

## IIRC Working Group Meeting of 17 September 2012

### Minutes

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**Date:** 17 September 2012  
**Time:** 10:00 – 16:35 (CEST)  
**Venue:** PricewaterhouseCoopers, Westgate, Thomas R. Malthusstraat 5, 1066 JR Amsterdam, Netherlands  
**Attendance:** See below  
**Chairman:** Ian Ball  
**Minutes:** Andrew Smith

### Agenda

Item	Paper
1. Welcome, introduction and objectives for the day	
Approval of minutes from previous meeting	Item 1
2. CEO briefing	Item 2
3. Draft Prototype <IR> Framework and topic-specific projects	Item 3
4. Policy and communications	Item 4
5. Q&A, any other business and dates of next meetings	
6. Close	

## **IIRC Working Group Meeting of 17 September 2012**

### **Minutes**

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#### **1. Welcome and introduction**

Ian Ball welcomed all participants, especially those attending as new members and/or for the first time.

The minutes of the Working Group meeting on 29 May 2012 were approved without revision.

#### **2. CEO briefing**

##### Key points of information/discussion

The following points were raised during discussion:

- The IIRC is not actively looking to increase Pilot Programme participation, but the Pilot Programme conference has generated a flurry of applications to join. The total number of participants now stands at 82, compared to an original target of 50. Participation in North America has strengthened, but is still low in Latin America and Asia.
- Many Pilot Programme companies have not yet started developing an integrated report, but are working through internal processes to position themselves to do so first.
- The Pilot Programme is being extended into 2014, because it has become evident that companies will find it useful to have one reporting cycle working with the draft Framework.
- The examples database is available at: <http://examples.theiirc.org>.
- The IIRC has drawn up a list of key partner organizations. The list is not exclusive and is intended to identify leading international bodies with which the IIRC collaborates in advancing the <IR> agenda.
- The IIRC Board determined that balance in IIRC bodies (e.g. Council, Working Group) is more important at this stage than their size. A concerted effort is underway to strengthen investor involvement in the IIRC's governance and activities.
- The IIRC staff complement now stands at 23 (=16 FTE). Further seconded resources (in Australia, France, Korea and the USA) are pending. It has taken longer than anticipated to arrive at this level of staffing.
- The IIRC's liquidity is currently good. The Secretariat is hopeful – and working on the premise – that income levels will continue next year.

##### Actions

N.A.

#### **3. Draft Prototype <IR> Framework and topic-specific projects**

##### Key points of information/discussion

##### *General*

The following points were raised during discussion by individuals within the Working Group on the draft Prototype Framework:

## **IIRC Working Group Meeting of 17 September 2012**

### **Minutes**

---

- The draft Prototype Framework was overwhelmingly considered to be an excellent document, for which all those involved in its development are to be highly commended.
- The length of the document is about right and the use of illustrative examples is very helpful and brings the document to life.
- The Framework must be kept logical, consistent and simple.
- The Framework must maintain the flexibility evident in the draft Prototype Framework: companies are different, which means the Framework cannot be too prescriptive.
- The fact that something is now written down provides a sound basis to develop further traction.
- The draft Prototype Framework is not a consultation draft. It has been provided to Pilot Programme participants and the Investor Network in advance of the Pilot Programme conference and will also be made publicly available to serve the interests of transparency and generate comment, but not for formal feedback.
- The IIRC is committed to release of the Consultation Draft in April 2013 and Version 1.0 of the Framework in December 2013 and accepts there might be gaps as a result of meeting the timing commitment.
- Companies currently "self-declare" that they are producing integrated reports.
- The GRI is committed to taking sustainability reporting forward in a way that is aligned to the Framework as developed by the IIRC.
- Is there sufficient focus and clarity in the draft Prototype Framework on the external context/business environment in which the reporting organization operates?
- The draft Prototype Framework does not sufficiently bring out the fact that organizations' activities do not just have implications on their own ability to create value, but also on that of others to do the same. The issue of externalities needs to have greater prominence in the Framework itself; this cannot be left solely to accompanying documents.
- Thought should be given about guidance on reporting of the timescale over which externalities are internalised (i.e. the process by which issues/risks that are currently considered "non-financial" will eventually impact financial capital). This will better inform investors' decisions about the sustainability of their projected returns.
- The link between long-term investment and the public interest needs to be made more strongly. It is currently stated as an assumption without much supporting evidence.
- Are the capitals of equal importance, or should they be weighted?
- The draft Prototype Framework is part framework, part guidance. A clear statement is needed on what the document does and does not set out to do, what the Framework should be and how it can, first and foremost, best serve the needs of report preparers and users.
- It is not clear which audience the Framework is aimed at. The language used currently sits somewhere between C-suite (i.e. the "why") and report

