

**IIRC Council  
Meeting of 19 March 2013**

**Minutes**

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**Date:** 19 March 2013  
**Time:** 09:00 – 16:00 (EDT)  
**Venue:** Ernst & Young, 1101 New York Avenue, NW, Washington, DC 20005, USA  
**Chairman:** Mervyn King  
**Attendance:** See below  
**Minutes:** Andrew Smith

<b><u>Agenda item</u></b>	<b><u>Paper</u></b>
<b>1. Welcome, introduction and objectives for the day</b>	
a) Welcome by Mark Weinberger, Chairman & CEO-elect of our host, Ernst & Young	
b) Confirmation of new Council members	Item 1b
c) Introduction to the meeting and objectives for the day	
<b>2. Approval of minutes from previous meeting and matters arising</b>	Item 2
<b>3. Progress report</b>	Item 3
a) Briefing on the status of IIRC activities from the CEO	
b) Questions and discussion	
<b>4. Report of Governance Committee</b>	N.A.
<b>5. The Framework</b>	
a) Presentation on the Draft Framework	Item 5a
b) Discussion and endorsement of the Draft Framework	
c) Briefing on the Consultation Draft engagement plan	Item 5c
<b>6. Goals and aspirations</b>	Item 6
a) Insights from Christian Stracke (Co-Chair of the FSB's Enhanced Disclosure Task Force) on how improved disclosures can lead to greater financial stability	
b) Questions and discussion	
<b>7. Post-2014 remit</b>	
a) Introduction	Item 7a
b) Break-out session to gain Council members' insights and input to inform development of the post-2014 remit	Item 7b
c) Plenary session to share key points of feedback and approve direction	
<b>8. US strategy</b>	Item 8
a) Insights from the US perspective on drivers and impediments – notably in a policy context - to take-up of <IR> in the USA	
b) Discussion on means by which to develop the IIRC's strategy in the USA	
<b>9. Next steps and any other business</b>	
• Confirmation of date/venue for next meeting (London – 5 December 2013)	
<b>10. Close</b>	

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#### 1. Welcome, introduction and objectives for the day

The Chairman thanked Ernst & Young for hosting the meeting and welcomed participants to it, especially those attending for the first time.

Mark Weinberger welcomed the Council to Washington on behalf of Ernst & Young.

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

- Endorse the draft of the Framework for public consultation ('the Consultation Draft') for release.
- Commit their support for engagement activities relating to the Consultation Draft.
- Look to the future, in terms of providing advice and guidance on:
  - Planning for the post-2014 remit and related institutional arrangements.
  - USA engagement strategy, to support focus on implementation, which is an important dimension of post-2014 remit.

#### Appointments

##### Decisions

The following appointments to Council were confirmed:

##### *As members*

- Warren Allen (President - IFAC) for IFAC.
- Mustafa Baltaci (Secretary General - Federation of Euro-Asian Stock Exchanges ('FEAS')) for FEAS.
- Erik Breen (Member of the Executive Board - Eumedion) for Eumedion.
- Richard Chambers (President & CEO - Institute of Internal Auditors ('IIA')) for the IIA.
- Koushik Chatterjee (Executive Director & Group CFO - Tata Steel ) for Tata Sons, replacing Ishaat Hussain.
- John Colvin (CEO & Managing Director of the Australian Institute of Company Directors ('AICD')) for the AICD.
- Robert Eccles (Chairman - Sustainability Accounting Standards Board ('SASB')) for SASB.

NB: Professor Eccles already sits on the Council. The purpose of this appointment is to reflect the participation in Council of SASB, as represented by Professor Eccles.

- Margaret Foran (Chief Governance Officer, Vice President & Corporate Secretary - Prudential Financial Inc.) for Prudential Financial.
- Barry Melancon (President & CEO - American Institute of Certified Public Accountants ('AICPA')) for AICPA.
- Christoph Stückelberger (Founder and Executive Director) for Globethics.net.
- Mark Weinberger (Chairman & CEO-elect - Ernst & Young) for Ernst & Young.

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- Jochen Zeitz (Co-Chair - the B Team) for the B-Team.

*As observer*

Richard Thorpe (Responsible for accounting/auditing issues/policy – FSB) as Observer for FSB, replacing Jerry Edwards.

## 2. Approval of minutes from previous meeting and matters arising

### **Minutes**

The minutes were approved without revision.

