

## IIRC Working Group Meeting of 26 February 2014

### Minutes

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**Date:** 26 February 2014  
**Time:** 10:00-16:50 (CET)  
**Venue:** Palais des Nations, Avenue de la Paix 14, 1211 Geneva 10, Switzerland  
**Attendance:** See attached list  
**Chairman:** Ian Ball  
**Minutes:** Andrew Smith

### Agenda

<b>Item</b>	<b>Paper</b>
<b>1. Welcome, introduction and objectives for the meeting</b>	
<b>2. Minutes of previous meeting and matters arising</b>	Item 2
<b>3. CEO briefing: Major issues</b>	Item 3
<b>4. Institutional arrangements: Structure and governance</b>	Item 4
<b>5. Breakout sessions</b>	
a) Business case for <IR>	Item 5a
b) Technical development	Item 5b
c) Targeted investor engagement	Item 5c
<b>6. Perspectives on &lt;IR&gt;</b>	Item 6
<b>7. Any other business</b>	

### Close

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

The Working Group ('WG') was welcomed to the Palais des Nations by James Zhan and Tatiana Krylova of meeting hosts UNCTAD.

The WG Chairman:

- Thanked UNCTAD for hosting the meeting.
- Welcomed all participants, especially those attending as new members or for the first time.
- Thanked Anthony Miller, who was stepping down as UNCTAD's representative on the WG subsequent to the meeting, for his contribution.
- Outlined the intended key outcomes of the meeting as being to provide insights on practical aspects of implementation relating to key components of breakthrough phase strategy.
- Expressed the importance of the WG maintaining its sense of common purpose, even though the International <IR> Framework had now been released.

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## 2. Minutes of previous meeting and matters arising

### **Minutes**

The minutes of the WG meeting on 22/23 October 2013 were approved without revision.

### **Matters arising**

N.A.

## 3. CEO briefing: Major issues

### Key points of information/discussion

The CEO noted that:

- Rather than seeing the stakes drop in relation to <IR> with release of the Framework, they have risen for the IIRC team. The release of the Framework has created a great deal of momentum, which the IIRC can only seek to guide, but not control.
- There have been a considerable number of articles written about <IR> since the start of 2014, the great majority of which are "on message". In this respect, the IIRC team relies on WG members and others closely associated with the IIRC, who understand <IR> and what the IIRC is doing, to inform others in a positive manner what <IR> is about and to let the IIRC team know, in circumstances where the messaging is taking the momentum in the wrong direction.
- The IIRC must exercise care in signing memorandums of understanding, which should - like that signed with UNCTAD (ref., UNCTAD's convening power, know-how and connection to developing countries) - be essentially strategic in nature.
- *Integrate: Doing business in the 21<sup>st</sup> century* by Mervyn King and Leigh Roberts is an interesting, practical and useful book that sets the scene well in terms of <IR> and integrated thinking.
- The need to develop an evidence base is important, both at a micro level (ref., how investors are reacting to <IR> and how it impacts a business and influences/changes behaviour) and at a macro (i.e., policy) level. If the IIRC is to achieve its goal in terms of an evolution in corporate reporting, it must deliver real and permanent positive change, which can only come from a policy environment that is conducive to change.
- Positive developments include:
  - Japan, where "Abenomics" (i.e., the economic policies advocated since election of Shinzo Abe in December 2012) are very much focused on creating long-term growth.

The report in November 2013 of the Expert Committee on Desirable Market Economy System chaired by Yoshimitsu Kobayashi, President and CEO of Mitsubishi Chemical Holdings, which was presented to Mr Abe, states that: *"Through integrated reporting, diversified information necessary for analysing and evaluating companies is disclosed in a concise way. Such information includes a company's environmental activities and relationships with local communities, as well as its management strategy and medium- and long-term forecast etc., in addition to financial information. Integrated reporting is thus effective in*

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*describing the entirety of the company's activities. If investors and other stakeholders come to fully understand the overall value to be created by the company as a result of its efforts for integrated reporting etc., this will help the company's medium- and long-term growth."*

Japan's Stewardship Code published in December 2013 also sets out principles governing the responsibility of investors to take a medium- to long-term view in terms of return on investment for their clients.

- [A paper by George Serafeim](#) of the Harvard Business School, which concludes that: "...more integrated reporting is associated with a more long-term investor base" and that "integrated reporting is positively associated with percentage of shares owned by dedicated investors and negatively with percentage of shares held by transient investors". This suggests that "firms practising integrated reporting not only attract dedicated investors, but also become unattractive for transient investors".
- The recently published KKR report, which suggests that companies that do not issue quarterly earnings statements have a very different investor profile to those that do.
- ACCA and CIMA have both adopted <IR> as part of their respective qualification syllabus.
- Christine Lagarde (Managing Director – International Monetary Fund) talking in the [Dimpleby Lecture on 3 February 2014](#) of a "new world of multilateralism", encompassing "not only the emerging powers across the globe, but also the expanding networks and coalitions that are now deeply embedded in the fabric of the global economy". This interconnected global economy means a new way of thinking, in the sense that regulation, though important, on its own is insufficient and cannot be the only driver to bring about change. This supports the basis adopted for <IR>, in terms of a market-led evolution to bring about change.
- In response to queries from WG participants, the CEO stated that:
  - While feedback on the Framework has been overwhelmingly positive, there has been some negative feedback, of which the single biggest issue relates to the need for sign-off by those charged with governance. The perception among some business groups of the need for "yet another report" is also a concern. To overcome this hurdle, we must show that <IR> is not about another report, but about changing corporate reporting.
  - Investors will not take a lead in terms of generating the "pull" for <IR> in the short term. We need to drive <IR> into the investor community and prompt a reaction in that way.
  - The concept has moved from providers of financial capital as the primary audience, to providers of financial capital as the filter, meaning that while an integrated report should be prepared with the need to provide information to providers of financial capital in mind, the audience for an integrated report is much wider.
  - The IIRC's internal re-organisation was motivated by: (a) a desire to ensure that the stakes/intensity did not drop with release of the Framework; and (b) the intention to make individuals, rather than departments, responsible for different activities/areas, based on individual strengths and suitability. In general terms, the emphasis is on moving from creating a product to marketing/explaining/further developing it.

