

IIRC Working Group Meeting of 22/23 October 2013

Minutes

Date: 22/23 October 2013
Time: Day one: 10:15-17:30 (BST)
Day two: 09:00-16:00 (BST)
Venue: Grant Thornton, 30 Finsbury Square, London, EC2A 1AG, UK
Attendance: See attached list
Chairman: Ian Ball
Minutes: Andrew Smith

Agenda

<u>Item</u>	<u>Paper</u>
Day one	
1. Welcome, introduction and objectives for the meeting	N.A.
2. Minutes of previous meeting and matters arising	Item 2
3. The Framework	
To:	
• <i>Review key issues arising from feedback on the Consultation Draft of the International Integrated Reporting Framework ('the Framework')</i>	Item 3a
• <i>Recommend the Framework to the Council.</i>	Item 3b
Day two	
4. Recap of day one	N.A.
5. CEO briefing: Major issues	Item 5
<i>To provide an opportunity for Paul Druckman to raise matters of importance and take questions on items contained in the CEO briefing, a copy of which is provided as pre-reading, similar to previous meetings.</i>	
6. Future strategy	
6a Summary overview	Item 6a
<i>To brief on strategy for the next, Breakthrough phase for 2014 and beyond.</i>	
6b Breakthrough - Key segments	Item 6b
<i>To gain insights on key segments to target in the Breakthrough phase.</i>	
7. Good <IR> in practice	N.A.
<i>To provide indicative examples of good <IR> in practice.</i>	
8. <IR> in the public sector	Item 8
<i>To gain insights on the application and accessibility of <IR> in the public sector.</i>	
9. Future institutional arrangements: Structure and governance	Item 9
<i>To provide an update on proposed future structure and governance arrangements.</i>	
10. Any other business	N.A.
11. Close	N.A.

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1. Welcome, introduction and objectives for the meeting

The Working Group ('WG') was welcomed to Grant Thornton offices by Paul Etherington, partner and member of the Grant Thornton management team.

The WG Chairman:

- Thanked Grant Thornton for hosting the meeting;
- Welcomed all participants, especially Council members and their representatives and those attending as new members or for the first time; and
- Outlined the intended key outcomes of the meeting.

2. Minutes of previous meeting and matters arising

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The minutes of the WG meeting on 17 June 2013 were approved without revision.

Matters arising

N.A.

3. The Framework

Introducing discussion on item 3 (ref., papers 3a and 3b), the WG Chairman:

- Summarised the extensive process of engagement and interaction to arrive at the current position with the Framework.
- Indicated that there are no real surprises in the feedback received on the Consultation Draft of the Framework. There was recognition in the feedback that implementation of <IR> is an evolutionary process and that the IIRC is more or less where it needs to be with development of the Framework.
- Acknowledged the terrific job done by the Technical Task Force and the IIRC team.
- Passed over to Charles Tilley and Michael Nugent (ref., presentation slides).

References to specific sections of the Framework are to the draft of the Framework provided ahead of the meeting in paper 3b.

Introduction

Charles Tilley:

- Thanked the IIRC team for the fantastic job they had done.
- Provided a summary of the process to date and feedback from the consultation process.
- Indicated that no significant text had been lost in the revised draft.
- Stressed that <IR> is a principles-based approach and any changes to the Framework have been proposed to improve the flow, rather than substantively change its content.
- Indicated that the Basis for Conclusions is expected to be available along with, or shortly after, release of the Framework.

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- Indicated that a thorough review of responses had highlighted eight key technical issues (ref., paper 3a).
- Indicated that significant support for the Framework had been expressed in feedback received and that the Framework remains faithful to the positive responses received, whilst recognizing alternative views.
- Indicated that overall the comments were supportive of the Framework.

Key issues

Michael Nugent led discussion on key issues.

Issue 1: Fundamental terminology

Comments and suggestions

The following comments and suggestions were made by individual meeting participants during the course of discussion:

- On integrated thinking:
 - The TTF was reluctant to insist that integrated thinking is a prerequisite for <IR>, because any organization preparing an integrated report would have some element of integrated thinking to start the <IR> journey, without which such a report would not be possible.
 - The concept of integrated thinking has not specifically been tested, but people "get it".
 - Some continue to believe that it makes sense to incorporate integrated thinking into the definition of <IR>.
- On the definition of <IR> in the Preface:
 - It is not as inspiring as the Framework otherwise generally is intended to be.
 - Integrated thinking is critical to the definition.
 - It needs to stand on its own and therefore could be tighter.
 - It could perhaps refer to what is actually being integrated.
 - Rather than "value creation over time", it could reference "how the organization creates value over time."
 - The comma between "time" and "and" could be deleted.
 - The second part of the definition could bear review.
 - The nature of "related communications" could be expanded upon.
 - The second half of the definition could be removed altogether (i.e., from "related communications" onwards), to give a simpler, more pithy definition.
 - Pilot Programme participants could be asked to contribute to the definition of integrated thinking, based on their experience of applying it.
- Use of the term "organizations" rather than "corporates" to describe reporting entities is designed to keep the Framework sector-neutral and accommodate moves towards <IR> in the not-for-profit and public sectors.

