

14 December 2011

Professor Mervyn King  
International Integrated Reporting Council  
Clarence House  
London  
SW1A 1BA

By email to : [dpresponses@theiirc.org](mailto:dpresponses@theiirc.org)

Dear Mervyn

## **TOWARDS INTEGRATED REPORTING**

The Chartered Institute of Management Accountants (CIMA) is pleased to have the opportunity to comment on this consultation paper. CIMA has played an active part in the development of corporate reporting through our involvement with the Report Leadership initiative ([www.reportleadership.com](http://www.reportleadership.com)), the history of the Operating and Financial Review in the UK, the IASB's Management Commentary guidance, the UK FRC's Cut the Clutter project, the Tomorrow's Corporate Reporting project and the latest proposals from the Department for Business Innovation and Skills. We attach replies to the individual questions in the paper but would like to make some general points as well.

We believe that the main benefits of more integrated forms of reporting are:

- Better information for markets
- More comparable information for international regulators and policy makers
- Better information to boards leading to more informed decision-making

### **Information for markets**

Work that we have undertaken with PwC and Tomorrow's Company under the banner '*Tomorrow's Corporate Reporting*' indicates to us that many participants in the corporate reporting system believe it fails to produce reports that adequately portray the sustainable value-creating potential of many organisations. Too many reports, fail to satisfactorily describe the organisation's business model, contain insufficient forward-looking information and lack clarity.

One of the key issues that the board should tackle in its Integrated Report is the difference between Net Asset Value and Market Value. As the discussion paper points out 'The world has changed due to globalisation and resulting interdependencies in economies and supply chains, advances in technology, rapid population growth and increasing global consumption'. Businesses are reacting to these changes through innovation that requires a broader information set. The diagram on page 4 of the discussion paper illustrates this point; in the mid 70s just under 20% of market value was represented by intangible factors with the balance physical and financial assets. By 2009 this percentage had grown to over 80%. The identification of the key intangible value drivers not recognised on the balance sheet is clearly now part of the critical information set required to thoroughly understand a business and it provides structure to the integrated report helping to ensure that it focuses on the principal business factors driving sustainable success.

In our opinion, the business model and the organisation's ability to create and sustain value in the form positive cash flows are fundamental to its long term sustainability. Corporate reports that contain a clear articulation of the business model demonstrate the board's understanding of its value drivers and help to illustrate the resilience of the company's strategy to the impact of future developments.

### **Information for regulators and policy-makers**

In *Tomorrow's Corporate Reporting* we refer to companies existing at the congruence of the natural environment, the social and political system and the global economy. We believe that value creation will increasingly depend on social and environmental issues as much as economic ones and so it is important that corporate reports reflect this 'triple context'. Reports that contain this type of information along with the more usual financial information will provide international regulators with the evidence they need to make better decisions.

**Information for boards**

We do not contend that the production of a good integrated report will be easy; it will be a challenge and one that can only be successfully completed by well-run organisations with good internal information flows and integrated decision-making processes. External corporate reports should represent the top slice of the information regularly reported to boards and the integrated report will be an important element of the overall culture of the organisation set by the board. Concise, transparent and complete external reporting content reflects similar presentation of information internally, a prerequisite for the type of well-managed business that will generate positive cash flows that are resilient and sustainable.

**Cost Benefit Analysis**

We believe that the IIRC has to do even more to promote the concept of integrated reporting especially to the preparer community. The discussion paper states on page 6 that the integrated report should replace rather than add to existing reporting requirements, however, this view is not universally held especially by preparers. To alleviate the concerns of preparers that integrated reporting will be additive to existing disclosure requirements, the IIRC should explain how they anticipate that their requirements will not add to the reporting burden. To further encourage involvement from those producing reports, the IIRC needs to make a compelling case emphasising the benefits to preparers of the better quality information that is likely to flow from more integrated thinking within their organisations.

