

**IIRC Council
Meeting of 2 November 2012**

Minutes

Date: 2 November 2012
Time: 08:50 – 15:40 (JST)
Venue: Tokyo Stock Exchange; 2-1 Nihombashi Kabutocho; Chuo-ku; Tokyo 103-8224
Chairman: Mervyn King
Attendance: See below
Minutes: Andrew Smith

<u>Agenda item</u>	<u>Paper</u>
1. Welcome, introduction and objectives for the day	
a) Welcome from Atsushi Saito, Chairman of the Tokyo Stock Exchange	
b) Introduction to the meeting and objectives for the day	
c) Approval of minutes from previous meeting	Item 1
2. Progress report	Item 2
a) Briefing of Council on the status of IIRC activities from the CEO	
b) Questions/discussion	
3. Vision for the long term future	Item 3
a) Lecture by Kazuhiko Toyama (CEO and Representative Director of Industrial Growth Platform, Inc.), setting out the broad economic landscape beyond the immediate global economic and financial crises, exploring broad trends in the shape of the global economy, capital markets, governance systems and particularly the role of investors as owners of businesses	
b) Discussion and debate by Council to provide a framework to shape development of the IIRC’s long term strategy	
c) Break-out session to gain Council members insights and input to inform development of future positioning, longer term strategy for <IR> and post-2014 institutional arrangements	
d) Plenary session to share key points of feedback and actions	
4. The Framework	Item 4
a) The Prototype Framework	
b) Pilot Programme participant experiences	
c) Break-out session to consider key, strategic questions arising in the context of the Framework’s development	
d) Plenary session to share key points of feedback and approve direction being taken	
5. Countdown to the next Council meeting – key milestones	Item 5
6. Next steps and any other business	
a) Appointments	Item 6a
7. Confirmation of date/venue for next meeting	
• 19 March 2013 - Washington	
• 5 December 2013 - London	
8. Close	

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1. Welcome, introduction and objectives for the day

The Chairman thanked the Tokyo Stock Exchange and JICPA for hosting the meeting and welcomed participants to it, especially those attending for the first time.

Atsushi Saito welcomed the IIRC Council to the Tokyo Stock Exchange, which he said was honoured to host the meeting. He thanked JICPA for co-hosting the IIRC in Tokyo, commended the IIRC on its progress to date and offered his congratulations on a series of successful events in Japan in the immediately preceding days.

The Chairman summarized the objectives of the meeting as being for Council members to:

- Be informed and up-to-date on the IIRC's progress towards established goals; and
- Provide input and advice on the IIRC's future direction.

Minutes of previous meeting

The minutes were approved without revision.

Matters arising

There were no matters arising.

2. Progress report

The CEO made a presentation on the IIRC's progress.

Key points of information/discussion

The following points were raised during discussion:

- The IIRC has achieved global coverage and ever increasing momentum.
- The IIRC continues to focus on increasing the voice and visibility of the investor community. Investor organizations that are already involved with the IIRC have made it very clear that the visible imbalance needs to be addressed. A number of initiatives are underway to that end and significant progress is intended to have been made by the next Council meeting. It is also important to remember that there are different types of investors.
- The reporting landscape presents a jigsaw, in which the IIRC must manage the relationship of <IR> with other types of reporting. There is strong recognition of/support for <IR>, and a growing sense of inevitability about its introduction and application.
- During the first year of the Pilot Programme, participating companies have focused more on internal processes than developing integrated reports, recognizing the power of <IR> to drive Integrated Thinking in the business. Participating companies show a great deal of passion for the process and more companies are interested in joining the Pilot Programme. The IIRC has sought to capture Pilot Programme company experience, in terms of lessons learned and changes in decision-making processes, notably by means of: (a)

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the PP Yearbook; and (b) Black Sun research on changes in behaviour engendered by the <IR> approach.

