



**Certified
Management
Accountants™**

**Submission to the
International Integrated Reporting Committee (IIRC)
Towards Integrated Reporting
Communicating Value in the 21st Century**

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INTRODUCTION

Certified Management Accountants of Canada (CMA Canada) is pleased to provide feedback to the International Integrated Reporting Committee's (IIRC) discussion paper on integrated reporting. CMA Canada accepts the concepts and guiding principles the IIRC has identified are sufficient, however, we recommend more guidance for managers on how to effectively apply these principles in their organizations. Some of the needed clarification may come from the pilot program, which can be expected to produce improvements to the content and expression of the concept, principles and structure. There will, however, also be overarching issues including the consistency of the application and understanding of the definitions and standards that should be part of the pilot's scope.

WHO WE ARE AND WHAT WE DO

Certified Management Accountants (CMAs) are strategic management accounting[®] professionals who combine accounting expertise and business acumen with professional management skills to provide leadership, innovation and an integrating perspective to organizational decision-making. They apply contemporary and emerging best management practices in a wide array of business functions, including strategic planning, sales and marketing, information technology, human resources, finance, and operations. CMAs bring a strong market focus to strategic management accounting and resource deployment, synthesizing and analyzing financial and non-financial information to identify new market opportunities, ensure corporate accountability, and help organizations maintain a competitive advantage. CMA Canada has more than 50,000 members ranging from senior level managers in the public and private sectors, to sole practitioners operating as consultants and auditors.

THE WORLD HAS CHANGED – REPORTING MUST TOO

Question 1 (a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?

Action is needed to improve how organizations represent their value-creation process. If the investor community wants to truly assess the long-term value of corporations they will need more information. Currently, financial information gives a narrow and constrained focus view on how an organization is performing rather than a broad-based perspective (e.g., ESG-related information). However, simply providing ESG-related information without the context of the

organization's strategic intent does not provide the necessary value to investors. Therefore, the integrated approach the IIRC is advocating is appropriate and worthwhile. However, from a practical perspective, there is a strong possibility that a significant amount of latitude will be taken by organizations in their interpretation and disclosure of their value chain. There could also be confidentiality issues surrounding strategy that will not be encompassed in an organization's narrative, so organizations may stretch the boundaries to make them look good relative to their peers. Organizations are not likely to voluntarily comply unless the guidelines demonstrate a balanced approach.

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

Yes, this action should be international in scope. Currently, disclosure and sustainability metrics are unregulated around the globe, making the information organizations disclose difficult to compare across jurisdictions. Having all organizations use the same integrated reporting guidelines will enable fair comparison across the board. However, the IIRC will need to address who will be responsible from a regulatory compliance point of view to ensure comparability and adherence to the standards along with determining the penalties for non-compliance.

TOWARDS INTEGRATED REPORTING

Question 2 Do you agree with the definition of Integrated Reporting? Why/why not?

The definition of integrated reporting captures the point; however, the definition fails to capture the importance of balancing conciseness with materiality.

AN INTERNATIONAL INTEGRATED REPORTING FRAMEWORK

Question 3 Do you support the development of an international integrated reporting framework?

CMA Canada supports the development of an international integrated reporting framework. A clear and concise framework will ensure consistency across all organizations and will create a benchmark for organizations to follow. However, the findings from the pilot program will be critical in determining the long-term viability of the framework. The pilot program should include a cross section of industries. This is important because each industry is unique and will provide different examples to ensure the framework is comprehensive, practical and achievable.

Question 4 (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

Larger organizations have a greater impact and may develop solutions that smaller organizations can then follow. For example, larger companies had a quicker transition date to comply with SOX and IFRS and many smaller organizations benefited from the larger organizations' experiences and lessons learned. Ultimately, larger organizations have the

necessary resources to take the lead on integrated reporting. When considering users' needs (investors versus a wider stakeholder group) we agree the initial focus should be on the investor group, more specifically the institutional investor group, as this group tends to have a longer-term focus and commitment to organizations in which they invest. However, another important and related stakeholder group that needs to be considered during the initial pilot are lending institutions. In this way both equity and debt stakeholders have a complete picture (including a risk management perspective) as it relates to the reporting organization.