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Issue 2: Relationship with other information

Comments and suggestions

The following comments and suggestions were made by individual meeting participants during the course of discussion:

- The term “annual report” means different things in different jurisdictions.
- FW 1.16 and FW 1.19 overlap and could be merged, or at least put in sequence.
- On the concept of a “standalone” report:
 - The integrated report could be defined as a separately identifiable communication which has been prepared in accordance with the Framework. It could be standalone, part of another report, or the front part of the annual report.
 - An integrated report is not just a summary of other forms of reporting, but should make the connection between them, in terms of the organization’s value proposition. It represents an entry point into the organization, from where users can drill down into greater detail in other reports.
 - A recurrent issue is that people believe that an integrated report is a separate report. It should be clear that <IR> is not designed to create an additional reporting burden.
 - In FW 1.15, replace “separately identifiable” with “designated”.
 - In FW 1.17: (a) avoid the terminology of “separate” and “standalone” altogether, to avoid confusion; and (b) invert the order of existing bullet points 2 and 3, to give more prominence to the potential compliance dimension.
 - The Preface notes that an integrated report differs from other reports in a number of ways, but does not give a flavour of how.
 - The Framework should retain some sense of vision that an integrated report is a step on the journey towards <IR>. We must not fall into the trap of requiring – or being seen to require – yet another report.
 - An integrated report should be easily and distinctly identifiable to users as a prominent communication that follows the principles of the Framework and is prepared in line with the statutory reporting cycle. Based on the needs of users, it may or may not be standalone, and if not, should be prominent and accessible as part of another document.
 - The idea that an integrated report might be separate suggests, by definition, that it would not, in fact, be integrated.
 - The intent should be to describe a “design principle”, rather than stipulate the need for a separate section or report.
- On the integrated report as the statutory report:
 - Given developments in the UK and EU, it is important to be explicit about how an integrated report fits with regulatory requirements. One document can address two ends, provided it meets the requirements of both.
 - The integrated report should be the statutory report. It should not be a roadmap, which is uninteresting to the investor community, but rather

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the company's key report.

- The integrated report should be the statutory report only to the extent permitted by the jurisdiction concerned.
- <IR> is a journey. An integrated report may not currently be the statutory report, but that should be the longer-term objective.
- If the critical objective is to get analysts to read the integrated report, it should be the annual report.
- There is a risk in some jurisdictions that if the integrated report is seen as a legal/statutory report, it will create a barrier to the uptake of <IR>.
- The Preface does not contain a statement of intent, to the effect that <IR> should be embedded as mainstream practice and become a corporate reporting norm, by which organizations should disclose on their prospects for long-term value creation (or similar).
- FW 1.18 is weak and does not represent a statement of intent. It should be expanded (second sentence) to refer to *"the connectivity of that information in value creation over the short, medium and long term."*
- The Framework is too conditional in its tone, with many "should" and "may".

Issue 3: Materiality – audience and terminology

Comments and suggestions

The following comments and suggestions were made by individual meeting participants during the course of discussion:

- On the primary audience/purpose:
 - It is good that the Framework moves away from over-emphasis on "providers of financial capital" and evidences the appreciation that there is a wider audience for <IR>.
 - FW 1.16 could refer to "providers of financial capital", rather than "intended report users".
 - The integrated report should be a major medium of communication with the investor community.
 - Given that FW 2.2 refers to value as being "created through relationships with stakeholders", FW 1.9 should refer to the *"primary purpose of an integrated report [being] to explain to providers of financial capital and other stakeholders how an organization creates value over time."*
 - An integrated report is intended to explain to providers of financial capital how the organization creates value. The report is directed at them and the language used must have them in mind when the report is written, but the meaning of value is broader, involving an explanation of how relationships with other stakeholders create value. This does not, however, mean that the integrated report needs to be directed at all stakeholders. Other communications can serve the needs of other stakeholders, to the extent that they differ from the needs of providers of financial capital.
 - The move away from emphasis on providers of financial capital as the primary user is not good. An integrated report cannot be all things to all people. It has to speak to the investor community.
 - Perhaps FW 1.10 could be re-worded, to the effect that an integrated

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report is intended for the benefit of broad stakeholder groups, but its primary purpose is to explain value creation to providers of financial capital.

- FW 1.9 should be revised to read: "... contains financial and other relevant information".
- This point has been debated since the start of the process to develop the Framework. At a certain point we must conclude and move on.
- On use of the term "materiality":
 - While concerns exist about the definition and use of the term "materiality", if <IR> is considered as the evolution of reporting, materiality has to be part of it, challenging as it may be.
 - It is important to bring the attention of providers of financial capital to other forms of capital beyond the financial.
 - The absence of the term materiality, given that it is in such common parlance, will diminish the Framework. People are sophisticated enough to "get it".
 - There has been lots of discussion on materiality and people are looking to the Framework to take the debate forward. Leaving it to the financial community to decide what is material is wrong.
 - A standard definition is used in the financial statements. Absent a better alternative, this should be used in an integrated report.
 - The definition should remain as it is in the Framework, but with wording added, to the effect that report preparers should reconcile it with other framework definitions depending on what they base their report on.
 - Some guidance on what is "material" would be helpful, possibly in the form of examples.
 - SASB uses the SEC's definition, to the effect that information is material if its omission or inclusion from a report would lead investors to make a different investment decision.
 - While acknowledging that the liability threat might restrict uptake in the USA, we should cut through the issue, take the risk and use the term "materiality".
 - Materiality relates to issues that those charged with governance (which for companies is effectively the Board) should discuss. If they haven't thought about an issue, it is not material. Conversely, if they have – or should have – thought about an issue, it is material. This approach would also serve to emphasise alignment between internal consideration and external reporting.
 - Materiality should be linked to the purpose of integrated reporting, not the audience for an integrated report. Consideration could be given to changing the reference to "intended user" to "intended purpose".
 - FW 3.23 could be strengthened as follows: *"Matters that might be relatively easy to address in the short term but which may, if left unchecked, become more damaging or difficult to address in the medium or long term need ...".*
 - FW 3.17 could be amended as follows: *"An integrated report should disclose information about matters that substantively affect the*

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organization's ability to create value ~~over time~~ in the short, medium or long term as discussed in Section 2C."

