



**Comments and remarks on the Discussion Paper  
“Towards integrated reporting,  
communicating value in the 21th century”**

Deadline: 14<sup>th</sup> December



## 1. GENERAL REMARKS

- 1.1 CNDCEC wishes to express its appreciation for this document, its structure and contents. It considers it essential to design and develop reporting models which are appropriate to the current system for the production of goods and the provision of services. These models should thus be adequate to represent different production conditions from those which characterized social and economic relationships even just a decade ago and served as a basis for defining the reporting principles and instruments most commonly used at present.
- 1.2 For several years now, CNDCEC has conducted intensive and in-depth research activities on reporting and, more generally, on the economics of sustainability, providing support to the activity of professionals by means of theoretical papers and practical guides.
- 1.3 CNDCEC acknowledges that this version of the Discussion Paper is purely conceptual in nature and serves as a basis for a future project on the development of integrated reporting, for its planning and, therefore, for first discussing its underlying principles and preliminarily identifying entities to be involved in the project, themes to be examined and issues to be solved.
- 1.4 In order to achieve the right balance between providing complete, transparent and clear information and, at the same time, expressing it concisely in the Integrated Report (considered as one of the means available to organizations to develop their stakeholder engagement strategy), it may be useful to distinguish between primary and secondary stakeholders. The role different stakeholders should have in Integrated Reporting could be then evaluated, also taking into account the different relationships involving them in small- and medium-sized enterprises, on the one hand, and in larger companies and listed entities or enterprises operating in specific sectors, on the other. In view of enhancing effectiveness and accessibility for stakeholders, the availability and disclosure of information, revealed through a single Integrated Reporting process (thus analyzing both financial and non-financial aspects of business management), should achieve a balance based on the principles of information relevance and materiality.
- 1.5 The different strategies adopted by (present and future) investors should also be taken into account, distinguishing between medium-term strategies, such as pension or sovereign wealth funds, and others. This can affect to some extent the types of information to be considered.
- 1.6 From a theoretical perspective, although viewing business activities prospectively – focusing on the future – is a significant approach, CNDCEC considers it appropriate for the Integrated Report to be structured around performance indicators: whereas effective indication of ESG results and impacts may be supported by outlining the strategies employed to achieve them, the strategies themselves shall not represent the subject matter of the report. In other words, CNDCEC deems it appropriate for the report to be developed as an assessment of facts, rather than only as their analytical description.
- 1.7 CNDCEC considers it thus appropriate to involve straightaway small- and medium-sized entities in the Integrated Reporting project and invites IIRC to consider the adoption of a *bottom-up* or *layered* (or *scalability*) model for the framework.



## ANSWERS TO CONSULTATION QUESTIONS

### The World has Changed – Reporting Must Too

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

Yes, though the term *value* should be preliminarily defined. Referring to the concept of value as generated by an enterprise, CNDCEC considers it necessary to focus the attention on definability and measurability, since the concept may be related to a wider range of aspects (social function, management areas, externalities, output etc.).

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

Yes. Both political and technical guidelines on the development of reporting instruments (financial, as well as non-financial instruments) include among their objectives the need to promote comparability of facts – related to both production and/or finance – at a cross-country level. In order to support the comparability of reporting instruments, the first step must be a harmonization process (or even reduction to uniformity) affecting Integrated Reporting. This should prospectively replace other reporting practices, which nowadays are disjointed.



## Towards Integrated Reporting

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

The definition is appropriate and well-structured in principle. It is however necessary to make a distinction between the process – appropriate behavior – and the final report.

CNDCEC places importance on clearly distinguishing, right from the start, between the process – *integration* – and the document – *integrated report* – and deems it essential that this distinction be adopted to define appropriate stakeholder engagement policies in the reporting process. CNDCEC maintains that, in developing the framework, priority is to be given to the dynamic reporting process and to integration of company policies (such as policies on governance and sustainable financial, social and environmental management), and the integrated report shall fulfill the function of documenting this process thereafter.<sup>1</sup>

Within the integrated reporting process, it is then advisable to promote, beforehand, the coordination of those corporate functions which, together with other value-related elements (intangible, reputation etc.), variously affect financial, environmental and sustainability aspects.

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<sup>1</sup> As far as stakeholder engagement is concerned, the Discussion Paper seems to leave out some critical points, such as those relating to the lack of appropriate engagement on the part of shareholders and other stakeholders. The financial crisis has highlighted, for example, that shareholders and capital markets prefer short-term operations (see the Green Paper “The EU corporate governance framework” 5.4.2011 COM(2011) 164 final, §2).



## An International Integrated Reporting Framework

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

Yes (see answer to question Q1 (b)).

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?

No. CNDCEC holds the view that integrated reporting is extremely relevant to smaller entities, as well as it is for larger ones. It is necessary to consider their peculiarities in relation to decision-making, information gathering, differences in stakeholders, impact of reporting costs, and reporting addressees.<sup>2</sup> The value concept, which is crucial to the Discussion Paper, should be referred not only to complex organizations and capital markets, but also to the production system of small- and medium-sized enterprises.

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<sup>2</sup> In fact, according to data provided by the European Commission, small- and medium-sized enterprises (SMEs) – defined as enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro – have been the backbone of economic development in most European countries, providing a primary source of employment and economic growth. In 2008 SMEs accounted for 99.8% of non financial business activities and over two-thirds of total employment in the 27 countries of the European Union. 9 SMEs out of 10 did not exceed 10 occupied persons and an annual turnover of 2 million euro and were therefore considered as micro-enterprises. Data issued by the European Commission indicate that SMEs have been the main driver of European economic growth between 2002 and 2008: SMEs have constantly grown in number at a faster rate than large enterprises in the same period; the difference is even clearer when comparing the number of persons employed, which has increased more than twice as much in SMEs (+1.9%) than in large enterprises (+0,8% ) over the same period. The share of added value at factor costs by SMEs has achieved an annual growth averaging 4.2% in the period from 2002 to 2008, whereas the contribution of large enterprises has increased at a slightly lower rate, annually averaging 3.9 %. In particular, in Italy SMEs account for 97% of the production sector overall as well as locally. In such a scenario, the actual concept of “integration” may not exclude small- and medium-sized enterprises, as their presence impacts on a series of extremely relevant socio-economic variables.



