

14 December 2011

International Integrated Reporting Committee  
dpreresponses@theiirc.org

**Ref: TOWARDS INTEGRATED REPORTING - COMMUNICATING VALUE IN THE 21<sup>ST</sup> CENTURY**

Dear Sir / Madam

On behalf of the III Working Group on IFRS impact and Central Balance Sheet Data Offices Databases (III WG hereinafter) of the European Committee of CBSO<sup>1</sup>, I am pleased to submit this comment letter<sup>2</sup> as an answer to the paper for public consultation on Integrated Reporting. This letter provides the opinion of the III WG derived from our experience creating and maintaining databases of financial reports of non financial corporations.

Please contact Manuel Ortega on manuel.ortega@bde.es if you wish to discuss any of the issues raised in this letter.

Yours faithfully,

Manuel Ortega



Chairman of the ECCBSO and its III WG  
on IFRS impact and CBSO database  
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Cc: Eduardo Rodríguez Tenés, Head of Statistics Department, Banco de España  
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<sup>1</sup> CBSO is the acronym of Central Balance Sheet Data Office. Annex 1 briefly introduces the European Committee of CBSO and its working groups.

<sup>2</sup> This document is co-authored by members, not observers, of the III WG (Annex 1 contains a list of members of the III WG). Please note that these opinions do not necessary reflect the viewpoint of the central banks or institutions to which members of the III WG belong.

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

Answer:

We believe that the idea of integrated reporting should separate two issues. One issue is interlinking different reporting strands closer together. Integrating the reports together to receive one representation of value-creating is a separate, much more challenging project. In general we agree to the idea of integrated reporting for large or listed entities that publish currently financial statements, management commentary, governance, remuneration and sustainability reporting. An integrated approach would be helpful in order to better understand all the information related, reducing at the same time the reporting burden and improving the comparability with other listed (or larger) entities. To that aim, the need of structured formats and electronic standards, like XBRL taxonomies is crucial.

The question how to represent a combined value-creation is a separate issue. The discussion paper does not give a clear idea in this respect what is meant with "value creating". If social and environmental issues should be combined with financial performance we expect a difficult and intensive debate (see for potential controversies our answer to question 2). If the IIRC wants to propose a "coherent whole" of value creation, it must also lead the way for such difficult issues. Otherwise the IIRC should limit itself in merging together different reports while reducing the reporting burden (for issuers as well as for the readers).

Difficulties can be imagined already when assessing financial reporting: the two large accounting standard setters currently do not provide a precise definition on "value creation" or performance, proven by the difference between the traditional concept of net income and the rather new "other comprehensive income". There are no clear conceptual explanations by the Boards what should be included in the one or the other. In fact when looking at "other comprehensive income", the question is how the items included refer to "value-creation".

Finally, it is very important to note that for the vast majority of SMEs (at least in Europe), currently there is no obligation for management commentary, governance, remuneration or sustainability reporting. Hence it seems that there is no need for an integrated reporting approach, and therefore, probably these entities should be excluded from the scope of integrated reporting for the time being, concentrating then all the efforts in large enterprises and listed corporations, independently of the size, in this last case.

**Q1.B) Do you agree that this action should be international in scope?**

Answer: **Yes**, but only having in mind that the scope is on listed and larger companies. It is needed the comparison of information located in an integrated reporting among companies and groups from different countries.

**Q2. Do you agree with the above definition of Integrated Reporting.,**

Answer: **Yes and no.**

The elaborations in the discussion paper mainly refer to the objective of bringing the different reports together (which is welcomed in general). The aim being a “coherent whole that explains an organization’s ability to create and sustain value”, should need a more precise definition of how to **measure** the “integrated value creation”, providing certain guidance on how to combine environmental or social issues with financial performance and ethical concerns, currently not touched in the document, like environmental pollution, exploitation of labor in one of the steps of the value chain (in the extreme using child labor in developing countries) or the questionable value of producing military weapons and equipments.