- On risk management:
 - Organizations should address emerging issues and issues critical to the organization, in addition to issues discussed by those charged with governance.
 - It is important for organizations not only to report how they are treating issues in terms of strategy, but also how resilient they are in terms of risk management. This means not just providing information on the nature of risks, but also on responses, in terms of indicating how risks are being addressed and to what effect. This is addressed in FW 3.20.
 - It would be more interesting to include narrative in the Framework (ref., e.g., FW 4.26) on resilience, in terms of not just identifying material issues and risks, but the extent to which the organization has the resilience to address such issues. The concept of resilience demonstrates flexibility in handling risks, stimulates people to think longer term and is gaining traction in the business lexicon.
 - An alternative view is that "resilience" is normally understood in terms of negative effects and is therefore possibly limiting as a term to use.
 - The time dimension is important for <IR>.

Issue 4: Value/value creation and capitals

Comments and suggestions

The following comments and suggestions were made by individual meeting participants during the course of discussion:

- Figure 4 is not very helpful, on the grounds that value today can impact value in the future and the time dimension does not come through in the figure, which should accordingly be re-designed to reflect it.
- The flow of the Framework might be improved by putting FW 2C ahead of FW 2A and FW 2B.
- The emphasis on co-creation/inter-relatedness, in terms of value for the organization and value for others, does not come across in FW 2.26.
- There is a future dimension to value: the intergenerational aspect and longer timeframes are very important. The Framework could more clearly reflect that future value creation is also for future generations.
- Interest in the question of value essentially lies in how it is distributed, which is a function of ownership and control. There is a useful distinction to be made between ownership and distribution of capital.
- From an <IR> perspective, the capitals model is a means by which to determine the distribution of value (i.e., in terms of the increase/diminution of capital value). The challenge remains to determine what each respective capital covers.
- The definition of value should be more specific, bearing in mind: (a) that an integrated report is prepared primarily for investors; and (b) the need for conciseness.
- The language used should be bold enough to reflect the vision of the IIRC.
- Creation and destruction of value are not the same thing. A fundamental

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problem is that market capital has been allowed to accrue by damaging other capitals. FW 2.30 and FW 2.31 are timid paragraphs that miss the point of how courageous <IR> is trying to be. They should be stronger. Paragraphs 2.38 to 2.43 of the Consultation Draft offered good language on this, some of which should perhaps be re-introduced.

- The wording of FW 2.7 and FW 2.9 should be re-considered, to avoid confusion between materiality and boundary.
- In discussing trade-offs, in terms of what is or isn't material, it is important to note that some trade-offs may be rather large.
- The definition of value should go in the Glossary.
- Reference to section 2D in point 8 of the Glossary should be removed (i.e., there is no longer a section 2D in the Framework).
- Reporters would like guidance on where sub-contracted labour fits in the capitals model (i.e., social, human or relationships), to promote consistency.
- It is important to remember that the capitals model is not a requirement: it is illustrative, not prescriptive.
- It is important not to go down the monetization route with <IR>.
- The question exists of where, if at all, value created for others should be disclosed in an integrated report.

Issue 5: Suitable criteria for preparation and assurance

Comments and suggestions

The following comments and suggestions were made by individual meeting participants during the course of discussion:

- Determining the basis for "presentation" of an integrated report is too narrow. The criterion should be the basis for "disclosure".
- There will be difficulties for assurance provision in relation to issues not addressed in the integrated report on grounds of competitive disadvantage, but the means by which this is handled will come down to judgment and experience. There is no easy answer.
- If the report preparer is clear in its reporting on what has been done, how it is measured and what it thinks is material, there will be connectivity.
- Assurance invites the question of which criteria have been used, whether pre-determined, or self-declared, either of which can be an appropriate basis for preparation and assurance of a report. The process towards assurance of integrated reports will be iterative and evolutionary.
- It is a question of policy for reporting organizations as to whether they submit their integrated reports to assurance. While the IIRC can encourage assurance, the Framework can be silent on this point.
- Assurance of integrated reports should enjoy parity with financial assurance. This is something to take into consideration for technical development activity post-2013.

Issue 6: Measurement and KPIs

Comments and suggestions

The following comments and suggestions were made by individual meeting participants during the course of discussion:

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- On KPIs and measurement:
 - Without specificity on KPIs and measurement, it is difficult to achieve comparability. However, the Framework is principles-based and does not provide, or endorse particular measurements. The possibility remains for the Framework to reference other frameworks that can provide guidance on measurements.
 - The fact that the IIRC is not keen to endorse one set of measurement standards over others does not mean that an integrated report should not contain KPIs. The Framework needs to be clear on this point.
 - Disclosure on the content elements in section 4 of the Framework should be linked to evidence in the form of KPIs or measurements.
 - Determination of which KPIs and quantitative measures should be used is a matter of materiality and who is choosing the KPIs. Definitions of materiality may be tight. Management should draw on the widest possible input for the purposes of determining which KPIs to use. Internal process is important, in terms of the rigour gone through to determine the KPIs.
 - An integrated report should state whether there are data (i.e., qualitative and/or quantitative metrics) supporting narrative in the report.
 - The role of attestation is very relevant. Management should attest to the process followed to determine KPIs used and why they are appropriate. Reports need to be fair, balanced and arithmetically true. The current wording in the Framework is appropriate.
 - A diagram in the Framework showing where <IR> fits vis-a-vis GRI and SASB criteria and how they fit together would be helpful.
- On quantitative and qualitative data:
 - Numbers are more important than description. Investors want both qualitative and quantitative data, but they prefer quantitative data when it is reliable and available. FW 1.14 should be strengthened, to the effect that if something can be meaningfully quantified, it should be.
 - Quantification is important, but care should be exercised not to “lock” reporters into it. Integrated reports should be material, meaning that what is reported should be relevant.
 - Over-emphasis on quantification can lead to publications that are drenched in statistics. The main objective with an integrated report is balance (ref., FW 3.39), meaning that appropriate qualitative information can be as useful as appropriate quantitative data.
 - The inclusion of trend data is useful, as is a statement of the context in which data: (a) are provided; and (b) should be interpreted. Context is necessary for comparability.
 - Not all statements lend themselves to meaningful qualitative measures.