## IIRC Working Group Meeting of 17 September 2012

### Minutes

---

preparers (i.e. the “how”). Perhaps an executive summary is needed. If it is a strategic document for a senior audience, this should be made very clear.

- In terms of the “how”, illustrative examples are very helpful. The addition of case studies/tools should be considered to support thinking on/application of <IR>.
- A company’s integrated report should comprise a statement from its Board that sets out the Board’s thinking on what it is accounting for.
- It is important that the Framework be seen not as the next step in sustainability reporting, but as an advance in the evolution of corporate reporting, based on integrated thinking. The Framework needs to highlight the importance of commentary on the business environment in which reporters operate and how they create value in that environment.
- What are the boundaries of the document and the landscape it is trying to address? How does it fit in the overall picture with other reporting frameworks, such as GRI and IFRS?
- Care must be taken about changing wording in isolation, as one wording change in one paragraph can have implications for the whole document.
- There is a big difference between the periodicity of reports and their focus/content. There may well still be a short-term requirement for information about longer-term matters. It is important to report the “right” information with appropriate frequency.

### *Capitals*

The following points were raised during discussion:

- The work of the project-specific team suggests that the definition of capitals provided in the draft Prototype Framework is as good as any.
- Should relationships, innovation and reputation be addressed as standalone capitals, or on a cross-cutting basis?
- Where does the stability/health of the financial system sit in the Framework?
- Is more guidance needed for investors to promote comparability?
- There is a systems dimension to all of the capitals. Conveying this would make the concept of the capitals easier to understand.
- The Framework should not be too prescriptive about reporting to the capitals model.
- Care should be taken about making arbitrary decisions to differentiate between financial and other capitals. Virtually every company looks to non-financial capital to generate financial capital.

### *Business model*

The following points were raised during discussion:

- 2.18 of the draft Prototype Framework (ref. the graphic “Positioning of Business Model”) should make the connections between different elements and its intended meaning clearer.

## IIRC Working Group Meeting of 17 September 2012

### Minutes

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- 2.26 of the draft Prototype Framework “randomly” advances the notion that innovation is key to sustainable success. It is worth considering whether this concept should be contextualised “in a world of increasing limitation, where efficiency in use of capitals is relative to the resulting output”.
- The concept of “outcomes” could be introduced to complement the concept of outputs and avoid confusion between the two. An organization uses/develops capital in the process to create products and/or deliver services. An increment/detriment of any one of the capitals would therefore be an outcome rather than an output (ref. 2.27 of the Draft Prototype).
- Should the need to create, preserve and deliver value be referenced?
- In the section on “value-adding activities”, the benefit of some kind of roadmap, showing dependencies and threats could be considered. The structure of the organization is also relevant in this regard.
- The graphic on p.10 of the Discussion Paper (the “octopus diagram”) should be incorporated into the Framework.