### **Matters arising**

It was confirmed that SASB and GRI have held bilateral discussions subsequent to the Council meeting on 2 November 2012.

## 3. Progress report

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

### Key points of information/discussion

The following points were raised during discussion:

- Release of the Consultation Draft on 16 April 2013 marks "the end of the beginning", not "the beginning of the end". The IIRC now has a concrete "product", in the form of the draft Framework, which was always intended to provide for a principles-based approach to Integrated Reporting ('<IR>'), rather than a detailed "how to" guide. It is not a perfect document, but "the perfect should not become the enemy of the good" and it is fit for the purpose of consultation and obtaining feedback.
- The building blocks which now need to be put in place are to:
  - Cement the ownership of <IR>, what it means and what it doesn't mean. Clarity of definition and consistency of messaging are crucial.
  - Increase the momentum, to make it still faster: the market is impatient to see things happening quickly. The Pilot Programme, both Business Network and Investor Network, is offering tangible evidence of this momentum. Close to 90 businesses are now actively engaged in the Business Network and over 50 investor organizations across the Investor Network and the Investor Testing Group. Survey responses indicate that <IR> improves decision-making (88%) and creates substantial benefit for the Board and senior management (97%). Public statements of such experience and citations are very powerful.

Council members can help to increase the momentum in this regard by:

- Encouraging organizations to join the Pilot Programme (Business Network and Investor Network) and Investor Testing Group.
- Circulating the C-suite document among their peers as an introduction to <IR> and means by which to get them thinking about it.
- Educating their respective constituencies.

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- Understand what success looks like, in terms of what the IIRC coalition is driving towards over the short-, medium- and long-term, beyond the current transitional phase horizon of September 2014.
- Test and refine the common language used when talking about <IR> as a "market-led" initiative.
- Connect to the public policy agenda, in terms of what is happening, locally, nationally, regionally and internationally. This is challenging to achieve, but must be addressed.
- Advance the corporate reporting dialogue, based on terms of reference supported by the Council for what this dialogue should be designed to achieve and how.
- Look beyond the release of the Framework to technical requirements in terms of: (a) ongoing guardianship of the Framework; (b) possible eventual codification of related standards; and (c) development of a hub to facilitate corporate reporting going forward.
- Articulate strategic intent, as the basis to define parameters for all other operational requirements, including technical development activities.
- Three background papers have been published, on Capitals, Materiality and Business Model. Publication of the other two background papers, on Connectivity and Value has been deferred pending refinement. Background papers are developed by third party organizations. A final background paper on Assurance (identifying issues, not articulating assurance standards) will be made available later in 2013.
- ACCA is providing support in refining the survey questions that will accompany the Consultation Draft.

### Decisions

N.A.

### Actions

- The Secretariat is to henceforward circulate background papers to Council members for information prior to their publication.
- The Secretariat is to issue the information pack available to Council members (and others) for their use in relation to engagement on the ongoing process to develop and launch the Framework by 31 March 2013.

## **4. Report of Governance Committee**

In the absence of Wolfgang Engshuber, the Governance Committee Chairman, Mark Moody-Stuart provided verbal feedback on the committee's activities since the last Council meeting on 2 November 2012 in two meetings via teleconference (on 4 December 2012 and 14 March 2013). In summary, it:

- Reviewed and approved a revised service agreement for Paul Druckman, the term of which is now set as 30 September 2014 to coincide with the conclusion of the current transitional phase.
- Reviewed and approved policy statements relating to:
  - Anti-corruption and anti-bribery;