Issue 7: Involvement of those charged with governance

Comments and suggestions

The following comments and suggestions were made by individual meeting participants during the course of discussion:

- There was strong support for the principle that those charged with governance should be responsible for an integrated report and involved in its preparation.

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- Strong arguments were expressed both in favour of this being a requirement in the Framework (i.e., to safeguard the credibility of an integrated report) and against (i.e., because of the risk that organizations in certain jurisdictions would be deterred from adopting <IR> at all).

Following considerable discussion, the WG agreed on a recommendation (see below).

Issue 8: Legal liability and competitive harm.

Comments and suggestions

The following comments and suggestions were made by individual meeting participants during the course of discussion:

- The Framework should be very careful on how it covers future-oriented commentary
- The Framework should be careful about inclusion of words such as “forecasts” and “projections”.
- The issue of whether future-oriented information could lead to potential legal liability for directors/management forms the basis for ongoing engagement by the IIRC with policy-makers and regulators (e.g., relating to safe harbours) rather than for inclusion in the Framework itself.
- If reporting organizations feel it is necessary, they should include a cautionary warning around future-oriented commentary, which can nonetheless serve to reduce potential liability (e.g., forward-looking statements on the organization’s stance on corruption). This is not something that the Framework needs to cover.
- To some extent, it is arguable that there is greater potential liability in not reporting on material issues than in actually reporting on them.
- FW 1.7 contains suitable language to address the issue for the purposes of the Framework.

Other issues

Comments and suggestions

The following comments and suggestions were made by individual meeting participants during the course of discussion:

- On reporting boundaries:
 - Conglomerates should prepare separate reports for the holding company and individual companies (ref., FW 4.22).
 - If a reporting organization chooses to apply the Framework, it should do so in all respects.
 - The difference between FW 4.21 and FW 4.22 is unclear: every big business has multiple business units and a highly diversified business model might require more than the parent company to report. The wording should be re-considered in this light.
 - Companies grapple with the issue, in terms of wanting to articulate a group business model, when the reality is that they have more than one business model. The implication is that an integrated report should be developed in respect of each distinct business model.
 - One possibility is to consider the materiality of business units in a similar way as the materiality of any given issue.

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- More guidance on reporting beyond the legal boundary of the reporting organization (e.g., up the supply chain) would be appreciated (ref., the boundary between moral responsibility and legal responsibility).
- The classification on capitals diverges from that applied by other organizations (e.g., OECD). FW 2.22 recognizes this and makes it clear that the capitals model provided by the Framework is illustrative and for guidance only. The Framework imposes no obligation to report by reference to the capitals.
- The Framework could say more on human rights.
- A slower route towards adoption will ensure that we end up where we want to be, whereas a faster route might lead us to where we don't want to be.

Recommendations

- WG members reached a consensus that:
 - The Framework should contain a requirement that an integrated report is to include a statement evidencing approval thereof by those charged with governance.
 - However, during a "transitional period" (duration to be determined, but on an indicative basis, 3-5 years from the date of publication of their first integrated report) and to allow reporting organisations an appropriate amount of time to transition to full adherence to the requirements of the Framework, a statement evidencing approval of the integrated report by those charged with governance need not be included, provided the integrated report does contain a statement explaining why this is the case (i.e., on a "comply or explain" basis).
- WG members voted (all in favour, bar one abstention) to recommend the Framework to the Council, incorporating such revisions as to wording reflecting discussion at the meeting as are approved by Ian Ball (as Chairman of the WG), Charles Tilley (as Chairman of the TTF) and Paul Druckman (as CEO).

The abstention was not based on a substantive objection to the content of the Framework, but a reluctance to approve the Framework without first having seen the revised wording before its submission to the Council.

Actions

Framework

- Ian Ball, as WG Chairman, is to notify the Council of the one abstention from the recommendation of the Framework and the reasons for it.
- The Secretariat is to coordinate with the TTF to finalise revisions to the wording of the Framework further to discussion at the meeting.
- The cover paper provided to the Council with the final draft of the Framework should capture the essence of discussion in the WG.

Other

- The Secretariat is to continue working on one or more diagrams to illustrate the pathway from current reporting situation to <IR>, bearing in mind jurisdictional concerns.
- The Secretariat is to focus on development of a body of case studies illustrating materiality once the Framework is released.

4. Recap of day one

The WG Chairman summarized the key points of day one and deliberations in respect of the Framework.

5. CEO briefing: Major issues

A copy of presentation material used by the CEO is available.

Key points of information/discussion

The CEO noted that:

- He had recently been in India, where enthusiasm and interest in <IR> are growing.
- His key priorities are currently:
 - Future institutional arrangements and the funding model, with a view to a seamless transition.
 - Strategy, as we move into the “breakthrough” phase.
 - Continuity of funding, in the sense that, while the IIRC is currently well-funded, funding is due to end this year and a bridge is needed to the new funding model that will be implemented in conjunction with future institutional arrangements.
 - Completion of the Framework and development of projects post-2013, focused on good practice (e.g., by industry sector), rather than formal guidance.
 - Getting the Corporate Reporting Dialogue (‘the CRD’) off the ground.

In response to a query, the CEO indicated that the goal of the CRD is to ensure there is multilateral engagement among leading, mainstream, “apex” international corporate reporting framework developers and standard setters focused on alignment (but not convergence or harmonization) of main areas of reporting and how <IR> fits into that alignment.