### *Value*

The following points were raised during discussion:

- Two main areas cause difficulty:
  - From which perspective should the question of how value is created be considered? Should the emphasis be on long-term investors, all investors or a wider stakeholder audience?
  - How is value recognised by the audience?
- Is there too much reliance on the long-term investor? The proportion of long-term investment in the world today is lower than many people think.
- The use of the World Economic Forum definition of long-term investing (“investing with the expectation of holding an asset for an indefinite period of time by an investor with the capability to do so”) is not helpful (notably the reference to “indefinite”).
- Instead of “investors”, use of the following term should be considered: “providers of financial capital, particularly those with a long-term perspective, which stand to benefit most from integrated reporting”.
- The concept of “universal owner” is unpopular with pension funds and should not be used.
- The purpose of a company is not solely to generate cash back to investors, but to generate outcomes that create value back to a wider range of stakeholders. Consideration must be given not simply to the “exchange” value of the capitals, but also their “user” value. Not everything can be translated into a financial value.
- 2.37 of the draft Prototype Framework is well-worded.
- Outcomes drive cashflow. The ability to generate sustainable returns to investors therefore depends on the ability to create value for other stakeholders. Ideally, the sum of what comes out is higher than the sum of what goes in.

## **IIRC Working Group Meeting of 17 September 2012**

### **Minutes**

---

- <IR> is not about forecasting or predicting value, but about reporting on the strategy to create value and how it is being executed.
- The definition of value should include intangibles, such as brand and intellectual capital.
- Different audiences for each report may attach value to the same capitals, but will see those capitals through different lenses. An investor will always focus on sustainable financial returns and therefore, in turn, on the extent to which the capitals generate such financial returns. If investors represent the primary audience for <IR>, it follows that representation of financial value – including the value potential – must be a priority consideration.
- If <IR> is aimed primarily at investors, it must focus on financial performance in financial terms.
- Should innovation and experimentation be added to 2.44 of the draft Prototype Framework?

#### *Connectivity*

- The question of how a business model works dynamically is massive. The <IR> Framework has gone as far as reasonably possible in this respect for now.
- The link between the internal (management) information set and external perspectives should be brought out more.

#### *Materiality*

- The whole concept of <IR> and the Framework is in a sense predicated on materiality.
- There is an internal and external focus in the materiality concept. It is important to ensure that whatever commands the focus/attention/energy of the highest governing body is also covered/referenced in external reporting.
- Materiality is a function of magnitude and likelihood. It could be defined, in essence, as “what keeps the organization’s board awake at night”.
- Too many material matters probably mean that the materiality threshold is not high enough.
- The diagram in 3.27/p.26 of the Draft Prototype is very helpful.
- The “compounding problem” should also be considered (i.e. a situation where a small investment might satisfactorily address a relatively small problem, which if left unchecked could grow into a much bigger problem).
- It is not immediately clear whether all report users are equal in the materiality assessment. If investors are the primary users of a report, materiality must be considered from their perspective. The development of a materiality matrix (stakeholders/risks) might help address this issue.
- There is a trade-off to be had in reporting between brevity and clarity. The key questions to address are: (i) what is material? and (ii) what is being done about it?

## IIRC Working Group Meeting of 17 September 2012

### Minutes

---

#### *Reporting boundaries*

- <IR> boundaries are wider than financial reporting boundaries.
- The concept of outcomes is helpful in this context, to help define the reporting boundaries, which should extend to cover those matters/outcomes for which the organization is responsible, in terms of risk, opportunity and impact, even if they would not fall within the financial reporting boundaries.

#### Actions

- Working Group members are to provide detailed comments on the draft Prototype Framework to the IIRC Technical Team by 01 October 2012.
- Working Group members with colleagues on the Council are to brief them ahead of the Council meeting in Tokyo on 02 November 2012.
- The IIRC Secretariat and GRI are to provide clearer messaging on how G4 Guidelines and the Framework relate to each other.
- The IIRC Secretariat is to continue its endeavours to get more investors and regulators directly involved in development of the Framework.
- The IIRC Secretariat is to consider possibilities for a series of publications (ref. output from the topic-specific teams) to coincide with/support the publication of the Framework.