Further, the long term target selected (“replacing rather than adding to existing requirements”) should be seen as a final target, but to achieve it, it should be better to go step by step, beginning by the selection of the core elements currently available in the different domains selected (for example, selecting the core elements of the IFRS XBRL taxonomy, for the financial part of listed entities, or the GRI elements for corporate governance and sustainability, etc), as the “alternative pathways to Integrated Reporting” included in the DP also provides as second best option . Trying to change from the current framework to the new one, could be highly time consuming and extremely difficult to achieve.

**Q3. Do you support the development of an International Reporting Framework?**

Answer: **Yes.** It will represent an opportunity to harmonize financial and non financial information of listed corporations and groups worldwide. However, the current elaborations are not satisfying, the IIRC needs to precise how different reporting fields should be combined. We are especially interested in the non financial companies and groups, and believe that this is a chance to create common basic standards (structured formats and XBRL taxonomies) with the core of the information really necessary: to have less information but more relevant and comparable.

**Q4.a Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of the investors.**

Answer: **Yes and no.** Yes about the larger companies and groups (see our answer on question 1). No about the needs of investors. To focus from the beginning on their needs will introduce a bias that will affect all the development of the project. The short-term objectives of investors can be contrary to the objectives of the society (or taxpayers), a fact that the financial crisis unfortunately has proven. From the beginning it is necessary that a broad circle of stakeholders are addressed, among financial institutions, employees, regulators and statistical offices. They should have the same weight as investors in the focus of the 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 organization?**

Answer: **No.** In the case of public sector and NPOs, their targets are so different that the approach of the project should concentrate in the companies and groups, financial and non financial.

As already stated, for the vast majority of small and medium sized entities, there is no obligation for management commentary, governance, remuneration or sustainability reporting. Integrated reporting would be a new reporting burden. It is also necessary to keep in mind that the accounting regimes for SMEs will still differ between countries in the medium term future (different national GAAPs, IFRS for SMEs for some countries). Hence we consider it to be sufficient if only large listed groups and all listed companies, independently of their size, are subjected to Integrated Reporting.

**Q5. Are the organization's business model and its ability to create and sustain value in the short medium and long term, appropriate as central themes for the future direction of reporting?**

Answer: **Yes**, but only for financial and non financial companies and groups. For this reason, the answer to question 4.b is that not for NPOs and Public sector. Other question is whether this target could be extremely ambitious and, therefore, it is convenient that the project defines steps with precise results in short term, beginning with second best options, like one of the "alternative pathways to Integrated Reporting" described in the DP.

**Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value?**

Answer: **Partially.** The concept of multiple capitals is helpful in describing resources and relationships of an organization. But there is no explanation how ultimately value is created or sustained by an entity using the described capitals.

**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?**

Answer: This way to begin the project might be intellectually appropriate for the long term goals. However, we propose to work at the same pace with an "alternative pathway" using the current information available including IFRS and US GAAP taxonomies, statistical taxonomies and dictionaries available (see joint works developed by ECB and Eurostat in 2009), GRI taxonomies, RSC taxonomy (created by XBRL Spain, about social corporate governance), among others.

**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?***

Answer: See our answer of Q7.

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

Answer: NA

***Q9 From your perspective as an investor.....***

Answer: NA

***Q9 From your perspective as a policy-maker, regulator or standard-setter,***

***a. Do you agree with the main benefits as presented in the DP?***

Answer: **Only partly.** One advantage is the reduction on the reporting burden that will imply the integration of different reports. Contrary, the harmonization of approaches does not lead necessarily to benefits to all reporting entities or a reduction of red tape. This was proven by the intensive discussions when developing the IFRS for SMEs (some SMEs see in this standard a substantial increase in the reporting burden) as well as the discussions taking place when changing the definition of equity in IAS 32. Further, we see no direct relationship between integrating different reports and economic and market stability.

The DP says “Integrated Reporting offers a platform for policy-makers, regulators and standard-setters, working together to.....”. We suggest including in this project Statistical Institutions, within the scope of regulators.

***b. Do you agree with the main challenges as presented in the DP?***

Answer: **Only partly.** We think the main challenge is to make possible the definition of a “coherent whole that explains an organization’s ability to create and sustain value”, in a way that guarantee the harmonization.

Please further, take into account statistical needs within the scope of IR. We propose to add as an explicit point in the Challenges, the creation of formats, and the preparation of taxonomies, with electronic standards, like XBRL.