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- Code of conduct, conflict of interest and register of interests.
- Discussed the audit process. Auditors Crowe Clark Whitehill have raised no significant audit issues and expect to issue an unqualified and unmodified audit opinion on the IIRC's annual financial statements for the period ended 31 December 2012.
- Reviewed an indicative, non-binding framework for the balance and size of the Council for the duration of the transitional phase. The Governance Committee accepted that the size of the Council must realistically increase (possibly to as many as 60 members) in order to achieve a suitable balance of constituency representation, which might over time look something like: Providers of financial capital – 25%; Report preparers – 20%; Civil society – 15%; Accountants – 15%; Standard setters – 10%; Policy makers – 10%; Academia and others – 5%.
- Discussed to what extent greater geographical diversity at Council meetings might be achieved by encouraging member bodies to consider sending appropriately senior individuals, with authority to speak on their respective organization's behalf, from different geographical regions – and notably emerging markets - to represent them at Council meetings.
- Considered a matrix of key challenges and risks and discussed priority risk focus areas that appropriately identifies and prioritises key risks confronting the IIRC, notably relating to: overcoming practical legal and regulatory barriers to adopting <IR>; developing a distinctive, widely accepted definition of <IR>; and communicating the <IR> message in ways that cross geographic and cultural borders and minimizes regional fragmentation.
- Discussed the constitution of the Institutional Arrangements Task Force, which is to be chaired by Jane Diplock and of which the following have been invited to become members: Stephen Davis (Associate Director - Harvard Law School Programs on Corporate Governance and Institutional Investors; Former Chairman - Hermes EOS); Huguette Labelle (Chair, Transparency International; IIRC Council member); David Pitt-Watson (Former Chairman - Hermes Focus Asset Management); and Yukihiro Sato (Senior Executive Advisor - Mitsubishi Electric Corporation; Chairman, METI Corporate Finance Executive Committee). Ian Ball (former CEO - IFAC; IIRC Working Group Chairman and IIRC Director) will serve as an Adviser to the IATF, which will thereby benefit from experience of the IIRC generally and its previous deliberations relating to long-term governance specifically.

#### Key points of information/discussion

The following points were raised during discussion:

- The Governance Committee can give reassurance to the Council on governance matters, including the audit process, but it is not a formal Audit Committee. The IIRC's accounts are the responsibility of a small Board comprising eight directors. The IIRC operates to a simple business model (it is not a trading organization) and its accounts are not complex. Therefore there is no need for a formal Audit Committee at this stage.

#### Decisions

The following appointments to the Governance Committee were confirmed (replacing Ishaat Hussain and Göran Tidström, who have stepped down from both the Council and the Governance Committee):

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- Warren Allen.
- Nelson Carvalho.

#### Actions

- The Secretariat is to make the following policy documentation available to Council members:
  - Anti-corruption and anti-bribery; and
  - Code of conduct, conflict of interest and register of interests.
- Council members are to complete and return a declaration of interests in a timely manner.
- The Secretariat is to make copies of the audited annual financial statements for the period ended 31 December 2012 available to Council members.

## 5. The Framework

NB: All references to the Consultation Draft are to the version issued as appendix A to paper 5a ahead of this meeting, unless otherwise stated.

Charles Tilley, as Technical Task Force ('TTF') Chairman, provided Council members with an overview of the process to develop the Consultation Draft.

Ian Ball, as Chairman of the Working Group, notified Council members that:

- At a meeting of 12/13 February 2013, the Working Group discussed the version of the Consultation Draft under review at that meeting and raised a number of issues. The Working Group voted (all in favour, bar one abstention unrelated to the substance of the document) to recommend that the Consultation Draft be submitted to the Council, following the incorporation of revisions to be made by the Secretariat and TTF further to discussion at that meeting.
- Each Working Group member was provided with the Consultation Draft as submitted to the Council, marked to show changes made to the version reviewed at the Working Group meeting of 12/13 February 2013. A number of revisions proposed at that meeting were not incorporated. Working Group members were invited to notify the Secretariat of the extent to which they believed that the revised Consultation Draft (as submitted to the Council) was substantively defective in any way by reference to the Working Group's deliberations, together with the reasons why.
- Only one adverse comment, relating to the treatment of external references, was received from Working Group members by the agreed deadline. The concern has now been addressed and satisfactorily resolved (the Consultation Draft will include a question relating to the need for external references).
- The Working Group therefore supports the version of the Consultation Draft as submitted for review by the Council at this meeting. It is not a perfect document and will need improvement, but it is in good shape and fit for the purpose of consultation, its release for which the Working Group is keen to see.

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The Chairman thanked Ian Ball and the Working Group and Charles Tilley and the TTF, together with the Secretariat's Technical Team for all their hard work in bringing the draft Framework to this point.