## 4. Communications

#### Key points of information/discussion

The following points were raised by individuals during discussion:

- Collaboration and engagement are key to communication with policy makers and regulators. The IIRC is developing a roadmap to strengthen its visibility and that of <IR>. Input from the Working Group will inform development of an implementation plan.
- The IIRC will focus on awareness-raising only in relation to G20 in Russia and produce a policy paper, but the main focus in terms of policy agreement will be on 2014 in Australia.
- The IIRC critical path timeline is not a finite listing of key events of relevance to the IIRC, but it does align key IIRC activities with some key external events as a means to "focus the mind" on the critical path.
- The IIRC should consider establishing a special taskforce for the USA: it is a long way behind on <IR>, yet is a crucial part of the jigsaw puzzle. Interested parties could find a common voice. The same principle can be extended to priority sectors in priority countries.
- Three things are urgently needed:
  - Consistency and clarity of messaging.
  - Clarity on who the targeted audiences are.
  - Clarity on how to direct limited resources that the IIRC has at its disposal.

## IIRC Working Group Meeting of 17 September 2012

### Minutes

---

#### Summary of feedback from 3 breakout groups provided in plenary

##### *Consistency and clarity of messaging*

- The IIRC should focus on the internal and external benefits for organizations, which ultimately want to build trust. Integrated thinking is about breaking down silos, which in turn is a key benefit.
- A key message for the business community is “define yourself”, rather than allowing others to define you.
- Organizations should “get on the bus before the bus goes” and be ready to grasp the opportunity when it arises. Put another way, “if you’re not out there in the surf, you can’t pick up the wave when it comes along”.
- For regulators and standard-setters, a well-run company is the first line of defence. Strong leadership and best practice strengthen reputation and thereby credibility.
- Articulate how <IR> contributes to: (a) better business; (b) better markets; and (c) a better economy.

##### *Clarity on who the targeted audiences are*

- Target audiences could include:
  - Business (there needs to be prioritisation within this broad constituency)
  - Investors
  - Intermediaries and facilitators
  - Government and regulators
  - Mediating organizations
  - Wider public
- The focus should be primarily on, in priority order: the CEO; the Board and the CFO.
- In terms of addressing the global policy landscape, entities revising reporting requirements offering short-term opportunities, include:
  - EU
  - UK
  - Para 47 group
- The IIRC needs to be ready and clear on its “ask” of the G20, going beyond the message that <IR> is good and articulating the specific policy change sought. Humility is important: even with the Framework and more tangible documents in hand, <IR> is still an emerging trend/issue. There is some momentum, but no finished product.
- The IIRC must understand that there will be different drivers in different jurisdictions; in some it will be regulatory, in others it will be a question of identifying the first movers that others will follow.
- In terms of the media, the IIRC should target specific journalists for briefings. If the IIRC gets <IR> on individuals’ agenda, they will get <IR> into the papers.
- National groups can help influence the extent to which <IR> gets on national policy agendas.



## IIRC Working Group Meeting of 17 September 2012

### Minutes

---

- The IIRC must also take care to address the detractors.
- The IIRC should identify and target specific influential policy makers.

#### *Clarity on how to direct limited resources that the IIRC has at its disposal*

- Recognizing that there are unresolved relationships between corporate reporting, CSR reporting and <IR>, the IIRC should pick off the “low-hanging fruit”, such as:
  - South Africa, which has accepted <IR>.
  - South Korea, where interest in CSR reporting and <IR> is high.
  - Singapore, Malaysia and Hong Kong, where stock exchanges are favourable to <IR>.
  - Denmark and France, which have mandatory reporting requirements.
- The IIRC should also focus on key strategic markets:
  - UK
  - Japan (no mandatory environment, but a lot of peer pressure: e.g. a great number of companies now report on CSR).
  - USA (mandatory reporting is unpopular, but may be the only way to gain acceptance. There is nonetheless quite a lot the IIRC can do in terms of lobbying regulators, as a market-led initiative, regarding the benefits of <IR> for companies. The investor community remains sceptical).
  - China (minority of company shares held on stock exchanges. Predominantly small, individual - rather than institutional - investors. Lot of centrally-owned entities. Preferred approach is to companies themselves, to seek local champions).
- In laggard countries, the IIRC should aim to collaborate with those that are willing to address capacity-building opportunities.