***Q10.a Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Are there other significant actions that should be added?***

Answer: **Yes**, we agree, but only if at the same time IIRC begins to work in the “alternative pathway”, working from the current standards available (IFRS and US GAAP taxonomies, statistical taxonomies, GRI and others), in order to guarantee to obtain intermediate goals.

**Q10.b What priority should be afforded to each action?**

Answer: begin with the “alternative pathway”, concentrating efforts in obtaining short term results, and follow at the same time the pilot program and the framework definition.

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

Answer: about the governance of Integrated Reporting, we suggest to create an advisory group at the highest level, which should include public, international (IMF, ONU, among others) and regional bodies, including in this case some European institutions representatives (ESMA, EBA, EIOPA, ECB, Eurostat or European Commission).

## **ANNEX 1 – PRESENTATION OF THE EUROPEAN COMMITTEE OF CENTRAL BALANCE SHEET DATA OFFICES (ECCBSO)**

The European Committee of Central Balance Sheet Data Offices was set up in November 1987 on the initiative of several **European central banks** and the **European Commission**. Its aim is to contribute to improve the analysis of information on non-financial corporations, to exchange information and to undertake joint work. The members of the Committee are the central balance sheet data offices of the central banks of Germany, Austria, Belgium, Check Republic, France, Greece, Ireland, Italy, Poland, Portugal, United Kingdom, Romania, and Spain, and similar units from the statistical offices of Finland, Denmark, Luxemburg, Netherlands and Sweden. All this central balance sheet data offices belongs to different departments (statistics, operation, research, others) in the central bank, what affects the general aim of the Committee, broadening its targets. As regards Ireland and the United Kingdom, these countries' participation is merely as listeners, since in practice they do not have a central balance sheet office. The European Commission and the European Central Bank also participates in the ECCBSO meetings as well as in some of its Working Groups, been an active member of some of them. The chairmanship is on a rotating basis and is for a term of three years. Banco de España is holding the chair until November 2013.

### **Committee working groups**

**First Working Group (risk assessment).** In 1999 this group worked in coordination with the related services of the European Central Bank to define a working guide for the homogenisation of the risk analysis tasks carried out by central banks in respect of the corporations whose liabilities are taken as collateral in monetary policy operations; it is continuing this task monitoring the improvements on the system of analysis on use in each central bank for this purpose. The aim of the group when it was set up in 1987 was to draw up a White Paper on corporate analysis in Europe. It drafted reports on the analysis of stocks and flows conducted in the various central balance sheet data offices.

**BACH Working Group.** The group is entrusted with maintaining the BACH database of the ECCBSO and with improving comparability among the European countries that report to this database. The information in the database uses the basic structure defined in the IV Directive for the balance sheet and profit and loss account, in cascade format. It has encountered comparability issues relating to the lack of consistency between the different databases and national charts of accounts that are its basis. The working group has extensive experience (it began working in 1987) in problems arising from the lack of comparability between the various sources and it has minimised these shortcomings for the BACH database. The group is responsible for the upkeep of the BACH user guide, which highlights the causes for the lack of comparability between national data sources in the greatest detail.

The group has also developed a database of statistical ratio distributions for several European countries (Austria, Belgium, France, Germany, Italy, Netherland, Portugal and Spain).

**III Working group on IFRS impact and CBSO databases.** This group explores and monitors the effects of IFRS on the European central balance sheet data offices' databases and questionnaires. In addition, the group has studied the similarities and differences between the questionnaires that are the basis for the information available at each central balance sheet office. In all cases the source of the data is a standardised form, whether that which is compiled in the country for the filing of annual

accounts (the case of Belgium and of Spain through one of its databases), whether the forms used to file corporate income tax (the case of France, through one of its databases) or whether specific standard forms (e.g. Germany, Austria, Spain, France, Italy and Portugal). The working group has developed a common standard format, compliance with the IFRS, using for that purpose the XBRL-IFRS based taxonomy, finally creating some real cases of European Consolidated accounts and integrating all them in a common dataset, called ERICA.

**Study Group.** The group analyses profitability and financing conditions in Europe for non-financial corporations of the countries participating (Belgium, France, Germany, Italy, Portugal and Spain).

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