

**ABI response to the Discussion Paper of the  
IIRC, The International Integrated Reporting  
Committee: Towards Integrated Reporting.  
Communicating Value in the 21st Century.  
Integrated Reporting**

December 2011

## **ABI response to the Discussion Paper of the IIRC, The International Integrated Reporting Committee: Towards Integrated Reporting. Communicating Value in the 21st Century. Integrated Reporting**

### **Q1. (a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?**

ABI welcomes the action currently being taken at international level to promote the developments in reporting. ABI acknowledges:

- the operators' need to describe and assess all business elements that help determine the overall value created by the enterprise
- the need for these elements to be recognised by the market and investors
- the importance of simplifying and more effective reporting (i.e. only the more significant information regarding strategic decisions should be included in the integrated report)

Building an innovative reporting model by enhancing existing practices can be useful to make explicit the relationships between economic/financial and non-financial data (ESG), considering present and future performances, in a clear, concise and meaningful way.

Integrated reporting does not mean producing more information, but rather designing a new way of clearly and transparently presenting the global results of an enterprise, its impact on the market and on stakeholders, and its capacity to implement a strategy that integrates sustainability aspects within the organization – with a view to transformational rather than additional development.

### **(b) Do you agree that this action should be international in scope? Why/why not?**

Reporting developments can only be international in scope, given that: the action of larger companies crosses national borders and has an impact on contexts remote from those establishing the rules

the current proliferation of reporting rules/practices – occasionally with significant differences between one country and the next – makes both reporting and cross-country comparison of business results difficult for aspects that are not specifically economic/finance-related

the use of reporting content is also functional to investors' capital allocation decisions.

The joint activity promoted by the IIRC with all stakeholders active on the issue of global reporting is important, as is the coordination with institutions

such as the European Commission and the dissemination of national best practices.

**Q2. Do you agree with the above definition of Integrated Reporting?  
Why/why not?**

ABI agrees with the approach to Integrated Reporting illustrated in the document. In particular, ABI considers the focus on the reporting process to be directly useful to creating and explaining the association between the governance, strategy and performance elements of an organization. This type of reporting targets integrated management and assessment of the information contained in different documents already produced by the organization, e.g. the annual financial statements and report on operations, the report on governance and remuneration policies or the sustainability report. The benefit is a dynamic representation of the value created by the organization in the short, medium and long term.

Specific reference to the materiality of information is also an important step in focusing reporting on a data set more able to express how and to what extent an organization is capable of satisfying the legitimate expectations of its stakeholders.

In the efforts to share a reference framework, the focus must also be on the principles of readability, clarity, conciseness and comparabilità.

**Q3. Do you support the development of an International Integrated Reporting Framework? Why/ why not?**

The development of an International Integrated Reporting Framework is useful to the extent it manages to successfully harmonise existing sources and models. The Framework has to be able to adapt to national contexts, to the various businesses and business cases and to act as a vehicle for the common guiding principles underlying the integrated reporting process.

**Q4. (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/why not?**

With regard to applicability of the new Framework, in this initial stage it seems appropriate to focus on the larger companies, with clarification of the benchmarks. Useful indicators might be the turnover threshold and/or the field of operations (national or international) and/or the type of ownership structure.

It is extremely important that the IIRC works in liaison with investors in order that the integrated reporting process is adequately assessed. This would bring a widespread cultural change, a considerable investment in terms of time and resources that need to be encouraged and endorsed by the investors themselves.

**(b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?**

Thinking ahead, extending the guiding principles of integrated reporting to the public sector, not-for-profit organizations and smaller companies would further help to promote and disseminate current practices. In the long term, the focus of the various economic entities to "think integrated" would improve resource management at global level.

At the same time some emphasis should be placed on reducing administrative and bureaucratic restraints (particularly of a regulatory nature) that inhibit the full adoption of readability, clarity, conciseness and comparability principles.

**Q5. Are: (a) the organization's business model, and (b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/why not?**

**Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?**

It is appropriate that the Integrated Reporting framework adopts a flexible stance in relation to the various business models, adapting to the different business types, yet retains an underlying common approach. For this purpose, reference to the various "capital" formats (financial, human, intellectual, social and natural) on which an organization's business is based could be useful also because they correspond with a series of indicators already present in most international references used in reporting.

All such references aim to improve the disclosure on how companies strengthen relations with their stakeholders. The rationalisation and codification of these reporting guidelines should form the core of the future integrated reporting.

**Q7. Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added? Why/why not?**

At this stage the principle-based approach seems to be effective. The principles indicated in the Discussion Paper (Strategic focus; Connectivity of information; Future orientation; Responsiveness and stakeholder inclusiveness; Conciseness, reliability and materiality) are appropriate in selecting the information to be mapped and presented in the report. The principle of "materiality" can be used as a meta principle, transversal to all the principles. As a further rationalisation, the "future orientation" principle could become part of the "connectivity of information" principle to illustrate current connectivity and its materiality in future value creation. If on the one hand this last point is without doubt the most motivated, on the other hand it represents a highly delicate element of today's constantly changing social and economic context.

**Q8. Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added? Why/why not?**

ABI agrees that all the Content Elements of the discussion paper should be treated separately. In addition, the line of action linked to citizenship, intended as a company organization's role in the community – in terms of contributing to growth both through its core business and through related activities (e.g. social support) - could represent a further element for inclusion in the framework to internally assess business activities capable of generating greater value.

**Q9. From your perspective as a reporting organization:**

**(a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?**

**(b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?**

The Italian banks play an active role in the reporting of non-financial elements: in 2011 banks representing 76% of total system assets published a sustainability report. Interesting reporting practices are being developed that aim to integrate annual financial statements with non-financial reports. For example, the sustainability report contains an indication of added value, which is the reclassified income statement used to highlight the value creation process and the distribution of value to the bank's stakeholders. In some cases parts of the sustainability report are integrated into the report on operations. The strategic management value of the report to stakeholders is also confirmed by the importance given to the document by senior management as, in most cases, it is approved by the Managing Director/CEO or by the Board of Directors. Distribution of the sustainability report with the annual financial statements is also common practice.

The management and reporting of non-financial elements leads to a better strategic allocation of resources and to reducing costs; allows better monitoring of various types of risk (including reputational risk) and the identification of business opportunities; and promotes greater transparency in market disclosures. The development of integrated reporting will offer a better achievement of these objectives.

Gradual developments in the regulatory context in terms of disclosure at national and international level, and companies' capacity to continue expanding upon and adapting the internal system of collecting and managing ESG information, represent the greatest challenges to the advancement of integrated reporting. The (hoped for) simplification of

information disclosed externally and its affinity with managerial data should be among the benefits cited.

Among the challenges to be overcome there is the need to harmonise the measurement rules for non-economic/financial information, and hence the difficulties in identifying the benchmarks.

A more detailed action plan of actions would allow the fundamental steps in the process to be established and shared, including the identification of players called upon to “validate” the model.