The ICGN will be having a session on this topic, from an investor perspective, at its conference in Amsterdam during 2014, in which it hopes GRI, SASB, the IASB and the IIRC will be involved.

- Other important issues are:
 - The Pilot Programme. There was strong feedback at the Pilot Programme conference in June 2013 that the Pilot Programme should not stop, but also that it should not continue on the basis of “more of the same”. Its focus should be on innovation and new ideas. New joiners are still being accepted, but active recruitment of new participants is not a primary focus.

In response to a query, the CEO indicated that the target of 125 members was dropped, because recruitment can be a time-consuming process and the real priority should be the substance of the Pilot Programme, not the numbers involved.

- Internal organization. Some secondments are coming to an end and the IIRC will be bringing new staff on board. This has led to consideration of a

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new internal organization structure as the best way to organize with the new strategy in mind.

- Development of a new critical path, to reflect new strategy.
- In response to queries from WG participants, the CEO stated that:
 - Subject to Council endorsement, the Framework will be released, together with a Basis for Conclusions document, during the w/c 9 December 2013 through media release and online communications. Upon completion of translations, more global awareness raising and targeted engagement will take place from Q1/2014.
 - The IIRC will look into options for extending application of the Framework to sectors other than the private sector.
 - The search continues for a senior-level Regional Director in Asia, who has the connections to take <IR> forward in the region.

Actions

N.A.

6. Future strategy

6a Summary overview

Key points of information/discussion

Introducing the session Paul Druckman indicated that:

- The strategy detailed in paper 6a resulted from extensive engagement with many parties, including members of the WG, Board and Council.
- The long-term focus is on <IR> as a reporting norm, contributing to financial stability and sustainability. The key aspect of strategy in the "breakthrough" phase is the shift in focus from innovators to early adopters.
- The market is not yet ready for mass adoption, so the objective is to get to a tipping point from where mass adoption can inevitably follow.
- The support of WG members in consistently applying terminology (ref., the paper) would be appreciated, as this would resonate more.
- The IIRC's primary objective with regard to regulators is for them to create an environment that allows <IR> to flourish, rather than to push for regulatory demand.
- The focus for now is to encourage innovation and adoption. In this respect, efforts to identify early adopters must be targeted (e.g., by specific industry sectors or in specific geographical regions).

Comments and suggestions

The following comments and suggestions were made by individual meeting participants during the course of discussion:

- It is important to target – and embed some form of education about <IR> into – the wider investor community (i.e., beyond the core group of investors that already provide great support to the IIRC), to get them to engage with <IR> and generate wider buy-in. A good basis for this would be to articulate how <IR> is different from current reporting practice. The need to target different audiences within the investor community is important.

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- Debt-rating agencies and underwriters of Directors and Officers liability insurance should also be targeted (i.e., on the basis that the cost of premiums should come down with adoption of <IR>). The interest of national bodies in specific geographic locations should also be encouraged.
- The rationale for <IR> might focus not just on the explicit benefit, but also on underlying frustrations within companies deriving from: (a) the persistent short-term perspective, rather than reaching out to the long-term investor; and (b) continued silo-based operations and lack of a holistic view.

In response to queries from participants, the CEO indicated that:

- The support of WG members and other key partners, in terms of leveraging their connections and networks to support the process to target adopters and educate investors, is crucial.
- It is important to articulate what the benefits of <IR> actually are, especially for the investor community, e.g., by leveraging outputs from the Pilot Programme, the benefit of whose experience must be maximized in this respect to provide hard evidence. The 2013 Yearbook will contribute in this respect. The Black Sun behavioural change survey (to be finalised in the early part of 2014) and ongoing Tomorrow's Company project will also support this approach.
- At this stage, there is no specific target for early adoption, in terms of numbers of reporting organizations. The focus is on identifying the right industry sectors and geographical markets, together with the right approaches to see where we will gain most traction, before getting specific on target numbers.
- Momentum is built by building partnerships, notably on a multilateral basis, which generates the "bandwagon" effect.

Actions

N.A.

6b Breakthrough – Key segments

Introducing the session, Jonathan Labrey indicated that it was important to identify different messages for different "change-makers" in different market segments.

The WG divided into break-out groups to brainstorm tactics, for the purposes of informing the engagement plan that will underpin the strategy.

Summary of feedback from break-out groups

Policy makers

- An orchestrated campaign should build on all contact points and make use of networks to engage with, e.g., G20 and FSB.
- Current opportunities/enablers are stock exchange listings requirements and the EU non-financial reporting directive.
- Current challenges/blockers are safe harbours.
- It is important to position <IR> in the context of the wider public good. There should be an emphasis on engagement with NGOs in this respect (ref., balancing of capitals and taking account of impacts in KPIs).

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- Top-level endorsement (e.g., from G20) will play a key role in the major challenge, which is to overcome ignorance.
- The IIRC should go with businesses to policy makers when making the case for <IR>.

Investors

- The distinction between asset owners (= longer term focus) and asset managers (= shorter term focus) is relevant.
- Education and awareness raising could include a focus on the need to incorporate <IR> into Requests for Proposals, in terms of linkage to integrated analysis.
- Sustainability is on investors' agenda, but there is a lack of granularity, in terms of what the business case is. <IR> offers a potential solution for this (i.e., in terms of why sustainability matters to mainstream investors).
- Asset owners could be encouraged to prepare their own integrated report and influence asset managers to do the same.
- Analysis could be undertaken to determine if investment decisions would have been different if <IR> had been employed.
- The role <IR> can play in supporting the discharge by institutional investors of their fiduciary duties should be emphasized.
- Quick wins might include:
 - Incorporating the concept of <IR> into a "Q&A" focused on, respectively, asset owners, asset managers and investment analysts, for example, for posting on the PRI website and in other forums accessed by the target audience.
 - Getting <IR> onto the agenda for the WEF annual meeting in Davos in January 2014.
 - Targeting high profile investors, such as Warren Buffett.
 - Targeting church/faith-based investor groups.
- It is important to position <IR> not as "another" sustainability initiative, but as the "foundation of the whole reporting building". Analysis is only good as the information that feeds into metrics.