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?

On the whole, CNDCEC agrees with it, as far as the framework and general principles are concerned. However, the model should clearly take into account the underlying differences between the abovementioned categories. In particular, as for the relationship between large enterprises and SMEs, CNDCEC would like to stress again the need to develop a model based on a bottom-up approach, rather than on a top-down one. This would consist in initially building a basis for the integrated reporting process in SMEs and subsequently adding further guidelines or aspects related to the larger structure and complexity of each (goods and services) production system.

CNDCEC deems it significant that not-for-profit organizations and the public sector are considered and kept entirely separate from each other. These entities pay growing attention to financial reporting principles, and their stakeholders are not investors, but rather citizens or recipients of goods and services which are not necessarily mainly financial in nature (such as healthcare, culture, charity).

Although CNDCEC agrees with the idea of integrated reporting as applicable to all kinds of enterprises, the term “equally” raises doubts, since CNDCEC deems it reasonable to consider the adoption of a modular approach taking into account the characteristics of each entity in relation to its size, its organization, its sector of activity and its business model.

#### **Business Model and Value Creation**

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, the innovative element in integrated reporting should actually be this outlook. However, it is important that more complex information and a partially perspective projection do not raise in the addressees of the report expectations that are not based on logical grounds (i.e. foreseeing a bright future relying on no structured data), which enhances the need to adopt measurability criteria.



## Resources and relationships or “capitals”

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

Yes, CNDCEC finds this concept very useful. This categorization is worth being further considered and developed and is to be part of a wider consideration of non-financial values. In view of extending integrated reporting to non-profit organizations and the public sector, CNDCEC suggests that further types of capitals, such as *cultural* capital, could be included in the existing categorization.

## The Building Blocks - Guiding Principles

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, they do. Nonetheless CNDCEC considers it appropriate to define the concepts of *stakeholder*, *verifiability (auditability)* clearly, effectively and scrupulously.

CNDCEC considers it appropriate to extend mandatory assurance to all areas of integrated reporting, not only to its financial components: gathering and structuring information from various sectors within a company requires pre-emptive assessment and awareness of the *verifiability (auditability)* of the information gathering process and its final presentation.



## The Building Blocks - Content Elements

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?

Yes, they do. Nonetheless, CNDCEC considers it essential to explicitly and scrupulously define the concepts of *governance*, *risk* and *responsibility* within the context of Integrated Reporting, in order to design and develop specific measurement instruments or indicators for their monitoring and assessment (risk map/liability map, etc.).

As for the concept of *governance*, CNDCEC considers it appropriate to conduct an in-depth analysis, including remuneration only as one of the issues to be examined. For the purposes of Integrated Reporting, the *governance* concept should be framed in the context of sustainability and referred to the *value* that a stable governance structure (through instruments such as the board of auditors) may add to a business organization and to its operating context in terms of (also social and environmental) risk management and compliance. Apart from disclosing information on remuneration of executives or others charged with governance, Integrated Reporting should also outline how additional functions to management (such as corporate control) may contribute to governance effectiveness, both in large and in small- and medium-sized enterprises.

As for the element *governance*, CNDCEC also suggests to consider to specify that it includes an analysis of the control systems adopted by enterprises, as well as their functioning, effectiveness and efficiency. In addition to business strategy, it should describe risk management and control systems; in addition to remuneration, it should examine executives and supervisors recruitment policies and criteria, as well as the actual board composition (see also the critical points highlighted in the Green Paper “The EU corporate governance framework”, §1, and the subsequent discussions on composition and diversification criteria for boards of directors, such as the issue on gender diversity).





## What Will Integrated Reporting Mean for Me?

Q9. From your perspective as a key stakeholder:

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

In principle, CNDCEC agrees with it, and considers it also important to revise the composition of the fourth category *Other Perspectives*, since *Assurance providers* and *Employees* would be best considered separately.

Furthermore, information concerning future prospects should be diversified according to the different objectives pursued by stakeholders. Although institutional investors engagement is desirable, even in the production process, it must be considered that, except for rare cases, their strategy is usually short-term-oriented, due to their need to quickly sell their shares. The perspective becomes medium- or long-term-oriented when dealing with pension funds.

Q9. From your perspective as a key stakeholder:

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

In principle, CNDCEC gives primary importance to measuring performance and objectives achieved by the company. The description of activities and management procedures shall rather aim at defining objectives and reporting on performance.

## Future Direction

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?



Yes, CNDCEC is satisfied that the Discussion Paper outlines the necessary steps to develop the project, although these should/could be undertaken in parallel, rather than in chronological order. CNDCEC appreciates this practical and effective approach and the idea to run a Pilot Programme in order to test processes related to Integrated Reporting. However, it invites IIRC not to underestimate issues related to the effective harmonization of national requirements on financial and non-financial reporting.

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

As far as governance is concerned and in view of developing a framework for integrated reporting and for undertaking technical work, CNDCEC deems it appropriate to reconsider how the Working Group and Task Forces are represented within the IIRC organization, as well as how international institutions and organizations (such as IASB, IFAC, UNCTAD and the European Commission) are involved. CNDCEC considers it necessary to identify right from the start all institutional actors who will be involved in the regulatory process, in order to favor shared regulation.