

## **Response to the IIRC Towards Integrated Reporting discussion paper**

### **Submitted by The Co-operative Group (based in Manchester, UK)**

#### **About The Co-operative Group**

This submission is made on behalf of The Co-operative Group (The Co-operative), the UK's largest mutual retail business with over 6 million members, more than £13 billion turnover and core business interests in food, financial services, pharmacy and funeralcare. The Co-operative has more than 5,000 trading outlets across the UK, and employs nearly 110,000 people in the UK.

The Co-operative has been reporting on its non-financial impacts and aims for over a decade via its sustainability report, and has been instrumental in developing a range of sector-leading reporting standards. We would welcome further opportunities to engage with the committee on the future of integrated reporting and the proposed framework.

#### **Overview**

We welcome moves to improve the quality of financial and non-financial reporting, and agree that an integrated approach to strategy could help to embed sustainability into business practice and deliver best value to stakeholders. In this context, we agree there is a need to improve the way in which this embeddedness is articulated, and the transparency, comparability, and navigability of reporting. We would encourage connected reporting around future sustainability strategies and impacts, and that ambitions to progress this agenda should be international in scope.

Furthermore, we believe integrated reporting has an important role to play in ensuring the comparability and reliability of non-financial data sets. To this end, we remain strong advocates of mandatory carbon reporting, which we suggest is incorporated as a requirement for the model.

The IIRC consultation paper focuses on shareholders as the primary beneficiaries of integrated reporting. While we believe this model could play an important role in driving up standards in non-financial reporting, and bringing this information to the attention of shareholders, we would ask that the committee further consider the requirements of non-listed businesses. It is suggested the model may be less relevant for organisations such as large mutuals / not-for-profit bodies. Such organisations have distinct stakeholder groups and may need to present additional material information on non-financial impacts. With this in mind, we would not necessarily support moves to make integrated reporting mandatory, particularly in the context of the Annual Report and Accounts. We also have concerns as to what disclosures can be made regarding future financial / business strategy, due to commercial sensitivity. We agree moves in this direction are desirable in principle.

#### **Response to questions**

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

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

It is acknowledged that representation of value creation is not fit for purpose in many instances. The degree to which action is required is dependent on the reporting practices of individual organisations and their stakeholder groups. To fully present value creation, it is important that an integrated framework address the comparability / reliability of the information reported. It is noted that there is often insufficient

performance data reported on material non-financial issues. For example, in the case of sectors such as the oil and gas industry, relatively few companies disclose their future strategy on how they will manage the impact of carbon pricing or highlighting the potential risks related to these emissions.

We agree that that action to improve the representation of value creation should be international in scope.

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

The definition of integrated reporting encompasses commendable aims, and we strongly agree with the focus on 'integrated thinking'. Without this, the impact of integrated reporting will be limited. Our main concern is the statement that an integrated report replaces, rather than adds to, existing requirements. It is our view that a more comprehensive sustainability report, where there is stakeholder demand for this, may be required to capture the full extent of an organisation's non-financial impact.

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

Organisations wishing to report in an integrated manner should be supported to do so. We anticipate that moves towards this model will improve the quality of reporting and give non-financial information more prominence amongst a shareholder audience. However, it is important that due consideration is given to: how the framework will fit with other national and international standards; comparability and scope of data; and if an integrated report could potentially diminish sustainability reporting for organisations who have no shareholders / are more advanced in this field.

*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?  
(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?*

It would seem sensible to trial this approach in larger organisations with the resource to pilot an integrated approach, and agree that the aims underlying the approach are equally applicable to all sizes of business of varying sizes.

As outlined below, we would ask that the committee takes further into account the needs of organisations without investors, as the stakeholder requirements in the mutual / not-for-profit sectors will differ from those outlined in the consultation paper. We would also caution against overstating the present role of key reporting documents, particularly the Annual Report and Accounts, in shareholder decision-making. While this is an important document, it would also be helpful for the principles of integrated reporting to permeate the wider sphere of shareholder reporting, such as real-time updates and quarterly reports.

*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?*

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

*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?*

*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?*

Further detail would be required on the nature of the core elements (and supporting data that would be required), though we agree that these areas provide useful starting points to cover key themes. We have concerns regarding the extent to which future financial strategy can be disclosed, given this information is highly commercially sensitive. Many issues will span the short, medium and long terms. Furthermore, we would not want to see sustainability reporting move exclusively towards a quantifiable set of KPIs that measures various forms of capital. Such a move could undermine the tremendous progress made in sustainability reporting over the past few decades, which has involved sharing a wealth of information on strategy, delivery and stakeholder engagement.

*Q9. From your perspective:*

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

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

*(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?*

We agree with the overall aims of the consultation, and support moves to improve reporting quality and encourage synergies in financial and non-financial strategy/performance. We agree the value of such a shift lies in the true integration of business practices rather than 'combining' information for the purposes of reporting. To this end, The Co-operative's Ethical Plan has recently fully aligned the business planning cycle with sustainability strategy, and has delivered significant benefits. Furthermore, we agree that effective risk management should take into account both financial and non-financial information.

As a consumer co-operative, we have a distinct set of stakeholders, namely an active membership, supported by a democratic structure (with a local / national governance arrangements in place to scrutinise sustainability performance). While we see value in an integrated report, we would not necessarily seek to pursue this format. We believe that our stakeholders demand additional information which could not be accommodated in an integrated format, given the stated aim to reduce content and only report the most material information. To this end, an integrated report could only be viewed as only part of the reporting suite of our organisation.

The aim to bring together all the key information required by stakeholders in one place is ambitious. In terms of Annual Reporting, this needs to strike a balance of placing non-financial information on the agenda of a wider audience, while avoiding becoming unwieldy and inaccessible. Conversely, organisations could claim to

satisfy stakeholders by providing the bare minimum of information required in an integrated report, without responding to stakeholder concerns elsewhere. It is acknowledged that the consultation notes that extra content can be presented elsewhere. However, in the present economic climate, the case for resource to deliver additional reporting could prove a challenging one. We would also query if an integrated report is the most useful tool to engage with the wider stakeholders suggested in the consultation (such as the employee population, civil society, academics etc). As outlined in the consultation document, it is crucial that the framework takes into consideration other leading national and international requirements and developments in reporting, which are often not fully aligned.

While the issues above are acknowledged as legitimate risks, such concerns should not impede the drive for greater transparency and comparability in non-financial reporting, in which integrated reporting can play a pivotal role.

*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?*

The opportunity to engage with the IIRC at various stages in the framework development is welcomed. It would be useful to obtain more detailed information on the outputs from the pilot projects and the learning achieved by the organisations involved (eg. case studies shared with the reporting community). With this in mind, a more evidence-based case for integrated reporting may prove helpful for organisations considering this model.

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

Further guidance from the committee on the external audit requirements for an integrated report would be welcomed. This could result in organisations requiring non-financial data to be scrutinised by two sets of auditors if a full sustainability report is maintained.

We would be keen to hear more detail on how moves towards an integrated approach would improve the materiality, quality and comparability of non-financial data reported. While an effective integrated reporting model should take into account organisational / sector difference, this should also help bring rigour and comparability. We believe that mandatory carbon reporting would be particularly beneficial to stakeholders wishing to assess value. Comprehensive information on investment in a green economy would greatly help investors to make sustainable long-term decisions to support a low carbon future.