#### Key points of information/discussion

The following points were raised during discussion:

- The Consultation Draft contains no substantive, "fatal" flaws.
- The following points were raised by meeting participants during the course of discussion for the Secretariat and TTF's consideration and application as deemed appropriate in the final editing process to be undertaken by them prior to the document's release:
  - Providers of financial capital are the primary audience, but the language used in this respect could be revised to avoid conveying any sense that the focus on value is exclusively to providers of financial capital, such that other stakeholders are thereby disempowered/disenfranchised, or that the Framework is deemed to be dismissive of their views, needs and expectations. Consideration might be given to building in a multi-stakeholder process.
  - Para 1.5 could reference the importance of other (secondary) audiences for <IR>.
  - The language used could be revised to extend the focus of the document beyond its target audience of large companies to address the requirements of, for example, SMEs.
  - The document could be clearer on where/how <IR> fits with other frameworks, reporting guidance and standards (ref. GRI, IASB/IFRS, FASB, CDP, CDSB), notably in the sense that that it builds on and explicitly incorporates them as the platform for and an integral element of <IR>.
  - Some introductory narrative on the context in which the draft Framework has been prepared, including the philosophical frame of reference underlying it, the problem(s) <IR> seeks to resolve and why the Framework matters, could be helpful.
  - Not everything is susceptible to monetization and the language used in the document could be clearer on this point.
  - The distinctions and overlaps between opportunities and risks, strategy and resource allocation and future outlook (ref. the section on Content Elements) could be clearer, more precise and might perhaps be separated.
  - The goal of companies could be further clarified to reflect the fact that in some environments, the goal of companies is the long-term continuation of the company, not just to create value for shareholders.
  - The definition of "value" in the context of value creation and destruction could be clarified as it varies between stakeholders and creation of value in respect of one capital could involve destruction of value in respect of another.
  - The concept of "values" (i.e., as opposed to "value"), such as ethical conduct and transparency, could be addressed more prominently in the

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document and consideration might be given to how the dilemma of increasing value may conflict with values of an organization or others.

- The document could be more consistent in its description of other stakeholders, which in some instances refers to legislators/governments (e.g., para 2.39) and in others (e.g., para 1.6) doesn't.
- The document could recognise the importance of the public sector for ongoing corporate value creation, not least because of its legislative/regulatory influence.
- The document could be clearer on how a commitment to honesty in disclosure will be assured in a competitive environment, notably for future generations of reporters (i.e. those not engaged and committed in this initial stage of development).
- The definition of long-term value could be further clarified to provide for greater consistency, including some form of definition of what "long-term" means.
- The language used to stimulate stakeholder feedback in the consultation process could be strengthened to make it clear that feedback will be viewed as a meaningful contribution to – and major influence on - the development of the Framework itself. The tenor of the questions posed for feedback is of great importance in this regard.
- As with all drafts submitted for public consultation, there is a chance that a fundamental issue will be raised that possibly generates the need for a further consultation process.
- Figure 1 and figure 3 could be made clearer in terms of what they are intended to convey.
- The principle (ref. paras 3.34 and 3.35) that boards should be "neutral" in reporting on their organization's affairs could be revised, as no board should be neutral in reporting on such matters and it is naive to expect it will produce an unbiased report.
- The document focuses on the value generated by the reporting organization alone to its providers of financial capital, overlooking reference to effects on its value chain. It could be strengthened by incorporation of reference to integrated value chain management. This should encompass the concept that organizations have a broader responsibility.
- The document could employ language conveying a greater sense of urgency and call to action (ref. opportunity and obligation) on the move towards <IR>.
- The document could refer to institutional capital (perhaps as a constituent element of social/relationship capital), in the sense of the broader institutional environment in which the reporting organization operates (i.e., business can only succeed over the long term in a functional society).
- The wording of the document could include some recognition that the Framework is not a "destination", but a "staging point", in that the reporting environment will change over time and expectations with it, such that providers of financial capital might not always remain the primary audience for an integrated report.



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- The general tenor of the document is very conventional. It could be more exciting, including reflecting the fact that <IR> lends itself to other media of communication (such as a variation on the Investor Relations content on a corporate website that is subject to continual update) beyond the conventional (such as the annual report) and that the the need for a standalone integrated report should not be assumed.
- The document could be clearer on whether <IR> is intended as an addition to existing forms of reporting, necessitating production of an additional report; an "umbrella" under which other forms of reporting sit; and/or effectively the basis – or "backbone" - for the management report (ref. Management Discussion and Analysis).
- The document could stipulate that a reporting organization should specify what its strategic objectives are, in addition to (ref. para 4.28) specifying to what extent they have been achieved.
- Nothing in the section on Fundamental Concepts is identified as a principles-based requirement through the use of bold, italic type, which could be perceived as strange. Key elements of the definition of value creation could, at the very least, be highlighted in this way.
- The reference in para 1.18 that "organizations "will" provide ..." could be amended to show that "organizations "may" provide ...".
- The use of alternative media of communication (i.e., such as via corporate websites) could be added to para 1.18 (i.e., as an alternative to the conventional idea of an integrated report).
- Paras 1.18 and 1.19 could be inverted to provide for better flow.
- The Framework is a principles-based document, but over time the demand for a rules-based approach will grow, as without standardization, there can be no real basis for comparability between organizations. There is a need for boldness in addressing this issue.
- Consideration could be given to how the Framework might be simplified to increase usage among SMEs (e.g., perhaps an SME edition can be created in the future).