Business

- The business case for <IR> derives from:
 - Investor demand.
 - The value and internal benefits of integrated thinking, which addresses the kind of things that companies are worried about, how they operate and what motivates them to do things. This is critical from the business adoption standpoint.
- Quick wins might include:
 - Identifying target sectors/geographical markets for breakthrough. The USA and Japan might not be good targets for early adoption.
 - Considering collaboration with WBCSD on specific sectoral approaches, such as Chemical, Tyres, Forestry and Power Generation.

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- Identifying and targeting companies that are looking to use sustainability attributes for competitive advantage.
- Identifying respected intra- or inter- sector "leadership" companies that others will want to emulate.
- Engagement with credit rating agencies, with a view to making the case that <IR> and integrated thinking will not only generate internal benefits, but also drive down the cost of capital.
- Identifying and targeting organizations beyond the Pilot Programme that are adopting innovative approaches to reporting, to encourage them to adopt <IR>.
- Identifying companies, investors and representatives of civil society with whom to approach governments/regulators, which will want proof that <IR> is working as a market-led initiative.
- Targets within companies, developing different messages for different target audiences:
 - Engagement with the CEO on <IR> is a requirement to get the ball rolling. Going in at any other level creates the potential for barriers. <IR> is about getting people to change their behaviours and how internal decisions are made and goes to the core of the company's vision and strategy.
 - Engagement with the CFO is also important: <IR> is a powerful tool for risk mitigation.

Actions

- Working Group members are encouraged to identify areas in which they can leverage their resources and networks in support of the IIRC's moves towards "breakthrough".

7. Good <IR> in practice

Mark O'Sullivan made a presentation on research on <IR> done by PwC for the Building Public Trust Awards in October 2013, noting that:

- While reporting of those reports reviewed was generally fairly strong on strategy, it is much weaker on the operating aspects of the business.
- A low number of organizations link strategy to sustainability, but the number is growing.
- The Crown Estate has shifted its mission from one of *maximising* profit to one of *optimising* profit, where the organization takes into account its wider impact on the environment/society etc. This is very much in line with the <IR> principles of looking at more capitals than financial and the fact that the quality and sustainability of financial performance are only achievable by focusing on the wider impacts.
- In response to queries from participants, Mark indicated that:
 - About 500 company reports were reviewed for the awards, of which 350 were UK companies.
 - From a UK perspective, there has been a considerable improvement in quality of reporting over last decade, without necessarily involving an explicit Board sign-off. The Board shows less interest in the "front" of the

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annual report. Its main focus is on liaison with analysts. It is nonetheless very clear that Boards have to be involved in any re-think on the approach to reporting.

Actions

N.A.

8. <IR> in the public sector

The meeting was joined by John Maddocks from the Chartered Institute of Public Finance and Accountancy ('CIPFA').

Introducing the session, the WG Chairman stated that:

- Globally, the public sector accounts for 40% of economic activity and the total value of trades on the NYSE in government debt is significantly higher than the value of other trades.
- Citizens are becoming disconnected from institutions and government. <IR> is a possible mechanism for helping to restore trust.
- The initial question is whether it would be appropriate to expand the focus of <IR> into the public sector as a matter of priority.

Comments and suggestions

The following comments and suggestions were made by individual meeting participants during the course of discussion:

- The audience for <IR> in the public sector varies:
 - There is a very narrow audience in terms of providers of financial capital (e.g., those active in the government bond market).
 - Taxpayers, consumers and voters all have a legitimate interest in State-Owned Enterprises, which often produce reports similar to those of private sector companies.
 - Governments carry significant contingent liabilities that are not covered in financial statements (e.g., toxic waste), which can impact future cash flows.
- Many public sector entities are still in the process of applying IFRS. They will not want an additional reporting burden, but <IR> will help them provide a clearer, more coherent picture in the narrative reporting they are already obliged to do. It can help shape thinking across different functions. The focus should be on replacing current reporting, not adding to the reporting burden.
- It might be argued that <IR> applies even more to reporting in the public sector than in the private sector. The traditional focus is on where money is spent, but far less on what the outcomes are. So the link between outputs and outcomes that <IR> offers is very valuable.
- The Framework would, with minor modification, be eminently suitable for the public sector, as it measures value across the capitals. The Framework will not require too much work to be sector neutral.
- <IR> offers the potential for introducing a degree of predictiveness, in terms of how the economy will develop.

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- The need for governments to report on progress towards Sustainable Development Goals set at the UN Conference on Sustainable Development held in Rio de Janeiro in June 2012 is a good motivator for the uptake of <IR>. It can help link international goals to national goals and progress and help drive private sector adoption.
- The municipal/city level is an appropriate target audience for <IR>, given the complexities of their role and functions and the need to balance different drivers and influences and account for allocation of resources for the public good.
- The lack of indicators might inhibit take-up of <IR>, as these are very important in the public sector.
- <IR> provides a point of connectivity between the public and private sectors.
- <IR> does have relevance to the public sector, in terms of state-owned enterprises (notably in emerging markets), government departments and municipalities, but is probably not yet relevant at government-wide level.
- It would be helpful to initiate a process of awareness-raising and education and frame the right “asks”, to help public sector entities understand the <IR> value proposition and the capitals model.
- It is important to determine who the primary audience for reports in the public sector will be. These will vary, depending on the service provided and to whom.
- In some countries, <IR> can be a driver for improved public sector accounting.
- The IIRC must determine whether a focus on the public sector will be a distraction, in terms of diverting resources from the challenges it already has, or beneficial.
- The IIRC should think internationally, in terms of identifying the right partners to support the IIRC in a public sector focus and provide the resources.