- Companies are producing self-declared integrated reports. Absent a universally accepted framework of <IR>, there is no mechanism to differentiate between what constitutes a "good" integrated report and what does not. Such activity may present a potentially onerous consultative function, for which the Secretariat lacks both the necessary skillset and capacity.
- The IIRC's current role is not to make quality judgments (it is not a standard-setting body), but to: (a) crystallize the definition of <IR> through the Framework; and (b) try to educate through illustrative good examples that raise awareness of what meaningful integrated reporting might look like. The Emerging Integrated Reporting Database (also referred to as 'the Examples Database') is one means by which to achieve this, recognizing that <IR> represents a journey on which many companies are taking their first steps. It is instructive to note that the Johannesburg Stock Exchange Surveillance Department is currently being very flexible on integrated reports, with its primary focus on the accessibility of information, rather than the calibre of integrated reports *per se*.
- There is evidence that Business Schools are starting to incorporate <IR> into their curricula and developing related courses. The IIRC has been approached by a number of Business Schools to discuss possible research partnerships.
- Harmony and clarity are crucial, as they offer the potential to drive coherence and consistency in corporate reporting requirements. Without harmony and clarity, it will be harder to advance the corporate reporting agenda. In this context the Council noted that it is: (a) regrettable that the issue of convergence of IFRS and US GAAP remains unresolved; and (b) important to avert any potential for similar divergence and related confusion in the sustainability reporting field. On this aspect, it is important to have both SASB and the GRI within the IIRC "tent". It is understood a teleconference will take place on 30 November 2012 between these two organizations to start to address the question of collaboration.
- It is important to ensure that <IR> is progressed on a jurisdictional basis in terms of: (a) participation in the initiative of those preparing reports (i.e. at a technical level), those accountable for their content (i.e. at Board level) and those relying on them (e.g. investors), as well as the academic community; and (b) awareness raising/information-sharing initiatives and events.

Decisions

- The IIRC will formally invite SASB's representation on the Council.

Actions

- Council members are to provide their support to the Secretariat in facilitating engagement with mainstream investors, to the extent that they have appropriate connections.
- The Secretariat is to continue exploring possible connections with Business Schools, mindful of the need to develop diverse, non-exclusive partnerships on a global basis.

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- The Secretariat is to consider means by which to facilitate assessment of the quality of integrated reports.

3. Vision for the long term future

Mr Kazuhiko Toyama (CEO and Representative Director of Industrial Growth Platform, Inc.) made a presentation on perspectives of the broad economic landscape beyond the immediate global economic and financial crises.

Key points of information/discussion

The following points were raised during discussion:

- In trying to shape the IIRC's future path it was pointed out that it is important to consider that the equity markets in particular are playing the game without adequate information. The lack of information efficiency means that the markets function irrationally. The IIRC's mission should be to fill this gap globally and address the information efficiency challenge.
- The Japanese experience can prove instructive, in the sense that the long-term investment in staff and research and development traditionally evidenced by Japanese companies had enabled them to outperform competitors in the long-term. However, Japanese companies, by changing to short-termism since the 1992 crash in Japan, have since lost out to global companies that demonstrate greater innovation and career opportunities that attract the "best and brightest": prospective employees form a view of companies in part based on the picture painted by their reporting.
- A small number of voices called for the IIRC not to lose sight of the value to customers in reporting, because they are a critical part of the value equation. In addition one voice suggested that other stakeholders' requirements should also be considered in addition to those of investors. This stems from a challenge that investors' perspectives are often short-term only, although others challenged this thinking. It was suggested that there might be a statement from the Council aimed at short-term investors.
- <IR> offers instructive insights and information not readily available from other sources on the internal workings/dynamics of the reporting organization that are fundamental to understanding of drivers of its short-, medium- and long-term performance and how it creates value.

Feedback from break-out groups

Building a scalable model

What must the IIRC do to ensure that <IR> is capable of being implemented on a global scale once Version 1.0 of the Framework is published?

- The break-out group suggested that the IIRC should focus on a small number of good examples to illustrate "best in class". The need to illustrate "best in class" was agreed in plenary, but the issue of volume was challenged, as it was felt vital to show momentum by significantly increasing the number of Pilot Programme companies.
- The IIRC could work with youth networks, such as those associated with the World Economic Forum, to build momentum by getting young people in companies and students involved and motivated.

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- The IIRC could leverage partnerships to ensure that the <IR> “tent” covers as broad a coalition as possible.
- The IIRC should work with stock exchanges to incentivise longer-term reporting.

<IR> and data overload

What action should the IIRC take to ensure that <IR> is capable of maximizing the opportunities generated by emerging developments in technology as part of the evolution of corporate reporting?

- The break-out group suggested that the IIRC could think about proposing that companies utilise the Investor Relations section of their websites. The website offers the opportunity for use as the primary interface for the company’s integrated report, with additional hyperlinks for more detailed information as required.
- The IIRC should be mindful of recommending specifics and in addition only considering current technology. Behaviours around technology and communication are changing so rapidly, the IIRC should be open and innovative in approach.
- The IIRC should differentiate between technologies used to: (a) produce the report; and (b) communicate the report.

