

# INTEGRATED REPORTING FRAMEWORK

## Comments on the Discussion Paper

Italian Group - Vers. 12/13/11

International Integrated Reporting Committee  
[dpresponses@theiirc.org](mailto:dpresponses@theiirc.org)

Dear International Integrated Reporting Committee,

The Italian Workgroup on Integrated Reporting is happy to answer your call for comments on the discussion paper “Towards Integrated Reporting - Communicating Value in the 21st Century”. The following are shared observations and results of collaboration among participating organizations. We wrote our answer in two parts: the first collects general observations on your discussion paper, in the second part you will find a complete response form which is the synthesis of the works of our Italian Workshop.

We have general observations on eight issues (following points from letter “a” to letter “h”) and one point on specific Italian institutional and economical features.

### *a. Target audience*

We think the interlocutors of integrated reporting should be every organization’s stakeholder groups. In this sense it is difficult to identify a standard set of stakeholders applicable for every organization, and this implies that different narratives could be shared with different groups. For this reason we are interested in a deeper clarification on the interlocutors. Is the integrated reporting process addressed to stakeholders or to shareholders, as we may gather when you refer specifically to the investment community?

### *b. Internal processes*

The position paper lacks in the definition of the process to collect data and prepare the integrated reporting. We think the discussion of internal process could be one important improvement to foster the firm’s engagement in preparing for integrated reporting.

### *c. Relation among category of performance*

We think that to increase the materiality of the guidelines the document must include a discussion of the relations between each capital and performance. We think that identifying a structured mode to account for relations between two capitals must be included in the document, to increase the materiality of the approach.

### *d. Benchmarking*

We are interested in opportunities to have benchmarks among different firms. Because we think the integrated report will be the main report we are concerned about the opportunity to compare

performance and results. Because the discussion paper suggests the opportunity of personalized reports, we are interested in better understanding how will be possible to compare results and performance among peers.

*e. Integrated or aggregated*

From the discussion paper it emerges an integrated report as a document which summarize others report published by the firm. Does it mean that firms without sustainability reports will not produce an integrated report?

*f. Management systems accountability*

We think the discussion paper fails to include one material staff function to assess the performance: processes and management systems. Must a description of main management systems must be included in the report? We think it will be better to include the opportunity of this dimension in the report, but in the framework there is not a clear section to include it.

*g. Natural capital in the model*

In the suggested framework natural capital is included as capital (asset). Because of natural externalities of production processes, we wonder if it is not better to include the natural environment also as performance. Output like total waste, produced CO<sub>2</sub>, total recycling are relevant performance of the firm in an integrated perspectives.

*h. Web communication*

Because the relevant role of social media, we think IIRC must address the topic dealing with opportunity of communicating by social media. We think social media must have a central role in accountability because they allow firms to directly communicate with stakeholders, and it allows them to address communication effectively to stakeholders who are interested in the firm's performance. Web sharing could increase the benefits related to integrated reporting process.

*i. SME and Italian features*

In Europe SMEs are for the vast majority of medium and small size. Eurostat notes that 99.8% of European societies are classified as "small" and, more specifically, 92.1% are identified as "micro".

Table 1 – Data on the number, employment rates and gross value added of the enterprises in Europe

	Micro	Small	Medium	SMEs	Large	Total
<b>Enterprises</b>						
Number	19,198,539	1,378,401	219,252	20,796,192	43,034	20,839,226
%	92.1	6.6	1.1	99.8	0.2	100
<b>Employment</b>						
Number	38,905,519	26,605,166	21,950,107	87,460,792	43,257,098	130,717,890
%	29.8	20.4	16.8	66.9	33.1	100
<b>Gross value added</b>						
EUR Millions	1,293,391	1,132,202	1,067,387	3,492,979	2,485,457	5,978,436
%	21.6	18.9	17.9	58.4	41.6	100

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorvys

Italy has a higher percentage (99.95%) of SME than the European average. The problem about "reporting" of small companies is an important concern. In this perspective, we believe that it would be important to include small and micro enterprises in the IIRC project. IIRC should, in our opinion, consider the specificities of SME in relation to information needs, decision making, and administrative costs related to the implementation of the report. More specifically, small enterprise stakeholders (creditors, business partners, Treasury, local communities etc.) are often interested in knowing different information with respect to large organizations. So, in the Integrated Report, it may be appropriate to distinguish primary stakeholders and secondary stakeholders, in order to point what are the categories most concerned in the preparation of the report.

IIRC may adopt a bottom-up approach giving a common set of information for all companies, and requiring additional information for larger firms. The SME model should not be considered a minus, but as a reference for the construction of more complex models.

We understand the Framework represents a general approach, but it may be useful to define a set of indicators, in order to increase the comparability between companies and support the SME to understand better their performance. It could be useful involve SMEs in order to better understand their specificity.

Last, it could be important to give a definition of "value", in order to guide the construction of the information process and of indicators.

## Response form.

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

The ability of a company to define value creation process and to communicate with all stakeholders is crucial for long term value creation. In this context a well implemented reporting system plays a strategic role as it brings together financial and non financial information. During the last years the evolution of reporting has reflected the stakeholders' need to receive information that conventional financial reports were not delivering. Management itself often does not understand the strategic connection between ESG and value creation and therefore does not identify the significant performance areas or management approach needed to dealing with these

issues. Effective management of ESG is critical to the ongoing success of business and a better way to underline the connection between strategy, performance and business value is needed, in particular to non-financial information. The reporting process should be able to support this change of paradigm, disclosing in a more concise, material and consistent way the link with the business case.