### Decisions

- The Council unanimously endorsed the Consultation Draft for release, subject to:
  - Final edit as deemed appropriate by the Secretariat and TTF; and
  - Approval by the Board.

### Actions

- The Secretariat is to finalise the Consultation Draft for review by the TTF and approval by the Board.

### **Consultation Draft engagement plan**

Jonathan Labrey made a short presentation on the Consultation Draft engagement plan.

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#### Key points of information/discussion

The following points were raised during discussion:

- The engagement plan includes development of a prioritised list of specific organizations, covering different audiences in different markets, to be targeted for a response on the Consultation Draft.
- The IIRC's relationship with GRI needs to be contextualized in communications.
- The fact that investors often apply only the financial lens needs to be recognised.

#### Actions

- Council members are to provide feedback on the substance and tone of the draft C-suite document.
- The Secretariat is to issue, by 31 March 2013, a briefing pack for use in relation to Consultation Period events, comprising:
  - Key messages;
  - A standard slide-deck;
  - Frequently Asked Questions;
  - Illustrative business and investor case notes; and
  - A draft media article.
- The Secretariat is to draw up a list of priority target Consultation Draft respondents.
- Council members are to support the Consultation Draft engagement process as best they can with and through their own networks.
- The Secretariat is to engage with Council members in Q4/2013 (i.e., subsequent to the consultation period and ahead of the Council meeting scheduled to take place on 5 December 2013), using interactive collaboration tools (i.e. as opposed to a full Council meeting), to ensure they are briefed on the direction adopted in terms of the contents of the Framework itself and actively involved in deliberations of any decision relating to substantive modifications of the Framework compared to the Consultation Draft.

## **6. Goals and aspirations**

Christian Stracke (CEO and Representative Director of PIMCO) made a presentation on the findings and recommendations of the Enhanced Disclosure Task Force ('EDTF').

EDTF is seen by its co-Chairs (Christian Stracke and Russell Picot, a founding and current member of the IIRC Council) as being fully synchronised with the Framework, which was taken into account during EDTF deliberations.

#### Key points of information/discussion

The following points were raised during discussion:

- Good reports are written in clear, plain language of the layman, not that of the regulator.

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- Investors and other stakeholders to put pressure on reporting organizations for timely reporting, because the regulators won't necessarily take the lead on this.
- Good business management is about good risk management. Categorising important environmental, social and other issues as mainstream operational risks, evaluating their potential impact and articulating what is being done to mitigate the risk and protect/enhance value is the way to gain analysts' attention to their relative importance.
- It is important to take care when pushing for increased comparability not to overly dilute the need for granularity, as stakeholder needs and expectations vary with each reporting organization. Relevant information that does not fit conveniently into the regulatory schedules can nonetheless be provided if it is pertinent and material.
- A major concern with the provision of forward-looking information is the absence of any related legal safe harbour. At the same time, reporting organizations do sometimes tend to overstate the absence of such a safe harbor, to avoid providing information of relevance to stakeholders.

#### Decisions

N.A.

#### Actions

N.A.

## 7. Post-2014 remit

Paul Druckman made a short introductory presentation on the post-2014 remit. In summary:

- When the IIRC started up, it had an inspiring vision for what it wanted to achieve, namely to contribute to financial stability and a more sustainable planet through better reporting.
- Development of the Framework to the point where it is fit for purpose as a Consultation Draft, which will by the end of 2013 be issued as version 1.0, presents the coalition with an opportunity to:
  - "Take stock", in terms of considering whether the IIRC has in any sense lost its edge, missed the point, become too conservative in its ambition and/or really made the difference yet; and
  - Re-articulate its vision with boldness, enthused and energized by the opportunities that now lie ahead and considering what the coalition might focus on going forward, beyond conclusion in September 2014 of the current transitional phase.
- Feedback from the consultation process will offer a rich source of input to inform not only development of version 1.0 of the Framework, but also the coalition's vision for the future and the focus of activities in the next phase.