Resolving market confusion and addressing regulatory barriers

What action should the IIRC take to reduce confusion in the marketplace and promote a coherent and coordinated roadmap for the future of corporate reporting, putting market and regulatory initiatives into a clear context that starts to reduce barriers to the implementation of <IR>?

- The break-out group’s feedback prompted a major plenary debate, the key outcome of which was that the IIRC should see itself as an “Apex Organization” that convenes and facilitates interaction between reporting framework providers and standard-setters, including on how to reduce the reporting burden. As such, the IIRC can promote synergy/progress, but its role is to guide, not prescribe: any standard-setting role would therefore be incongruent. It should describe/map the landscape and take a lead in initiatives to organise and coordinate it.
- The Framework should remain principles-based and not be prescriptive. However there are national and local dimensions, especially with a view to the major emerging economies, such as China. The IIRC should ensure that implementation can be flexible in approach where appropriate, including providing more guidance for emerging capital markets.
- The IIRC’s structure and governance represent one of its strengths, in that it brings together a wide range of stakeholders. But its long-term legitimacy depends on the legitimacy of its product, as well as the calibre and make-up of its various member bodies.

Decisions

- The IIRC should focus on increasing the number of Pilot Programme participants.

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- The IIRC should:
 - Take the intellectual lead on how various reporting frameworks could sensibly and coherently fit together, notably in terms of the long-term future of corporate reporting; and
 - Encourage integration of the landscape of corporate reporting and set itself out as being an "Apex Organization" in the sphere.

Actions

- The Secretariat is to drive growth in Pilot Programme membership during 2013, mindful of the need to ensure diversity of geographical distribution, as well as participant size and industry sector, as a means to build critical mass.

4. The Framework

The Prototype Framework

The CEO made a presentation on the process to date to develop the Framework.

Key points of information/discussion

The following points were raised during discussion:

- The Secretariat was commended on the work done to pull the Framework together.
- The Chairman explained that the purpose of <IR> is to facilitate and guide an informed assessment of how the reporting entity's board has applied its collective mind to the creation of sustained value in the long-term, having taken account of relevant information that has been prepared in accordance with existing reporting standards and frameworks.
- Specific ideas were expressed that the Consultation Draft of the Framework might:
 - Clearly state (ref. guiding principles as an "Apex Organization") that it builds on existing reporting frameworks and standards.
 - Include a description/mapping of the corporate reporting landscape.
 - Certainly focus on creation and preservation of value, but also not ignore the issue of value destruction.
 - Incorporate an executive summary that picks up on the guiding principles.
 - Be clear that the focus on the six capitals is designed to illustrate the concept of <IR> and is not a prescriptive requirement of it.
 - Make reference to "providers of financial capital", rather than "investors".
 - Be more concise than the Prototype, avoiding repetition of concepts throughout the document.
 - Provide useful and accessible guidance, particularly for reporting entities in emerging economies.

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David Nussbaum, who was unable to attend, has also provided comments relating to the Framework that have been passed to the IIRC's Technical Team for consideration.

- On challenge, the Chairman made it clear that the Framework's focus on providers of financial capital is a question of philosophy: presenting it as being aimed at all stakeholders will lead to diffusion of thinking. <IR> is the means by which to drive the ultimate objective of promoting Integrated Thinking. It follows that the focus on providers of financial capital (i.e., equity and debt) as the primary audience is the best way to achieve that, since: (a) Integrated Thinking is influenced by management; (b) strategy is driven primarily by financial considerations; and (c) management is influenced by the way they are viewed by providers of financial capital.

Pilot Programme participant experiences

A video of highlights from the first annual Pilot Programme conference was shown, following which, Helen Brand and Thomas Kusterer each made a presentation illustrating the experience to date of <IR> in their respective organizations.

ACCA (Helen Brand)

- The process to implement <IR> has involved greater understanding of what it means, in the ACCA's sector as a professional accounting body, to deliver public and member value.
- <IR> represents a powerful way to bring together existing reporting into a consistent, coherent message.
- <IR> has been a very natural fit, in terms of processes to develop strategy and KPIs.
- <IR> has enthused and engaged ACCA staff, promoting Integrated Thinking and facilitating closer integration.
- It is probably easier to undertake <IR> as a smaller organization.