**Pilot programme**

CIMA is pleased to have been accepted as one of the organisations following the IIRC pilot programme and looks forward to fully participating in the process to unearth implementation issues and generate practical solutions. As the IIRC moves forward with the pilot programme and more widely with its reporting agenda, it should seek and promote evidence that links good integrated reporting with better managed businesses and subsequent value for society. An important point about the Pilot Programme is that it will operate outside of the regulatory system and allow innovative ideas to be explored without fear of liability

**Materiality**

Too many corporate reports are characterised by unnecessary disclosures included solely to ensure absolute compliance with a particular code or regulation without thought as to whether the disclosure is material to the decision-making process of the users of the reports. It is often quicker for time-pressed preparers to include a particular piece of information rather than work through the intellectual challenge of determining whether it is material. The IIRC should ensure that the issue of materiality is fully explored during the pilot programme.

**Improving trust in the system**

There is a need to improve trust in the corporate reporting system; at present there is much mistrust in corporate behavior. Those involved in the pilot programme should seize the opportunity to begin to show that they deserve a level of public trust that allows over time a more balanced regulatory regime to emerge. We also believe that assurance issues are important to the level of trust achieved. For any corporate reporting to be meaningful there must be trust in the content and the underlying processes ensuring completeness of material information. This will be equally applicable to integrated reporting and we call on the IIRC to consider how best to deal with assurance during the pilot programme.

We attach responses to the individual questions in the discussion paper and would be pleased to discuss further any aspect of this letter with you.

Yours sincerely



**CHARLES TILLEY**  
Chief Executive

## **CIMA RESPONSES TO INDIVIDUAL DISCUSSION PAPER QUESTIONS**

### **The World has Changed – Reporting Must Too (page 5 of the Discussion Paper)**

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

We believe that the corporate reporting system at present produces reports that are out-of date and which do not adequately portray the sustainable value-creating potential of organisations. Too many reports, fail to satisfactorily describe the organisation's business model, contain insufficient forward-looking information and lack clarity. As the discussion paper points out over 80% of the market value of organisations now represents value attributed to 'off-balance sheet' value creating opportunities. It is important that organisations broaden the scope of their reports to address these intangible items.

#### **Q1. (b) Do you agree that this action should be international in scope? Why/why not?**

Yes, we believe it is crucial that this action needs to be international in scope to be effective. Failure to achieve an international consensus would lead to inconsistencies with some countries / regions adopting more integrated forms of reporting and others not. The IIRC and its supporters would not regard this outcome as a successful implementation.

Towards Integrated Reporting (page 6 of the Discussion Paper)

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

Although we agree that this definition encompasses all of the attributes of an integrated report, we would prefer a shorter more high-level version that defines an integrated report as a report that provides a platform for the board to explain how they have managed the business with a view to sustainable success.

An International Integrated Reporting Framework (page 8 of the Discussion Paper)

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

The development of an International Integrated Reporting Framework is essential to provide guidance to those organisations seeking to improve their corporate reporting and it will also help to promote consistency between different constituencies. The framework needs to be as widely accepted as possible to promote consistency but this drive for global acceptance should not be at the expense of having to settle for a lower standard of reporting.

We are very supportive of the process of developing integrated reporting. The idea of a pilot programme, existing outside of current regulatory challenges, charged with developing an 'ideal' integrated report is one that we believe will produce meaningful results. At the end of the pilot programme the IIRC should be in a position to say *'this is what an ideal integrated report should look like, these are the implementation issues that preparers will encounter, here are some tested solutions and this is what needs to change from a regulatory viewpoint to allow it to be produced on a global basis – and here is the supporting evidence from a two-year study'*.

#### **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?**

Yes, we agree that the initial focus of Integrated Reporting should be on larger entities. These entities are more likely to have the infrastructure necessary to facilitate a change of this nature. The impact of many smaller companies will be included in the supply chain analyses of large companies. Although smaller companies are also likely to benefit from more integrated thinking, the cost of the changes required could well be prohibitive especially during the initial phases of this project.

**Q4. (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 basic concepts underlying Integrated Reporting should be applicable to all organisations, although the relative importance of each concept may be different in some such as public sector and not-for-profit.

Business Model and Value Creation (page 11 of the Discussion Paper)

**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?**

We believe that the business model and the organisation's ability to create and sustain value are fundamental to its long term sustainability. A clear articulation of the business model demonstrates the board's understanding of its value drivers and helps to illustrate how resilient the company's strategy is to the impact of future developments. It is entirely appropriate that the business model and value creation are central themes to the future direction of reporting.