#### Key points of information/discussion

The following points were raised during discussion:

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- Deliberation on the next steps for the coalition should include a strong focus on means by which to: (a) strengthen the impact of <IR>; and (b) accelerate its implementation.
- A number of topics recur at Council meetings, which illustrates an ongoing diversity of views relating to where the coalition is going. It would be helpful to reconcile these views and ensure the coalition expresses a singularity of purpose, which will only serve to strengthen it.
- The coalition is engineering corporate societal change, which is a slow process. There will always be pioneers taking a strategic view who are willing to lead in this respect, but the great mass of organizations will go at a much slower pace, focusing on change at a far more tactical, needs-driven level.
- The IATF is charged with providing input on institutional arrangements that will enable delivery of the key aspects of post-transitional phase activity identified by the Council in the context of its re-articulated vision.
- The Chairman indicated that it would prove logistically impractical and unduly expensive to host an additional Council meeting ahead of the Council meeting scheduled to take place in London on 5 December 2013, which will provide an appropriate forum to further discuss the next steps for the coalition beyond conclusion of the transitional phase.
- Council members are welcome to attend the Working Group meeting scheduled to take place in London on 22/23 October 2013 to learn more about input from the consultation process. The Secretariat will send out an invitation to that effect.

### ***Feedback from break-out groups***

#### Leading/coordinating on <IR> technical resources

- Once version 1.0 of the Framework is released, the focus should not be on "fine-tuning" what has been produced, so much as on development of version 2.0.
- The focus going forward should not only be on maintenance of technical resources/preserving what has been done, but also on building a broader business case for <IR> as a catalyst for better business and better management.
- It is important to build on the experience gained through the Pilot Programme and ensure that the goodwill and momentum built in the process is not lost, recognizing that an alternative model will be required (i.e., because the Pilot Programme as currently constituted is due to come to an end in September 2014).

#### Widespread implementation of <IR>

- Widespread uptake of <IR> by business will require:
  - Articulation of a clear vision, statement of purpose and understanding of how the IIRC (or successor body/ies) relates to other organizations.
  - Illustrative examples and models (ref. sectoral models) to help business understand what <IR> means in practice (as opposed to prescriptive models, which would not be helpful).

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- Clarity on the value it brings and the demand that exists for its implementation.
- A global effort (as opposed to a country-by-country approach), with primary focus on the leading capital markets, is a strength. Multilateral and intergovernmental organizations are valuable potential enablers, because of their scope, focus and influence. The example of the Friends of Paragraph 47 could prove illustrative in this respect.
- Policy makers should be involved in the process to promote widespread implementation of <IR>, but care should be taken not to work too quickly towards mandating it. <IR> might go some way to better satisfying existing regulatory requirements, rather than becoming the subject of new ones.
- Constituencies to be involved in the process going forward are: providers of financial capital; reporters; standard-setters; civil society; academia; multilateral/intergovernmental organizations; the public sector.
- An important consideration is to avoid the risk that responsibility for <IR> is "captured" by any one constituency. The need for an independent body/ies such as the IIRC (or similar) is therefore intrinsic.

#### Advancing the broader evolution in corporate reporting

- A certain level of coordination between key players in the corporate reporting field, possibly involving other key stakeholders, would be useful, though it is not clear that a shared vision is possible.
- If <IR> is to be mandatory, it would have to be rules-based.
- It will be helpful to: (a) clarify the relationship between "fellow travellers" on the road of corporate evolution; and (b) determine what "preferred" reporting guidance/standards should be for specific aspects of corporate reporting and promote their use under the <IR> banner.
- Multilateral dialogue is not enough: an "umbrella" model would be preferable, with an initial focus on clarifying whether <IR> is to replace, complement or provide the medium for convergence of other types of reporting.
- In focusing on the ongoing evolution of corporate reporting, what has taken place over the past 20 years or so should not be ignored: there is already a considerable degree of convergence. It is also important to recognize that other voices exist beyond providers of financial capital.

#### Decisions

N.A.

#### Actions

- Council members are to notify the Secretariat if they plan to attend the Working Group meeting scheduled to take place in London on 22/23 October 2013, in response to an invitation to be sent by the Secretariat.

## **8. US strategy**

Aron Cramer, Michelle Edkins and Mindy Lubber each offered their summary perspective on key challenges to implementation of <IR> in the USA and possible means by which to address them.