(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?

There needs to be sector specific information and frameworks developed for SMEs, the public sector, and not-for-profit organizations. The level of detail should reflect (i) the intended audience and (ii) the level of available resources in each area.

BUSINESS MODEL AND VALUE CREATION

Question 5 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?

The amount of value an organization creates or destroys depends on the business model it adopts and how effectively it is executed. Understanding an organization's business model is key and if stakeholders are to adequately assess the cost/benefit trade-offs made by the organization they need to understand what value an organization intends to create with its business model. However, the business model an organization follows will most likely be confidential in a competitive environment. One question to consider is how will privacy be managed relative to an organization's competition?

Question 6 Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?

The multiple capital approach employed in the report is not currently commonly applied, but it is intuitive for most stakeholders. The value of the multiple stakeholder approach is that it brings into focus the issue of externalities. At present, firms are using some forms of capital, such as natural capital, which they are not paying for and thus are not reflected in their financial statements. Requiring firms to measure and disclose the use of each multiple capital will hold firms accountable for their usage and will hopefully force organizations to consider how to deploy them to the advantage of all, not just their shareholders. In other words, if you measure the multiple capitals, they will get managed. For management of natural capital to improve environmental stewardship, the availability and depletion of the capital needs better and consistent metrics. To the extent that there is intent to measure consumption of natural capital throughout the supply, use and disposal chain, further metrics will be needed. This will involve a substantive change for many organizations and industries, and accountability for

reliable reporting needs to be strengthened by guiding methodologies which may not currently be sufficient. The pilot program could develop an explicit plan for producing such guidelines and related recommendations.

GUIDING PRINCIPLES

Question 7 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?

In order to provide a sound foundation for preparing an integrated report, the guiding principles need to be simple and easy to follow in order to expect organizations to embrace integrated reporting. The art of simple and easy is more difficult to put into practice. The flip side is, if the guidelines are not easy to follow, then perhaps it's not the right tool. The guiding principles can be further enhanced once the pilot program has been completed, however, as a starting point they are appropriate.

CONTENT ELEMENTS

Question 8 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 identified in the discussion paper are adequate; however, the report fails to address how organizations are going to measure and structure them in ways that are easy for managers to implement.

Question 9 From your perspective:

(a) Do you agree with the main benefits as presented in the discussion paper? Why/why not?

Yes, however, one benefit that needs to be highlighted is a standardized integrated reporting system. There is also much discussion throughout the paper on investors. A clear future plan on how to involve wider-based stakeholders needs to be established.

b) Do you agree with the main challenges as presented in the discussion paper? Why/why not?

Yes, however, the IIRC also needs to 1) address how to simplify or make integrated reporting easier and 2) outline the government's role and how they will address sustainability issues. This also highlights the challenge of achieving alignment among multiple governments. It should also be acknowledged that adoption of the integrated reporting could impact an organization's governance and internal controls.

Another challenge that is not addressed is the regulatory framework surrounding oversight and compliance. This poses a couple of questions: What happens if integrated reporting is adopted but compliance is not met? What happens to non-compliant entities?

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?

Institutional investors will be the driver for disclosure. If investors begin to have ready access to this integrated information, organizations will be pressured to report using the integrated reporting framework. However, exclusive use of the integrated reporting framework is not a realistic expectation as other sustainability guidelines such as GRI and AA1000 are already used by many organizations.

Question 10 (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?

One of the first steps the IIRC should take is to move “harmonization” up the list as a priority and develop a common lexicon for organizations to use. Secondly, the IIRC needs to develop clear implementation guidelines for managers to apply. This needs to be a step-by-step well laid out process with definitions so there is no room for selective interpretation and disclosure.

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