

Minutes of IIRC Working Group Meeting London – 27 February 2012

Chair: Jessica Fries

Attendees and apologies: See Appendix 1

Actions

A1	<p>Circulate the following:</p> <ul style="list-style-type: none"> The membership lists and terms of reference of each of the IIRC groups (Council, Board, Working Group, Task Forces) The papers underlying the slide from Paul Druckman's CEO update showing the governance structure. 	Secretariat
A2	As requested by the IIRC Secretariat, assist with in-country Rio+20 engagement.	All
A3	Send details of planned events to the IIRC Secretariat (Sara Nori: sara.nori@theiirc.org) so that the list of events at which <IR> is discussed is kept up to date.	All
A4	Follow up with a range of investors through regular engagement, including with CFA, who had indicated that they were planning to submit a response to the discussion paper, but did not.	Secretariat
A5	Analyse results of discussion group on the Business Model, Connectivity, the Capitals and Materiality, and distribute paper for input and feedback from Working Group (WG) members.	Secretariat / All

Recommendations and conclusions

R1	The WG noted the WG Terms of Reference (Paper 3.1), Communications and Engagement Update (paper 3.2) and Long-term Institutional Arrangements paper (paper 3.3).
R2	The WG suggested that a small WG Task Force could be formed to gather information about what each of the WG members is doing with respect to Rio+20.
R3	The WG asked to input to the communications strategy in due course.
R4	The WG recommended that the Deputy Chair of the Investor Network be from somewhere other than the UK, to help address the perception in some quarters that the UK is over-represented on the IIRC.
R5	The WG suggested that the Corporate Reporting User Forum be approached to input to investor discussions

Minutes of IIRC Working Group Meeting London – 27 February 2012

R6	The WG recommended that the IIRF be developed with a focus on the needs of investors and that the Secretariat should develop wording to ensure that the IIRF's inclusiveness of the different stakeholders is conveyed as part of overall messaging.
R7	The WG concurred with the Secretariat's suggestion that research be undertaken to test the expectation that the specific information needs of the other stakeholders, insofar as understanding how an organisation creates value in the short, medium and long term, do not differ greatly from those of investors.
R8	The WG suggested that the question of "value to whom?" be given further consideration by the Secretariat, taking into account the views expressed by the WG, and as appropriate, undertaking additional research and consultation.
R9	The WG suggested that the IIRF should focus on Integrated Reporting, rather than merely provide guidance on the contents of an Integrated Report. The scope of this broader focus will be defined during the period of development of the IIRF.
R10	The WG agreed with comments by respondents to the Discussion Paper (Discussion Paper) that issuing an exposure draft of the IIRF towards the end of 2012 would be premature, because it could not fully take the results of the Pilot Programme into account. The WG therefore concurred with the Secretariat's proposals to issue a number of "issues papers" or "consultation documents" over the next two years to obtain views from stakeholders on various topics, such as materiality, and to use these to inform the development of the IIRF, which would then be issued in 2013.
R11	The WG considers that technology enablement is important. In addition, the WG suggested that an XBRL observer at WG meetings would be helpful.
R12	The WG suggested that the following are not key focus areas for the IIRC, given the need to focus resources on developing the IIRF: <ul style="list-style-type: none"> • The question of whether the IIRF should be mandatory or not and • Developing guidance aimed at regulators on "comply or explain".

Next meeting

The next meeting of the WG will be 29 May 2012, at CIMA's offices in London.

Minutes of IIRC Working Group Meeting London – 27 February 2012

Notes

CEO Update

1. Paul Druckman presented a CEO update, using the slide deck titled 'CEO Briefing' to update WG members on the IIRC's activities since the last meeting and to outline the broad strategy for the next two years.

Working Group Terms of Reference

2. The Working Group Terms of Reference (Paper 3.1) were noted (R1). The Secretariat agreed to circulate the terms of reference and membership of these groups to show the relationships between the WG, the Technical Task Force and the IIRC Secretariat (A1). The following comments were made:
 - It is important that the Terms of Reference are clear about the process whereby WG members are nominated to and retired from the WG. The WG expressed an expectation that such appointments would be approved by the Board.
 - Items 1.4 to 1.7 set out the remit of the Board, Council and WG. There needs to be clarity as to where decision-making responsibility lies and which decisions are reserved to the Council, and it would be helpful to include the decision-making process within the Terms of Reference.