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

In a widening global marketplace and with growing interdependencies between economies, a coordinated international action is needed. Benchmarking businesses, even within different reporting periods, is the key challenge for setting up a new framework for integrated reporting. In order to establish a common international approach for this initiative, a structured and detailed action plan should be defined together with the identification of specific goals and the related responsibilities. Also, a governance mechanism should be appointed for the implementation of these activities.

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

Yes we agree with the definition. We really appreciate the focus on the materiality of information at the foundation of Integrated Reporting (IR). We believe that "integrated thinking" is quite a crucial point for companies to implement a new reporting model. In a broader way IR is a cultural challenge within reporting organizations; this aspect should be introduced in the definition of IR. A clear definition of the differences between the concepts of 'Integrated Reporting' (as the process of integration – internal dimension), 'integrated thinking' (as the cultural change in the organization), and 'Integrated Report' (output of the IR process – external dimension). **The interfunctional nature of IR should be emphasized as the way to bring together material (relevant) information for stakeholders. Also, it should explain the ability of the organization to create and sustain value in the short, medium and long term.**

*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?*

We agree that the initial focus of IR should be on the reporting of larger companies and on the needs of their investors. The reporting process of larger companies should fit better with the challenges of the IR process. An IR will be relevant to anybody interested in the strategy and performance of the relevant company. Investors should be seen as one of the intended primary audience, but the needs of other key stakeholders should similarly be considered.

*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?*

Many are the potential benefits for businesses for advancing reporting. If the capital markets can fully understand a company's strategy, including how non-financial performance and ESG elements 'fit' with the financial aspects, they will have a better insight of how these matters affect the business performance and value. Integrated Reporting can have a greater influence over the capital markets' determination of management quality and performance. Organizations would need to explain their business model, and how they create value over the short, medium and long term. To support the organizations in the external communication of their business models, key studies and examples should be provided.

*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 we agree. Connectivity between financial and non financial information should be emphasized. The framework should support organizations in finding the existing links between financial performance / management and the non financial impacts. Case studies and examples could be useful also for providing evidence to the connectivity of information.

The key aspects in the IR process that should be better reflected in the Framework, are the comparability and reliability of information. In this field a refinement of the assurance procedures and guidelines is desirable.

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

To date, the audit is mandatory by law for the annual report (financial statements) only, while it is performed on a voluntary basis for non-financial information. Accordingly, in order to avoid loss of credibility and to maintain its intrinsic quality of information and communication, the non-financial information included in the IR should be (over the medium and long term) subject to mandatory assurance procedures as well. As reported on page 24 of the discussion paper, new techniques, standards and reporting assurance methodologies should also be developed.

*Q9. (c) From your perspective: 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?*

The concept of IR is clearly intended to meet the information needs of investors. To improve the usefulness of ESG information within capital markets, the link between ESG performance and financial performance needs to be better understood. IR should explain the integration between ESG matters and the business strategy and it should describe how the strategy is performed in terms of ESG KPIs and perspectives.

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

In the Pilot Program the priority should be finding the different challenges faced by the reporting organization and identifying the best way to implement an IR process. An analysis should be carried out among organizations of different sectors and dimensions to observe specific issues and element to be considered.

**For the Framework development it is important to continue with consultations across countries throughout regional roundtables and other engagement and communication activities also with Government and Regulatory Bodies.**

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

The Framework should bring together financial, social, environmental, corporate governance and intangible issues. This process should take into account all the most relevant existing standards trying integration in the medium-long term (e.g. International Accounting Standard (IAS) / International Financial Reporting Standards (IFRS) on financial reporting). The renewed EU Strategy 2011-14 for Corporate Social Responsibility should also be taken into account as it explains how an integrated approach to CSR, hence to reporting, unveils business opportunities at all levels: risk management, cost savings, access to capital, customer relationships, human

resource management and innovation capacity. The Discussion Paper launched last January in South Africa "Framework for Integrated Reporting and the Integrated Report" is an interesting example as well. GRI Guidelines should also be considered to define the general contents and principles. The successful development of the Framework is directly connected to the ability of IIRC to address issues affecting the top management, which plays a key role in sponsoring the IR process, especially CEOs and CFOs as they can actively contribute to the promotion of IR within the organization. The IR process in fact, besides the operational integration with the general reporting system, requires as well a cultural integration with the organization's values and overall strategy.

We think Italy, thanks to its tradition in reporting practice, could give a relevant contribution to development of innovative forms of accountability.

Thank you for the opportunity to be involved in the discussion on integrated reporting, we hope we will find the opportunity to increase frequency and intensity of our collaboration.

Best Regards.

Gruppo Oscar di Bilancio- rendicontazione Integrata:

ABI – Associazione Bancaria Italiana; AIAF – Associazione Italiana Analisti Finanziari; AIIA – Associazione Italiana Internal Auditors; ANDAF – Associazione Nazionale Direttori Amministrativi e Finanziari; ASSIREVI – Associazione Italiana Revisori Contabili; BORSA ITALIANA; CERVED Group; CNDCEC – Consiglio Nazionale Dottori Commercialisti ed Esperti Contabili; CSR Manager Network; FERPI – Federazione Relazioni Pubbliche Italiana; NEDCOMMUNITY; XBRL Italia.