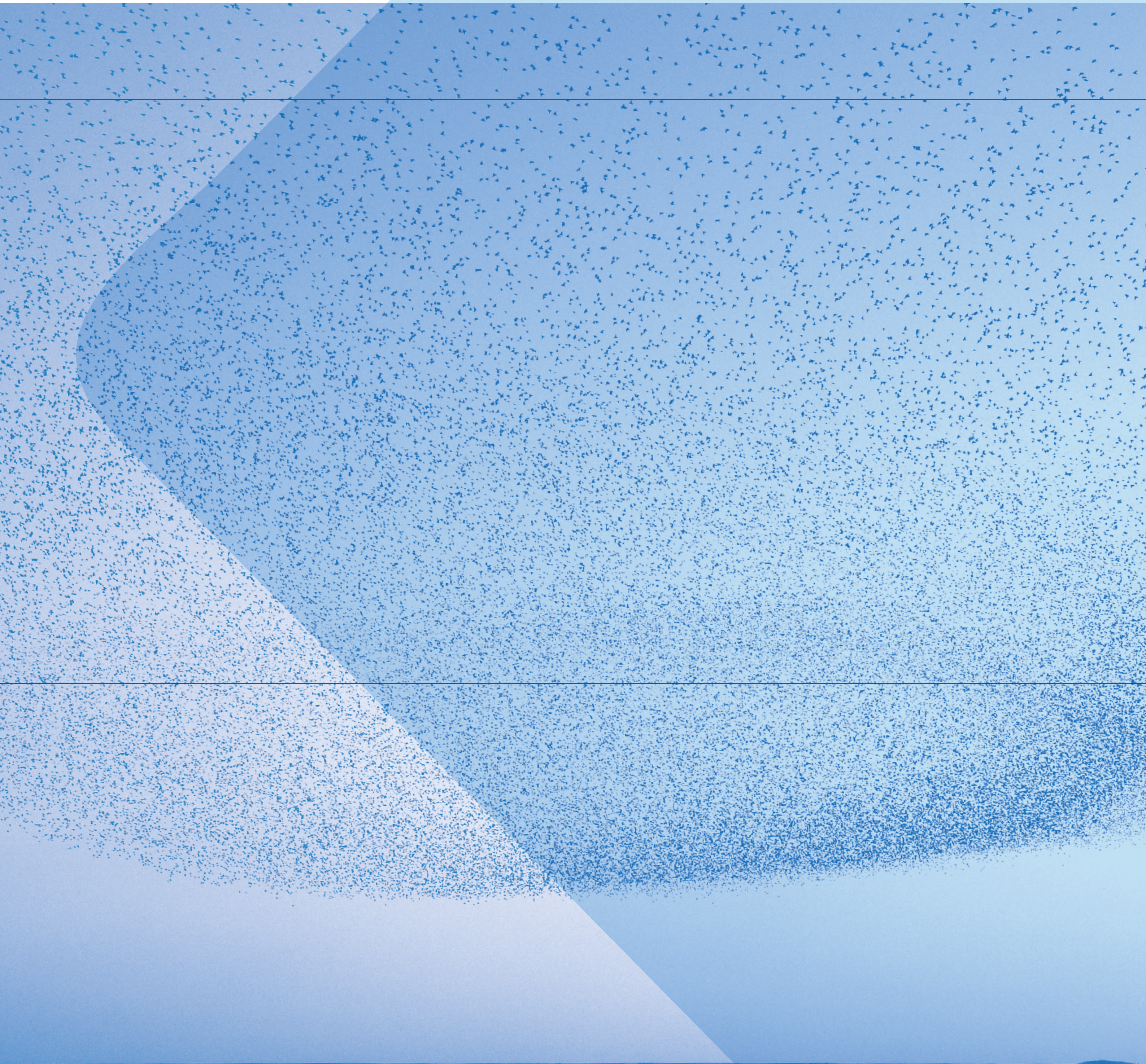

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