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

The concept of multiple capitals helps to explain that organisations can create and sustain value in a number of ways and will help organisations create a set of values to adhere to. However, the focus for measuring performance is on the financial concept of capital and, we believe that this will persist for the foreseeable future. To fully utilise the concept of multiple capitals then organisations will need to be able to convert non-financial value into discounted cash flows

Guiding Principles (page 12 of the Discussion Paper)

**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?**

We believe that one of the guiding principles should be 'effective communication'. While 'conciseness, reliability and materiality' are important aspects of effective communication we believe this principle should be widened to include structure, clear messaging and ease of navigation.

The principles underlying effective and engaging corporate reports was one of the subjects explored by the Report Leadership initiative in its [original 'Genrico' report and accompanying explanatory brochure](#). One of these principles is 'Effective Communication' and the report provides a number of practical examples of how communication can be improved.

- In terms of structure it is important that the corporate report has a clear narrative structure that links the various elements of the report.
- Clear messaging helps guide the information that readers take from a report – and shape the conclusions that they draw from it.
- Effective communication requires straight-forward language, a balanced discussion of performance and support from evidence.
- The challenge for companies is to structure information so that investors can spend their time reading the investment case, not looking for it. Ease of navigation can help, for instance, through a good table of contents, section summaries, clearly delineated but linked sections and good navigational aids and cross-references.

Content Elements (page 15 of the Discussion Paper)

**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?**

We believe that the content elements provide a sound foundation for preparing an integrated report.

**What Will Integrated Reporting Mean for Me? (Reporting organizations – page 21, Investors – page 22, Policymakers, regulators and standard-setters – page 23, Other perspectives – page 24 of the Discussion Paper)**

**Q9. (a) From your perspective: Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?**

We believe that from a reporting organisations perspective the main benefit to more integrated forms of reporting is the underlying requirement for more integrated internal planning and decision-making. This requirement should drive up the quality of internal management information and the processes for collecting it and lead to more resilient businesses generating long-term sustainable cash flows.

Additionally, integrated reporting should improve the information available to markets for decision-making and provide a greater degree of comfort for regulators.

**Q9. (b) From your perspective: Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?**

Yes, we agree with the main challenges. Clearly there are a number of external challenges to overcome in respect to regulation, legal duties and liability issues and these will be substantial but we would like to emphasise the need for reporting organisations to build internal capacity across their data collection, analysis and reporting systems. This will be a significant challenge for large multi-national organisations operating in diverse business sectors. Often it is necessary to understand the individual business segments, rather than just being able to focus on the whole organisation. How this sits with the concept of an integrated report will be interesting to see and we suggest that this is one of the implementation issues that the pilot programme focuses on.

**Future Direction (page 25 of the Discussion Paper)**

**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?**

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

We agree that the actions listed should be the next steps for the IIRC. We believe that establishing a global mandate for the IIRC should be a priority. At present there seems to be a general consensus that corporate reporting needs to evolve into a more integrated form; but there is some uncertainty as to the future international standing of the guidance that will come out of the IIRC and this is likely to cause some stakeholders to hold back from participating in its development.

We strongly support the pilot programme initiative as this will tackle the variety of practical implementation issues which should allow the IIRC to disseminate helpful implementation guidance. We believe that its ability to operate outside of the regulatory environment will allow the programme to identify what needs to change for companies to deliver best practice integrated reporting.

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

We believe that the IIRC has to do even more to promote the concept of integrated reporting especially to the preparer community. The discussion paper states on page 6 that the integrated report should replace rather than add to existing reporting requirements, however, this view is not universally held especially by preparers. To alleviate the concerns of preparers that integrated reporting will be additive to existing disclosure requirements, the IIRC should explain how they anticipate that their requirements will not add to the reporting burden. To further encourage involvement from those producing reports, the IIRC needs to make a compelling case emphasising the benefits to preparers of the better quality information

that is likely to flow from more integrated thinking within their organisations. We also believe that assurance issues need to be considered. For any corporate reporting to be meaningful there must be trust in the content and the underlying processes ensuring completeness of material information. This will be equally applicable to integrated reporting and we call on the IIRC to consider how best to deal with this issues during the pilot programme.

The CIMA logo consists of the letters 'CIMA' in a white, serif font, set against a solid magenta rectangular background.

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Management Accountants