EnBW (Thomas Kusterer)

- The <IR> initiative is sponsored by the CEO and CFO.
- All departments (e.g., including legal and compliance) are represented in the reporting team.
- The experience has:
 - Demonstrated that the company is good at reporting financial information, but not so strong in reporting other information.
 - Highlighted the need for timely access to necessary information.

Feedback from break-out groups

Planetary limits and externalities

How should the Framework deal with planetary limits and societal expectations?

What role should monetization of externalities play in <IR> and how should externalities be treated in an integrated report?

- It would be inappropriate to take an "apocalyptic" approach to <IR>. The materiality of issues should be seen from the perspective of providers of

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financial capital, particularly those with a long-term perspective, such that externalities should be reported to the extent they are material business issues for the reporting entity.

- The question of boundaries is important, not least from the perspective of consistency, but the concept of material business issues also applies (e.g., the concept of supply chain reporting is good, but the reporting entity must ask itself whether supply chain reporting is practical and realistic).
- Monetization is both a powerful means by which to engage the capital markets and a means by which to promote comparability between entities: the "common" language of the primary audience is monetary.
- Determining a process by which to assess when any given externality becomes material and how to account for it are sensitive issues, fraught with difficulties (e.g., how should a price on any given externality be set when there is no market to do so) and beyond the IIRC's brief (i.e. because the IIRC is not a standard-setter).
- That said, the IIRC ignores the issue (however complicated it is) at its peril: it needs to get involved in - and publicly clarify its position on - the debate and process to recognize where monetization is/isn't practicable, even if it does not fall to the IIRC to come up with an answer, which may (on a case-by-case basis) lie in regulation, rather than market mechanisms.

Evolution of corporate reporting

How do we get the message across more clearly that <IR> is an evolution of corporate reporting and not an additional reporting burden?

How can the Framework do more to ensure that <IR> results in holistic and neutral communications about the reporting organization's ability to create value over time, not just produce a rosy picture of the organization that omits negative matters (i.e. how do we distinguish "real good" from "feel good")?

What actions should be taken by the IIRC to establish the unique identity of the Framework as distinct from other initiatives that affect corporate reporting?

- <IR> is about an evolution in corporate reporting, not just additional reporting through a new report. In the very short-term it should be recognized that it would represent an additional reporting burden until the reporting system evolves as well. The breaking of the cycle of more reports and more detailed reporting is the opportunity <IR> presents.
- The IIRC should look at ways of reducing the risk of presenting a rosy picture in an integrated report (e.g., as driven by concerns about potential liability or the extent to which reporting affects competitive advantage).
- Ideas that could be considered include:
 - Advocating establishment by reporting entities of an external review committee for their reports;
 - An awards process; and
 - Development by the IIRC of a "straw man"/"model" integrated report.

Fundamental concepts

How far should the Framework go in requiring disclosures about value that has been created but cannot yet be captured by the organization? Is it necessary to explore the differences between creating and capturing value?

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To what extent should the Framework (or associated material) provide particular measurement, valuation or reporting approaches now or in the future?

- It was suggested that the Framework perhaps should not prescribe the need to quantify value, but rather give guidance on means by which to qualify/quantify what is useful to the report user, in terms of clarifying the appropriate measurement basis.
- Mechanisms to reward companies for value creation over time at the expense of short-termism might be investigated.

Decisions

- The Council approved release of the Prototype Framework for information/transparency purposes.
- The IIRC will still release Version 1.0, subject to Council approval, in December 2013, even if not all components are complete, unless there are any fundamental "show-stoppers".
- The Framework's focus on providers of financial capital is a question of philosophy.
- The IIRC should ensure that the Framework stresses the importance of reporting on value drivers and related underlying data, while leaving it to investment analysts and others to apply their own methodologies to determine value, whether as discounted cashflow or otherwise.
- The IIRC should actively engage in the monetization debate, albeit on the clear understanding that its brief does not extend to defining whether and how value should be monetized.

Actions

- Council members are to engineer meetings/events during the public consultation period (April-July 2013) to promote feedback on the Framework and publicise what it is designed to achieve.
- The Secretariat is to ensure that the Consultation Draft of the Framework is professionally designed and edited.
- The Secretariat is to consider the development of a "straw man"/"model" integrated report.

5. Countdown to the next Council meeting – key milestones

Key points of information/discussion

The following points were raised during discussion:

- A memorandum of understanding ('MoU') has been concluded with IFAC. Other MoUs are currently under consideration.
- The CEO and Chairman are both focusing particular time and energy on Australia during the remainder of 2012, in preparation for its chairmanship of the G20 in 2014.
- A degree of engagement is also anticipated with Russia, which holds the G20 chairmanship in 2013.