Actions

N.A.

9. Future institutional arrangements: Structure and governance

Andrew Smith introduced the session by highlighting key points relating to proposed future institutional arrangements as contained in paper 9, which has been through the Institutional Arrangements Task Force (‘IATF’) process and has had considerable time, effort and resources applied to its thinking.

Comments and suggestions

The following comments and suggestions were made by individual meeting participants during the course of discussion:

On Patron Institutions:

- It is not clear exactly what is meant by the “backing” of the Patron Institutions, the purpose they would serve, nor how their involvement would help protect the public interest.

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- The identity of Patron Institutions is important, as it will send a message, in terms of where we see our vision and how we position <IR>.
- The intention is to engineer a “game change”, moving <IR> from a good idea driven by a small cooperative, to something with real authority, by virtue of the involvement of leading players on the international stage.
- The proposed structure is increasingly remote, moving control away from those most involved in and affected by <IR>. The risk also exists of moving from the involvement in the governance of <IR> of “advocates of change” to, with the Patron Institutions, “preventers of change” acting as a club and as “agents for the same”, not agents for change.
- It is not clear how the Patron Institutions will be selected.
- An important consideration in determining the acceptability of Patron Institutions is the ability to rely on their existing governance structures, in terms of who they are accountable to for their actions in support of the public good.
- The example of GRI’s transition from the original Steering Committee may prove instructive, including resort to an independent nominating committee to avoid self-replication of the Board.
- It took GRI three years to change. With this in mind, it might make sense for the IIRC, if it envisages developing a reporting standard, to implement structure and governance arrangements accordingly.
- The GRI is perhaps not the best model to follow.
- More detail is needed on the process/appropriate mechanisms to safeguard the maintenance and updating of its growing body of intellectual property, to keep it current and protect it, including a strong technical oversight body.
- The future role of the Working Group and the Technical Task Force should be clarified.
- The impact on funding that may arise from diluting oversight and control with the introduction of Patron Institutions should be carefully considered. Assumptions as to funding could be built into the governance structure.
- It is not clear where the investor community be represented in the model. The work already done needs to be safeguarded.
- The focus on independent directors is good and if the Patron Institutions give credibility, there will be traction.
- The further we get from the groups around the table that are doing and funding the work, something will be lost and the more resistance to change there will be.
- The main priority is to “nail down” the strategy, to deliver which future structure and governance arrangements should be modelled.
- The term “Patron Institution” is not good. Some of the organizations cited as possible Patron Institutions (see below) are elitist and anti-democratic.

In response to specific queries it was indicated that:

- There was no investor representative *per se* on the Institutional Arrangements Task Force, because its members had deliberately not been selected on a representative basis, but rather for their seniority and experience. David Pitt-Watson (former Chair of Hermes EOS) had, however, been involved.

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- The following organizations had been considered as potentially suitable “guardians” of financial stability and sustainability and potential Patron Institutions: G20, FSB, OECD, World Bank, UN agencies, the ILO. IOSCO and WFE had also been considered in this context.
- Care should be taken not to prescribe too heavily what will happen with institutional arrangements in the future.
- The primary audience at this juncture in relation to discussions on future institutional arrangements was the Council, Working Group and other, existing supporter organizations, together with the policy-making and regulatory community.

The WG Chairman indicated that, if WG members thought a wider public consultation would be advisable, they should let the Secretariat know.

- A two-step process would be followed with Patron Institutions: (i) identify them; and (ii) engage with them.
- If we genuinely believe that <IR> is important to the functioning of the capital markets and the future of corporate reporting, we must also acknowledge that supranational institutions will at some point take an active interest in it. We would be better served to proactively manage that process at an early stage.

Actions

- The Secretariat is to feedback the points raised by participants during the meeting into the process to further develop concepts for future institutional arrangements for consideration and debate by the Council.
- WG members who believe a wider public consultation (i.e., beyond the Council, Working Group and other, existing supporter organizations) is advisable relating to proposed future institutional arrangements should notify the Secretariat accordingly.

10. Any other business

No points were raised.

11. Close

The WG Chairman:

- Thanked:
 - Participants for their active participation.
 - Charles Tilley, the TTF and the Secretariat for their work on the Framework.
 - Eric Hespenheide and Graham Terry for their significant contribution during their time on the WG.
- Confirmed that the next WG meeting will take place on 26 February 2014 in Geneva.
- Closed the meeting at 16:00 (BST) on 23 October 2013.

IIRC Working Group Meeting of 22/23 October 2013

Attendance

Day one

Present

Members/members designate

Ian	Ball	IFAC	Chairman
Jessica	Fries	A4S	Deputy Chairman
Nelmara	Arbex	GRI	
Michel	Bande	Solvay	
Sarah	Bostwick	UNGC	
Frank	Curtiss	Railpen	
Paul	Etherington	Grant Thornton	for Steve Maslin
Pedro	Faria	CDP	
Joyce	Haboucha	Rockefeller Financial	
Eric	Hespenheide	Deloitte	
Rodney	Irwin	WBCSD	
Alan	Knight	SROI Network	TTF
Claudia	Kruse	APG Asset Management	
Brendan	LeBlanc	Ernst & Young	
Stephanie	Maier	Aviva Investors	
Robert	Massie	New Economics Institute	
David	Matthews	KPMG	TTF
Jeanne	Ng	CLP	TTF
Mark	O'Sullivan	PwC	for John Hitchins
Amy	Pawlicki	WICI	
Michael	Polya	State Street Global Advisors	
Simon	Pringle	BDO	
Peter	Proestakes	FASB	
Roger	Simnett	University of New South Wales	TTF
Neil	Stevenson	ACCA	
Susanne	Stormer	Novo Nordisk	
Kristen	Sullivan	Deloitte	
Alan	Teixeira	IASB	TTF
Graham	Terry	SAICA	
Daniel	Tisch	Global Alliance for PR & Comm Mgt	
Kyosuke	Wagai	JICPA	
Alan	Willis	Independent/CICA	
Helene	Winch	PRI	