#### Actions

- The Secretariat is to add to the FAQs:
  - What is the value of <IR> and to whom?
  - Why does <IR> not represent an additional reporting requirement?
- The Secretariat is to submit a policy paper prepared in the context of G20 in Russia for review and input by the Working Group.

## **5. Q&A, any other business and dates of next meetings**

#### Key points of information/discussion

The following points were raised during discussion:

- Meetings of the Working Group will be held in 2013 as follows:
  - On 12-13 February, tentatively in Paris.
  - On 06 June, tentatively in Berlin.

The June meeting reflects the fact that the Working Group does not focus only on the Framework and will consider other aspects of IIRC activities.

## **IIRC Working Group Meeting of 17 September 2012**

### **Minutes**

---

- On 22-23 October, tentatively in London.
- Meetings of the Council will be held in 2013 as follows:
  - On 19 March, tentatively in Washington DC.
  - On 05 December, tentatively in London.

### **6. Close**

The Chairman closed the meeting at 16:35 (CEST).

## IIRC Working Group Meeting of 17 September 2012

### Attendance

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#### Present Members

Ian Ball	IFAC	
Nelmara Arbex	GRI	
Michel Bande	Solvay	
Michael Bray	Business Reporting Leaders Forum	(for Nick Ridehalgh)
Frank Curtiss	Railpen	
Pedro Faria	Carbon Disclosure Project	
Jessica Fries	PricewaterhouseCoopers	
Tai Fung	Microsoft Corporation	(for Bob Laux)
Ole Hansen	UN Global Compact	(for Jerome Lavigne-Delville)
Eric Hespenheide	Deloitte & Touche	
Kiyoshi Ichimura	JICPA	
Dongsoo Kim	Korea Productivity Center	
Alan Knight	SROI Network	
Claudia Kruse	APG Asset Management	
Rob Lake	PRI	
Brendan LeBlanc	Ernst & Young	
Robert Massie	New Economics Institute	
David Matthews	KPMG	
Anthony Miller	UNCTAD	
Preter Proestakes	FASB	
Roger Simnett	University of New South Wales	
Neil Stevenson	ACCA	
Susanne Stormer	Novo Nordisk A/S	
Alan Teixeira	IASB	
Graham Terry	SAICA	
Daniel Tisch	Global Alliance for PR & Communication Mgt	
Alan Willis	Independent/CICA	
Yuki Yasui	UNEP Finance Initiative	

#### Observers

Natasha Issa	Zurich Insurance Group Ltd	
Yoichi Mori	JICPA	
Leigh Roberts	SAICA	TTF member
Charles Tilley	CIMA	TTF Chairman

#### IIRC Directors

Paul Druckman  
Ernst Ligteringen

#### IIRC Secretariat

Lisa French	Lois Guthrie	Superna Khosla	Jonathan Labrey	Mariko Mishiro
Michael Nugent	Beth Schneider	Andrew Smith		

## IIRC Working Group Meeting of 17 September 2012

### Attendance

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#### **Apologies**

#### **Members**

Koushik Chatterjee	Tata Steel Ltd.
Ralf Frank	EFFAS
Robert Giglietti	General Electric
Gary Kabureck	Xerox
Steve Maslin	Grant Thornton
Jeanne Ng	CLP Holdings Limited
Simon Pringle	BDO
Janet Raganathan	World Resources Insitute
Tom Rotherham	Hermes EOS
Steve Waygood	Aviva Investors

#### **Observers**

Kim Holmstrom	European Commission	
Bess Joffe	Goldman Sachs	
Alexandre Nakamaru	Natura Cosmetics	TTF member