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#### Corporate perspective (Aron Cramer)

- There are 6 main barriers to the take-up of <IR> in the USA:
  - Legal

The USA is a particularly litigious environment. The IIRC could learn from the example of UNGC, which enlisted the support of the American Bar Association in preparation of a document addressing potential legal liabilities, or the lack of them, arising from involvement with UNGC that mitigated the concerns of the General Counsel's Office.
  - "Not invented here"

There is an antipathy to initiatives that do not have the sense of being sufficiently homegrown. The IIRC is identified as a European initiative, based in London. It does not enjoy a high US profile with the visible evidence of support and involvement of leading US organizations.
  - Technical

Are principles defined fully enough to be ready for adopted?
  - Institutional

There are some powerful trade associations in the USA and some are more enthusiastic about <IR> than others. Some might possibly also be obstructive. It is important to engage with the main bodies (notably the American Chamber of Commerce and Business Roundtable), to ensure they have a good understanding of <IR> and, at the very least, are neutral on the concept, such that they do not actively oppose it.
  - Lack of investor buy in
  - Sectoral

Some sectors (such as Pharmaceutical and Utilities) are better placed/more predisposed to take up <IR> than others.

#### Investor perspective (Michelle Edkins, in her personal, not her ICGN, capacity)

- Corporate reporting fulfils a very different primary purpose in the USA (market efficiency) than Europe (stewardship), which leads to very different expectations and makes it imperative to get the language right in discussing <IR> with a US audience.
- It is important to emphasise the value and benefits of <IR> in terms of the capacity it offers to, e.g.:
  - Support more accurate pricing, lower cost-of-capital and the ability to ward off activists.
  - Serve as a useful toolkit for helping US companies do what they are already required/expected to do under existing rules.
  - Address, as material business risks in conventional management terms (ref. the capitals), a diverse range of pertinent matters affecting company value (i.e., an issue may be environmental or social in nature, but it is articulated and addressed as a material business risk).
- Expecting many companies to be inspired to take a leadership position as first movers is overly optimistic: companies tend to act when they feel they have to, in response to regulatory pressure, investor pressure or peer

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pressure. Recommendations and citations from world-leading, household names would help to explain the rationale for <IR> to a potentially sceptical audience. The available pool of 80 or so Pilot Programme companies, of which few are based in the USA, represents a very limited pool from which to source such examples.

- There some companies/entities (e.g., family trusts) who will be prepared to take a lead and, to the extent they themselves apply relevant investment criteria in their own investment decision-making, they can oblige intermediaries to change their analysis practices and take an interest in <IR>, not least by the real or implied threat of taking their business elsewhere.
- Accountants are highly valued advisers in the US market. They can therefore be drivers of change for wider awareness and potential take-up of <IR>, by getting the topic onto the agenda of the executive, Board and Audit Committee Board. The National Investor Relations Institute is another potential prospect to leverage.

#### Civil society perspective (Mindy Lubber)

- The USA lags behind on buy-in to <IR> because of cultural and systemic issues. It has trailed Europe on sustainability reporting, which it views as "Environmental Communism".
- It is important to:
  - Be exceedingly clear on who the audience for <IR> is, what it is designed to achieve (e.g., by means of sectorally tailored factsheets; and questions and answers) and how it fits in the overall reporting picture, giving a clear steer on its relative priority to investors.
  - Identify opinion leaders, on a sectoral basis.
  - Make the drive for <IR> as broad-based a process as possible and ensure civil society supports the role as leading advocates by making it clear that <IR> is part of an ongoing evolution in corporate reporting, which has made huge progress in the past 20 years. Civil society support offers the potential to tap into existing momentum. For this recognition of the significance of a multi-stakeholder approach is crucial, notably in defining materiality as broadly as possible, to include a wide range of sustainability issues. <IR> will not take off if it is perceived to have been "captured" by accountants.

#### Key points of information/discussion

The following points were raised during discussion

- The USA is by far and away the world's largest single capital market. The New York Stock Exchange and NASDAQ between them account for over 30% of global market capitalization (by comparison, London and Tokyo each account for ca. 7%).
- Clarity of vision and clarity of message relating to <IR> are vital to break into this market.
- The IIRC and <IR> have very little visible presence in the USA and are consequently at best regarded as a sideshow. It will continue to be perceived as a European initiative unless its US profile is strengthened.

