



“Towards Integrated Reporting – Communicating Value in the 21st Century”

Summary

Aviva continues to support the International Integrated Reporting Committee (IIRC) and welcomes the progress of its work to date.

We welcome the discussion paper “Towards Integrated Reporting – Communicating Value in the 21st Century” and:

- We believe that achieving a global approach to Integrated Reporting is a necessary but very significant challenge.
- We believe that a key goal is to ensure that companies are clear-sighted and focused on the issues which matter to their long term success and sustainability. This is important to companies’ investors as well their customers, employees and the communities in which they operate.
- We would like to see greater clarification within the definition of the identity of the primary audience. The Integrated Report should continue with the current emphasis that a company is accountable to its shareholders and responsible to other stakeholders.

The World has Changed – Reporting Must Too (page 4)

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

Yes, we recognise the challenges of the detail and volume of information given in companies Report and Accounts which is principally the product of significant regulatory and best practice requirements.

Organisations generally report against a legal set of requirements which offers reduced flexibility for concise communication or to describe value creation.

An explanation of impacts on and of the value chain are sometimes evident within corporate responsibility/sustainability reports – however these are often stand alone documents. Aviva Investors recently reviewed Bloomberg’s database, and their analysis indicates that of the 20,000 publicly listed global companies reviewed, less than one in four publicly reported on even a single piece of quantitative data on environmental, social or governance issues.

We welcome any initiatives which allow companies to tell their Environmental Social and Governance (ESG) stories and present them in a cohesive way, enabling shareholders and other stakeholders to better understand their business, their culture, and how they manage current and future risks and opportunities. This should lead to more effective long term valuations of companies who are able to link the financial and non-financial aspects of a company’s business.



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

Yes, given the globalisation of business operations it is sensible that this action is global in scope, allowing for companies to report systematically, to be benchmarked consistently, and to allow for the development of international standards in reporting and auditing of such information.

Having an international approach to reporting allows investors to compare company information and integrate ESG factors into their decision making against consistent frameworks.

If a serious approach to restructuring corporate reporting is to be undertaken and developed, it would make sense for this to be coordinated on a global basis.

Towards Integrated Reporting (page 6)

Q2. Do you agree with the definition of Integrated Reporting on page 6? Why/why not?

Yes. To reflect integrated thinking is of prime importance. Such an approach is helpful for reporting but also could provide a guide for those on a journey towards integrated thinking.

The definition calls for materiality to form the basis of content inclusion. Aviva believes that reporting the most significant and material issues that the company faces acts as a sound platform on which to stimulate debate both internally and externally and can deliver an engaging and transparent review of performance.

The definition states that the “main output of Integrated Reporting is an Integrated Report: a single report that the IIRC anticipates will become an organization’s primary report, replacing rather than adding to existing requirements.” Given the divergent global reporting requirements which currently exist we recognise that this will be a significant challenge. An integrated narrative report / business review may be a more realistic ambition as currently much of the detailed financial information provided is due to compliance requirements – such a move would result in the Annual Report and Accounts becoming much more of a regulatory reporting tool. We would welcome clarification as to the ambition of Integrated Reporting.

We believe that a key goal in such a reformed approach to company reporting is to ensure that companies are clear-sighted and focused on the issues which matter to their long term success and therefore to investors. As such, we would like to see greater clarification within the definition of the identity of the primary audience. The Integrated Report should continue with the current emphasis that a company is accountable to its shareholders and responsible to other stakeholders.

An International Integrated Reporting Framework (page 8)

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



Yes. Providing a framework will assist organisations to develop a readily comparable report. While there is much already in place; we would suggest that it would be appropriate to develop the Framework from the practical experiences of the pilot studies.

It will be important to find the balance between ensuring that a Framework is robust enough to allow comparability across companies and sectors and avoiding the danger of over prescription leading to boiler plate company responses.

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?

It is sensible for large companies to progress the trend towards Integrated Reporting, although it should not be presumed that due to their size, they are more likely to have the resources required to deliver a change. If a framework is developed, then it should be scalable for all companies, however, as large companies are generally much more complex in nature, it will be much easier to scale this downwards than upwards.

Aviva believes that, although it is difficult to meet the needs of all stakeholders, the primary audience of a report should be the company's shareholders, although it should also be able to satisfy the needs of a wider group than purely investors.

(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?

Yes, the framework should be designed so that the concepts are transferable and applicable across sectors. Certainly as it stands the content elements and guiding principles seem to be suitable for SMEs, and third sector organisations where they need to provide company information in this manner.

Business Model and Value Creation (page 10)

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?

Yes, for the past few years Aviva Investors, through Sustainable Stock Exchanges, an initiative by PRI, UNCTAD and Global Compact has been urging all stock market listing authorities to make it a listing requirement that companies consider how responsible and sustainable their business model is and put a forward-looking sustainability strategy to the vote at their AGM.

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

Yes, although we would suggest that reputational risk is perhaps a missing factor.