Communications and Engagement Update

3. The Communications and Engagement Update (paper 3.2) was noted, with the following comments:
 - Clause 24 of the Zero Draft provides a starting point upon which the principles of <IR> can be based, and the Secretariat proposes, depending on the final wording, to use Clause 24 as part of the "legacy" of Rio+20 to develop broader forms of reporting, including <IR>.
 - WG members volunteered to assist with Rio+20 engagement by engaging local in-country groups to generate proactive support for Clause 24 of the Zero Draft (A2).
 - It was suggested that a small WG Task Force could be formed to gather information about what each of the WG members is doing with respect to Rio+20 (R2).
 - WG members are asked to send details of any planned events at which they are speaking so that an up to date list of such events can be maintained (A3).
 - The IIRC needs to be very clear about its objectives and should not duplicate work being undertaken by other bodies. Paul Druckman agreed and said that the IIRC was considering establishing Memoranda of Understanding (MoU) with other relevant bodies, including standard setters. Such MoUs would help to provide the clarity and understanding of how the IIRC works with those bodies.
 - In some quarters, the IIRC is perceived as very UK biased. The WG asked how the Secretariat is addressing this perception and what is being done to address this image. The Secretariat is very aware of this issue and is actively trying to manage this.
 - It would be helpful to have a country by country strategy for the G20 countries. One of the new Communications Director's priorities will be to

Minutes of IIRC Working Group Meeting London – 27 February 2012

draw up a strategy that leverages local resources, and he will reach out to WG members as he is developing the strategy. The WG asked to input to the communications strategy in due course(R3).

Long-term Institutional Arrangements

4. The Long-term Institutional Arrangements paper (paper 3.3) was noted, with the following comments:
 - The Long-term Institutional Arrangement Taskforce (IATF) has a very specific role and therefore is expected to be convened for a limited time, likely to span the period to the end of 2013.
 - The WG pointed out that the use of the words “principles” and “guidance” was helpful in describing the work of the IIRC into the longer term, but considered that “standards” had too specific a meaning to standard setters, and should therefore be avoided.

PPs interaction with the IIRF technical development process

5. Superna Khosla introduced a discussion about the Pilot Programme participants’ (PPs) interaction with the International Integrated Reporting Framework (IIRF) technical development process (Paper 4) using the slide deck titled ‘PP Interaction with Technical Development of the IIRF’ which highlighted the results of a survey of the PPs carried out by the Secretariat during February. The following points were discussed:
 - To help address the perception in some quarters (see 3 above) that the IIRC is overly UK-focused, the WG recommended that the Deputy Chair of the Investor Network be from somewhere other than the UK (R4).
 - The balance of types of investors within the Investor Network is important – the network should include bodies such as the CFA and the Institute of Investors, as well as “traditional” investors – so that it is not perceived to consist only of investors with a responsible investment focus. It was suggested that the Corporate Reporting User Forum be approached to input to investor discussions (R4).

Analysis and discussion of Discussion Paper responses

6. Michael Nugent, Beth Schneider and Lois Guthrie introduced the discussion of the analysis of the responses received to the Discussion Paper, using the slide deck titled ‘Review of Responses’. The WG complimented the Secretariat on an extremely good analysis. The WG discussed whether an appropriate sectoral and geographical spread of responses had been received. The WG agreed that the number of responses received from investors, while seemingly low at 15, was nevertheless a relatively high number of respondents compared with financial reporting consultation response rates. It was also noted that the Investor Network would further increase engagement with investors regarding the development of <IR> and that the Secretariat would follow up with CFA, who had indicated that they were planning to submit a response, but did not (A4).
7. The WG commented that care needs to be taken over the messaging for external communication of the analysis of the Discussion Paper responses, for example, communications should address how the IIRC is engaging with “under-represented” groups, as well as the challenge that responders are “self-selected” to be more supportive than those who did not submit a response.