## IIRC Council Meeting of 19 March 2013

### Minutes

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- The IIRC must leverage its US relationships to achieve critical mass, by propagating a US-centric "version" of <IR> including working through the channels of market access afforded by the likes of CERES, CDP, WBCSD, the local practices of the Big 4 firms particularly (the active engagement of the accounting profession is key to the success of <IR>) and the IIA (for internal audit practitioners)
- For the past 10 years or so, the US corporate world has regarded new reporting initiatives as a very low priority, given the expense and allocation of time and resources to meeting Sarbanes-Oxley compliance requirements and then dealing with the financial crisis, when many were in survival mode. The USA is, however, now coming out of economic crisis and recording positive GDP growth. The opportunity exists and the timing may now be right to push the <IR> concept in the USA.

#### Decisions

N.A.

#### Actions

N.A.

## 9. Next steps and any other business

### Key points of information/discussion

The following points were raised during discussion

- The Chairman confirmed the date and venue for the next Council meeting as 5 December 2013 in London.

#### Decisions

N.A.

#### Actions

N.A.

## 10. Close

The Chairman closed the meeting at 16:00 (EDT).



**IIRC Council  
Meeting of 19 March 2013**

**Attendance**

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**Present**

***Members/members designate***

Mervyn King (Chairman)		
Peter Bakker (Deputy Chairman)	WBCSD	
Warren Allen	IFAC	
Stephen Almond	Deloitte	
Kursad Babuccu	IOSCO	(for Vedat Akgiray)
Mustafa Baltaci	FEAS	
Larry Bradley	KPMG	(for Michael Andrew)
Erik Breen	Eumedion	
Nelson Carvalho	Universidade de São Paulo	
Koushik Chatterjee	Tata Sons	
Aron Cramer	Business for Social Responsibility	
Marco Geovanne Tobias Da Silva	Previ	
Jean-Charles De Lasteyrie	The French Interest	
Christoph Dolderer	EnBW	(for Thomas Kusterer)
Robert Eccles	SASB	
Michelle Edkins	ICGN	
Peggy Foran	Prudential Financial	
Sandra Guerra	IBGC	
Stephen Harrison	Global Accounting Alliance	(for Michael Izza)
Eric Hespeneheide	IIA	(for Richard Chambers)
Wayne Kolins	BDO	(for Martin van Roekel)
Claudia Kruse	APG Asset Management	(for Angelien Kemna)
Huguette Labelle	Transparency International	
Mindy Lubber	Ceres	
Alex Malley	CPA Australia	
Charles McDonough	The World Bank	
Mark Moody-Stuart	Foundation for the Global Compact	
Herman Mulder	Global Reporting Initiative	
David Nussbaum	WWF	
Richard Sexton	PwC	(for Dennis Nally)
Christoph Stückelberger	Globethics.net	
Jeff Thomson (IMA)	ACCA	(for Helen Brand)
Charles Tilley	CIMA	
Nigel Topping	CDP	(for Paul Dickinson/Rick Samans)
Mark Weinberger	Ernst & Young	
Andrew Wright	A4S	
Yang Zhiguo	Chinese Government/CICPA	(for Li Yong)
 <b><i>Observers</i></b>		
Zhao Jizhe	Chinese Government/CICPA	(with Yang Zhiguo)
Leslie Seidman	FASB	

## **IIRC Council Meeting of 19 March 2013**

### **Attendance**

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#### ***IIRC Directors***

Ian Ball	Paul Druckman (CEO)	Jessica Fries
Ernst Ligteringen	Christy Wood	

#### ***IIRC Team***

Ricky Cronin	Lisa French	Jonathan Labrey
Sara Nori	Michael Nugent	Beth Schneider
Andrew Smith		

#### **Apologies**

##### ***Members/members designate***

John Colvin	AICD	
Wolfgang Engshuber	PRI	(proxy to Mark Moody-Stuart)
Robert Greenhill	World Economic Forum	
Hans Hoogervorst	IASB	
Wan Ling Martello	Nestlé	(proxy to the Chairman)
Barry Melancon	AICPA	(proxy to Charles Tilley)
Edward Nusbaum	Grant Thornton	
Atsushi Saito	Tokyo Stock Exchange Group, Inc.	
Roberto Pedote	Natura	(proxy to the Chairman)
Russell Picot	HSBC Holdings	(proxy to the Chairman)
Yuki Yasui	UNEP Finance Initiative	
Jochen Zeitz	B Team	(proxy to the Chairman)

#### ***Observers***

Richard Thorpe

#### ***IIRC Directors***

Jane Diplock