We would expect boards to consider and companies to report on factors such as: use of natural resources; levels of workforce training and employee engagement; impact on local communities; the business model, and the regulatory context – these appear to be broadly covered by the "capitals".



Guiding Principles (page 13)

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?

Yes.

With regards to reliability, we believe that as a matter of best practice, reporting of non financial issues should be reported to a similar standard to that of reporting of financial data. With a movement towards integrated reporting it will become increasingly necessary for company information, financial and non-financial, to be provided to high professional standards. The benefits of this include improving trust in the organisation and providing challenge to the organisation to include material information that is reliable and inclusive. However, there is currently no market consistency in the non-financial information provided in the Report and Accounts, even within the same industry.

If companies are not able to disclose material sustainability issues, they should explain to the market why they cannot do this.

Content Elements (page 14)

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?

The content elements seem comprehensive.

We agree it is important to understand the business model and how the company envisages managing current and future risks and opportunities.

We agree it is important that there is a clear link between the company's strategic objectives and the criteria for payments to directors.

What Will Integrated Reporting Mean for Me? (Reporting organizations – page 21, Investors – page 22, Policy-makers, regulators and standard-setters – page 23, Other perspectives – page 24)

Q9. From your perspective:

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

It is important that IIRC work closely with investors, especially analysts, to identify more fully the benefits of IR to them; it is self evident that the benefits to companies will flow from the production of company reports which match the desires and expectations of the primary investor audience – working within regulatory and compliance boundaries.

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



It is important to note that there are many challenges to developing an integrated reporting approach. Aviva agrees with the challenges outlined, some of which are more applicable to us than others.

As well clarifying any liability regime surrounding the provision of forward looking information, we are particularly concerned about the legislative requirements to report under Solvency II; differences between regulatory requirements in the UK and the US; disclosure of competitive and/or sensitive information; as well as the capacity building and potential structural changes required. At present we envisage this as an additional piece of reporting and so it will require additional resource to implement.

As indicated already, another challenge will be creating a Framework which finds the appropriate level of prescription, allowing comparability but preventing boilerplate responses.

The degree to which external assurance of the integrated report would be required will also be welcome.

(c) Do you agree that Integrated Reporting will drive the disclosure of information that is useful for integrated analysis (from the perspective of investors)? Why/why not?

At present, there is no globally accepted rule requiring reporting of Environmental Social and Governance performance. The majority of companies fail to do so, with approximately 75% of the companies surveyed by Bloomberg not currently disclosing any quantifiable data regarding their sustainability performance. This indicates there is certainly information which would be useful for integrated analysis but which is not being currently disclosed. We believe that some form of accountability mechanism will be needed to fully drive this disclosure - for instance an advisory vote at the AGM on the quality of disclosure of sustainability information.

We believe that a key goal is to ensure that companies are clear-sighted and focused on the issues which matter to their long term success and sustainability. This is important to companies' investors as well their customers, employees and the communities in which they operate - we believe that integrated reporting will aid this.

Future Direction (page 25)

Q10. (a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/why not? Are there other significant actions that should be added?

We are supportive of the idea of a pilot and look forward to the outcomes of the project. We believe that these pilots will be vital in determining the practical challenges that will need to be overcome in order to achieve the ambitious vision. Currently, the list of pilot preparing organisations is imbalanced, with an over-representation from Europe. We believe US listed companies should be a focus along with companies with dual listings who already have to manage inconsistent requirements of Listing Rules, IFRS, company law and corporate governance codes.



As indicated above, it is important that more is done to identify and understand the information desired by investors and analysts and in what format they would find most useful.

We propose that in order to move the discussion forward, mock ups and templates are produced by the pilots and used as the basis for further development – adding flesh to the theoretical bones.

Aviva would like to understand how the IIRC will further engage with organisations to reach those who are not within the normal engagement circles of the IIRC. For instance, how would Aviva have heard of the project if not through involvement with Accounting for Sustainability?

In terms of the challenges of harmonisation; Aviva Investors are leading a call for a Convention on Corporate Sustainability Reporting to be agreed at next year's Rio Earth Summit. Specifically, we are calling on United Nations member states to commit to a binding international commitment to develop national regulations which mandate the integration of material sustainability issues in the Annual Report & Accounts and which provides effective mechanisms for investors to hold companies to account on the quality of their disclosures.

Corporate boards would be required to consider the future sustainability of the firm that they govern. Companies should include performance targets; recent trend data and some level of external assurance. Individual nations would be free to choose whether to implement this in primary legislation, in their regional Company Law, or via the listing authorities.

A primary challenge will be convincing certain governments and regulators of the need for them to endorse the key elements of IR if progress is to be made. Without a global consensus progress will be multi-speed and thus onerous for global companies. In many places, voluntary measures underpinned by 'market' pressures will be sufficient to drive changes, in others it will not.

(b) What priority should be afforded to each action? Why?

Q11. Do you have any other comments that you would like the IIRC to consider?