Minutes of IIRC Working Group Meeting London – 27 February 2012

Threshold issues

8. Four threshold issues were identified for discussion in more depth, namely:

- The target audience for <IR>
- From whose perspective should “value” be considered?
- The definition of <IR>
- The timing of the release of the IIRF

8.1 Target audience (i.e., should the IIRF be developed to address the needs of investors rather than all or any other particular group of stakeholders?)

- There was considerable discussion about whether the IIRF should be aimed “initially” at investors (i.e., whether the IIRF should be developed to meet the needs of investors over the next two years, with a later revision to meet the needs of other stakeholders, to the extent that these differ from those of investors) and/or “primarily” at investors (i.e., whether the IIRF should be developed to meet the needs of investors, with other stakeholders not specifically excluded based on an expectation that some of the needs of those other stakeholders are not significantly different from those of investors).
- The WG suggested that many of the information needs of investors and those of other stakeholders may be met by <IR> – even if the focus of the report is on investors’ needs. This is because the expected focus of the IIRF will be to tell a “holistic story” about the organisation’s business model, strategy, future performance and, therefore, what is fundamentally important to the business and its continued prosperity. That “story” should not need to differ significantly when communicating with the various stakeholders.
- The WG recommended that the IIRF be developed with a focus on the needs of investors and that the Secretariat should develop wording to ensure that the IIRF’s inclusiveness of the different stakeholders is conveyed as part of overall messaging (R6). In addition, the WG concurred that research be undertaken to test the expectation that the specific information needs of the other stakeholders, insofar as understanding how an organisation creates value in the short, medium and long term, do not differ greatly from those of investors (R7).

8.2 From whose perspective should “value” be considered?

- The WG debated whether all matters should be monetised and reported (as in the PUMA EP&L example), and concluded that the concept of value is more subtle and difficult to monetise. The “netting off” of environmental and other costs against the financial capital is difficult, particularly in respect of things “beyond” the entity (for example, the value to an employed individual of working at the organisation is likely to be different than the value the organisation places on that individual through employment costs).
- The directors / management of an organisation are held to account by both the investors and other stakeholders – therefore the management of stakeholder interests is very important, not only in terms of impact on stakeholders, but also because a company is not able to create value for investors without responding to the interests of its other stakeholders.

Minutes of IIRC Working Group Meeting London – 27 February 2012

- Value is related to how the capitals are defined, the links between them, and whether (and if so, how) each capital is measured. Value creation and value destruction should both be reported.
- There was discussion around whether, given the recommendation in 8.1 above that investors will be the primary target audience for the IIRF, value should be considered from the perspective of the investor, as well as whether value should be considered from the perspective of all the organisation's stakeholders and/or of society as a whole. A number of different perspectives were expressed, with the majority of WG members expressing the view that value to an organization's stakeholders is the right focus.
- Cultural differences in definition of value are important. For example, in Japan, value is acknowledged as the value to society - creating value for society creates rewards for investors.
- Share prices are a monetary value, but they are derived taking more than the financial results into account. Share prices take factors into account that are not necessarily valued in monetary terms.
- The WG suggested that the question of "value to whom?" be given further consideration by the Secretariat, taking into account the views expressed by the WG, and as appropriate, undertaking additional research and consultation (R8).

8.3 The definition of <IR>

- The WG discussed whether the purpose of the IIRF is to set out the principles for Integrated Reporting or for the contents (including structure and format) of an Integrated Report.
- One view put forward is that a focus on the contents of an Integrated Report is sufficient to drive behaviour change within reporting organisations. The counter view is that a focus on Integrated Reporting more broadly is needed to embed integrated thinking within reporting organisations by reducing the focus on "what goes into the report" (and hence the risk of "boilerplate" disclosures); and to reduce the objections that an Integrated Report is "yet another report".
- Respondents to the Discussion Paper were concerned that creating the Integrated Report as the organisation's primary report will either add to the reporting burden or reduce the amount of information available to stakeholders through other reporting strands (such as sustainability reporting).
- It is important to work/collaborate with regulators and others to reduce the reporting burden overall, for example, with the IASB on developments with respect to its management commentary practice statement.
- The purpose of <IR> is not to reduce the amount of information available to stakeholders; rather it is to act as a "lens" to allow stakeholders to understand the organisation's strategy. Thus, the intention would be that more detailed financial information and additional information produced to increase the organisation's transparency would be available to the relevant stakeholders.
- The WG concluded that the IIRF should focus on Integrated Reporting, in order to embed integrated thinking within organisations, rather than merely provide guidance on the contents of an Integrated Report. The scope of this

Minutes of IIRC Working Group Meeting London – 27 February 2012

broader focus will be defined during the period of development of the IIRF (R8).