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- There will be ongoing engagement with other core organizations in the ongoing process of raising awareness and buy-in for <IR> and the Framework.

Decisions

N.A.

Actions

- The Secretariat is to make an information pack available to Council members (and IIRC Ambassadors) for their use in relation to engagement on the ongoing process to develop and launch the Framework.

6. Next steps and any other business

a) Appointments

Key points of information/discussion

N.A.

Decisions

The following appointments to Council were confirmed:

- Vedat Akgiray (Vice Chairman of the IOSCO Board; Chairman of the Capital Markets Board of Turkey) for IOSCO.
- Jean-Charles de Lasteyrie (Chairman, Ricol Lasteyrie; Vice President and Chair of Integrated Reporting Task Force, Federation of European Accountants) for the French interest.
- Michelle Edkins (Chairman of the ICGN Board; Managing Director and Head of Corporate Governance and Responsible Investment at BlackRock) for ICGN/BlackRock.
- Sandra Guerra (Chairperson, Brazilian Institute of Corporate Governance).
- Andrew Wright (Treasurer to TRH The Prince of Wales and The Duchess of Cornwall) for Accounting for Sustainability.

Actions

N.A.

7. Confirmation of date/venue for next meeting

Key points of information/discussion

- The Chairman confirmed the date and venue for the Council meetings in 2013 as:
 - 19 March 2013 in Washington D.C.; and
 - 05 December 2013 in London.

Decisions

N.A.

Actions

N.A.

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8. Close

The Chairman closed the meeting at 15:40 (JST).

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Attendance

Present

Members/members designate

Mervyn King	IIRC Chairman	
Vedat Akgiray	IOSCO	
Stephen Almond	Deloitte	
Peter Bakker	WBCSD	
Helen Brand	ACCA	
Alan Buckle	KPMG	(for Michael Andrew)
Nelson Carvalho	Universidade de São Paulo	
Aron Cramer	Business for Social Responsibility	
Jean-Charles de Lasteyrie	The French interest	
Sandra Guerra	IBGC	
Stephen Harrison	Global Accounting Alliance	(for Michael Izza)
Thomas Kusterer	Energie Baden-Württemberg AG	
Ian Mackintosh	IASB	(for Hans Hoogervorst)
Alex Malley	CPA Australia	
Mark Moody-Stuart	Foundation for the Global Compact	
Herman Mulder	GRI	
Edward Nusbaum	Grant Thornton	
Atsushi Saito	Tokyo Stock Exchange Group, Inc.	
Richard Samans	Climate Disclosure Standards Board	
Richard Sexton	PricewaterhouseCoopers	(for Dennis Nally)
Göran Tidström	IFAC	
Charles Tilley	CIMA	
Nigel Topping	Carbon Disclosure Project	(for Paul Dickinson)
James Turley	Ernst & Young	
Andrew Wright	A4S	
Yang Zhiguo	Chinese government (CICPA)	(for Li Yong)

Observers

Munehiko Joya	Global Green Growth Institute	(with Richard Samans)
Toshio Kinoshita	JICPA	
Yoichi Mori	JICPA	
Bekir Safak	Capital Markets Board, Turkey	(with Vedat Akgiray)
Zhang Wen	Chinese government (CICPA)	(with Yang Zhiguo)

IIRC Directors

Paul Druckman
Jessica Fries
Ernst Ligteringen
Christy Wood

IIRC Secretariat

Ikhyun Bae	Chris Bin	Jonathan Labrey	Mariko Mishiro	Sara Nori
Hiroko Ozawa	Liz Prescott	Beth Schneider	Andrew Smith	

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Attendance

Apologies

Members/members designate

Robert Eccles	Harvard Business School
Michelle Edkins	ICGN/BlackRock
Wolfgang Engshuber	PRI
Robert Greenhill	WEF
Ishaat Hussain	Tata Group
Angelien Kemna	APG
Huguette Labelle	Transparency International
Mindy Lubber	Ceres
Wan Ling Martello	Nestlé
Charles McDonough	The World Bank
David Nussbaum	WWF
Roberto Pedote	Natura Cosméticos
Russell Picot	HSBC Holdings
Marco Geovanne Tobias da Silva	Previ
Martin van Roekel	BDO
Yuki Yasui	UNEP FI

Observers

Gerald Edwards	FSB
Leslie Seidman	FASB

IIRC Directors

Ian Ball
Jane Diplock