Observers

TTF

Yoichi	Mori	JICPA	
Leigh	Roberts	SAICA	
Charles	Tilley	CIMA	Council member
Stephane	Voisin	Kepler Cheuvreux	

Council

Keisuke	Arai	Tokyo Stock Exchange	for Atsushi Saito
Jean-Charles	de Lasteyrie	The French Interest	

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Attendance

Ian	Mackintosh	IASB	for Hans Hoogervorst
Christian	Mouillon	Ernst & Young	for Mark Weinberger
Herman	Mulder	GRI	
David	Nussbaum	WWF	
Russell	Picot	HSBC	
Giorgio	Saavedra	World Bank	for Charles McDonough
Nigel	Topping	CDP	for Paul Dickinson

Other

Hervé	Guez	Natixis Asset Management
Jeffrey	Rubin	Financial Accounting Foundation

IIRC Directors

Paul	Druckman	CEO
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Apologies

Members/members designate

Ralf	Frank	DVFA/EFFAS	TTF
Robert	Giglietti	General Electric	
Dan	Hanson	Jarislowsky Fraser	
John	Hitchins	PwC	
Gary	Kabureck	IASB	
Stephen	Kibsey	La Caisse	TTF
Dongsoo	Kim	Korea Productivity Center	
Bob	Laux	Microsoft	TTF
Steve	Maslin	Grant Thornton	
Anthony	Miller	UNCTAD	
Janet	Ranganathan	World Resources Institute	
Nick	Ridehalgh	BRLF	
Tom	Rotherham	Hermes EOS	TTF
Kevin	Troup	Standard Life	
Yuki	Yasui	UNEP-FI	

Observers

Kim	Holmstrom	European Commission
Bess	Joffe	Goldman Sachs

TTF

Martijn	Bos	Eumedion
Joanne	Boyes	PotashCorp
Bastian	Buck	GRI
Christoph	Dolderer	EnBW
Kelly	Freeman	PotashCorp
Yukako	Kinoshita	Hitachi
Susana	Penarrubia	Deutsche Bank
Lothar	Rieth	EnBW
Elizabeth	Stokes	AkzoNobel
José	Wanderley	Natura

IIRC Working Group Meeting of 22/23 October 2013

Attendance

Day two

Present

Members/members designate

Ian	Ball	IFAC	Chairman
Jessica	Fries	A4S	Deputy Chairman
Nelmara	Arbex	GRI	
Michel	Bande	Solvay	
Sarah	Bostwick	UNGC	
Frank	Curtiss	Railpen	
Paul	Etherington	Grant Thornton	for Steve Maslin
Pedro	Faria	CDP	
Joyce	Haboucha	Rockefeller Financial	
Eric	Hespenheide	Deloitte	
Rodney	Irwin	WBCSD	
Alan	Knight	SROI Network	TTF
Claudia	Kruse	APG Asset Management	
Brendan	LeBlanc	Ernst & Young	
Stephanie	Maier	Aviva Investors	
Robert	Massie	New Economics Institute	
David	Matthews	KPMG	TTF
Jeanne	Ng	CLP	TTF
Mark	O'Sullivan	PwC	for John Hitchins
Amy	Pawlicki	WICI	
Michael	Polya	State Street Global Advisors	
Simon	Pringle	BDO	
Peter	Proestakes	FASB	
Roger	Simnett	University of New South Wales	TTF
Neil	Stevenson	ACCA	
Kristen	Sullivan	Deloitte	
Alan	Teixeira	IASB	TTF
Graham	Terry	SAICA	
Daniel	Tisch	Global Alliance for PR & Comm Mgt	
Kyosuke	Wagai	JICPA	
Alan	Willis	Independent/CICA	
Helene	Winch	PRI	

Observers

TTF

Yoichi	Mori	JICPA
Leigh	Roberts	SAICA
Charles	Tilley	CIMA

Other

Jeffrey	Rubin	Financial Accounting Foundation
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IIRC Directors

Paul	Druckman	CEO
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IIRC Working Group Meeting of 22/23 October 2013

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Robert	Giglietti	General Electric	
Dan	Hanson	Jarislowsky Fraser	
John	Hitchins	PwC	
Gary	Kabureck	IASB	
Stephen	Kibsey	La Caisse	TTF
Dongsoo	Kim	Korea Productivity Center	
Bob	Laux	Microsoft	TTF
Steve	Maslin	Grant Thornton	
Anthony	Miller	UNCTAD	
Janet	Ranganathan	World Resources Institute	
Nick	Ridehalgh	BRLF	
Tom	Rotherham	Hermes EOS	TTF
Susanne	Stormer	Novo Nordisk	
Kevin	Troup	Standard Life	
Yuki	Yasui	UNEP-FI	

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Christoph	Dolderer	EnBW
Kelly	Freeman	PotashCorp
Yukako	Kinoshita	Hitachi
Susana	Penarrubia	Deutsche Bank
Lothar	Rieth	EnBW
Elizabeth	Stokes	AkzoNobel
Stephane	Voisin	Kepler Cheuvreux
José	Wanderley	Natura