8.4 Proposed timeline

- The WG agreed with comments by respondents to the Discussion Paper that issuing an exposure draft of the IIRF towards the end of 2012 would be premature because it could not fully take the results of the Pilot Programme into account (R10).
- The WG concurred with the proposal of the Secretariat that a number of “issues papers” or “consultation documents” be issued over the next two years to obtain views from stakeholders on various topics, such as materiality (R10).
- It is important to issue a public document explaining the responses received to the Discussion Paper and setting out a high level plan for release of the draft IIRF in 2013 and interim projects during 2012 and 2013. However, in doing so, it is important to set out the direction being taken in respect of the issues discussed at the WG meeting, accompanied by a “basis for conclusion” if necessary.
- The term “exposure draft” has a specific meaning in standard setting and should not be used until a draft of the IIRF is ready for exposure, if at all.
- The Pilot Programme participants may be asked to be involved in the subjects that are discussed in the “issues papers”/“consultation documents” and in providing feedback to the Secretariat in response to these documents.

Other points

9. The WG discussed a number of issues arising from Paper 5, namely Connectivity, the Business Model, the Capitals and Materiality. The notes from these group discussions will form the basis of a paper seeking input from the WG, which will be circulated shortly (A5).
10. The WG was asked to comment on respondents’ views that XBRL should be considered as part of the initial development of the IIRF. The WG commented that technology enablement was very important, but that this did not necessarily mean a need to focus directly on XBRL during the initial development of the IIRF. However, the WG suggested that an XBRL observer at WG meetings would be helpful (R110).
11. The WG was asked whether the IIRC Secretariat resources should focus on whether the IIRF should be mandatory or not and/or on developing guidance aimed at regulators on “comply or explain”, as some respondents expressed strong views on this subject. The WG recommended that this should not be a key focus, given the need to focus resources on developing the IIRF (R12).

Minutes of IIRC Working Group Meeting London – 27 February 2012

Appendix 1: Attendees

ACCA	Neil Stevenson
APG Investments	Claudia Kruse (until lunch)
Australian School of Business, The University of New South Wales	Roger Simnett
Aviva Investors	Steve Waygood
BDO	Simon Pringle
Carbon Disclosure Project	Nigel Topping
Deloitte	Eric Hespenheide
DVFA	Ralf Frank
GRI	Nelmara Arbex
Hermes EOS	Tom Rotheram (until lunch)
IASB	Alan Teixeira (until afternoon break)
JICPA	Kiyoshi Ichimura
KPMG	David Matthews (until lunch)
Microsoft	Bob Laux
Natura	Alexandre Nakamaru
Novo Nordisk	Susanne Stormer
PRI	Rob Lake
PwC	Jessica Fries (Chair)
Railpen Investments	Frank Curtiss (until afternoon break)
SAICA	Graham Terry
Solvay	Valerie-Anne Barriat (observer for M. Bande)
UNEPFI	Yuki Yasui
Observers	Ernst Ligteringen (GRI) (until 12 noon) Kim Holmstrom (Directorate-General for Enterprise and Industry) Leigh Roberts (SAICA) Yoichi Mori (JICPA)
IIRC Secretariat	Paul Druckman (until afternoon break) Lisa French Lois Guthrie Kate Jeffries Superna Khosla Mariko Mishiro Michael Nugent Andy Smith Beth Schneider Matty Yates

Minutes of IIRC Working Group Meeting London – 27 February 2012

Apologies

CICA	Alan Willis
CLP Holdings	Jeanne Ng
FASB	Peter Proestakes
Grant Thornton LLP	Steve Maslin
Harvard University	Robert Kinloch Massie
IFAC	Ian Ball
KPMG Australia	Nick Ridehalgh
Taylor Knight	Alan Knight
UNCTAD	Anthony Miller
UN Global Compact	Jerome Lavigne-Delville
World Resources Institute	Janet Ranganathan