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- The IIRC team's focus is broadening out from data tagging (ref., XBRL) to devising means by which to find, capture and compare information for which there is no standard format (ref., the initiative relating to unstructured data/big data analytics).
- Progress in raising buy-in for <IR> in the USA had been disappointing, but not unexpectedly so and certainly not for lack of effort. <IR> is a "tough sell" there and we essentially have three choices: (a) ignore the US market, because it is too hard to get things going there; (b) devote a huge amount of resources to the US market; or (c) build some sort of coalition locally, such that the IIRC would work with and through local outlets and channels.

#### Comments and suggestions

- There is a sense that now is the time to strike in the USA in relation to <IR>.
- Perhaps the biggest challenge at the moment in the USA is the term "integrated reporting", which is currently understood to mean additional ESG information relating to existing 10k and other SEC requirements. The IIRC is not in competition with SASB, but we need to engineer a change in mindset, in which respect it would be very helpful if the IIRC and SASB were able to work to clarify the confusion and ensure consistency of messaging in the USA on integrated reporting.
- It would be really helpful if we could get some hedge funds to incorporate <IR> in their models and demonstrate the success of doing so. In the final analysis, if <IR> is shown to work, the USA will take it up.

#### Actions

- The Secretariat is to engage with SASB to ensure consistency of messaging relating to integrated reporting (including removal from You Tube of videos that are "off message").

## **4. Institutional arrangements: Structure and governance**

#### Key points of information/discussion

Introducing the session the WG Chairman noted that:

- The question of institutional reform has been on the agenda more or less since the IIRC had been formed. An Institutional Arrangements Task Force ('IATF') had been established and a paper comprising its thoughts had been submitted to the WG in October and to the Council in December 2013.
- Paper 4 does not provide fine detail of proposed future institutional arrangements, but outlines current thinking on key concepts and principles to be used in defining the future arrangements. It reflects feedback received from the WG and Council at the meetings referred to above.

The CEO noted that:

- The IATF had taken the view that under current arrangements, the IIRC might be perceived to be unduly influenced by commercial self-interest. The paper proposes a transition to future arrangements that would remove this possible perception.
- The WG will be dissolved. The WG has been absolutely critical in the process to develop the Framework, creating momentum and outreach activities. The

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intention is very much to use WG members in other roles going forward, notably in terms of active involvement in advisory groups, task forces and think tanks.

- A Technical Committee will be involved in the process to develop future iterations of the Framework.

In response to queries from WG participants, the CEO stated that:

- Advisory groups and task forces will work closely with the IIRC team to provide input to the process to develop technical resources. The Technical Committee will be involved in review and sign off of output from this process (i.e., in terms of future iterations of the Framework itself) in an appropriately independent capacity, the precise extent of which remains to be determined.
- Responsibility for funding would lie with the IIRC Board.
- The key to ensuring proportionality between stakeholder constituencies is less the Council itself than the Governance Committee. The Board should not comprise representatives of any given constituency, but independent members, albeit comprising a suitable and balanced mix of experience.

#### Comments and suggestions

The WG was broadly supportive of the concepts and principles relating to future institutional arrangements outlined in paper 4.

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

- It is important to engage with investors on institutional arrangements, as well as policy makers and regulators.
- Commercialisation of intellectual property should be undertaken with care, as it risks undermining the authority of the IIRC.
- The role of the Council going forward needs to be clarified.
- The potential size of the Council is a concern (i.e., approximately 80 members if the WG is dissolved and incorporated into the Council), but it is unrealistic to ask individual members to step down.
- The importance of company and investor involvement should somehow be expressly articulated in the future institutional arrangements.

#### Actions

N.A.

## 5. Breakout sessions

Meeting participants split into two successive break-out sessions. The following represents a collated summary of feedback from the break-out groups:

#### Summary of feedback from break-out groups

##### *a) Business case for <IR>*

- The messaging needed for early adopters is different to that for innovators and will need tailoring to a more mainstream audience.
- <IR> cannot simply be advanced as a solution: the problem that <IR> is trying to solve must be clearly defined.

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- Integrated thinking is critical to the business case, as is the emphasis on long-term performance and the need to highlight the benefits, in terms of better business decision-making (i.e., internally) and better investment decision-making (i.e., externally).
- The IIRC must work through its network to engage with its target audience: it will not be successful if it tries to do/control everything itself.

#### *b) Technical development*

- The number of technical projects needs to be reduced and prioritized.
- The next generation of the Framework should be iterative, not a radical change.
- The level of demand for <IR> assurance needs to be established. And the IIRC needs to be involved in any process to develop assurance guidance, to ensure that the spirit of <IR> is captured in the assurance approach.
- An evidence base of real-life, practical examples of good <IR> is crucial.

#### *c) Targeted investor engagement*

- The WG indicated its broad support for the investor engagement strategy.
- The key focus is to increase investor “pull” by:
  - Working with existing networks to: (a) demonstrate the added value of integrated thinking; and (b) demonstrate good practice through examples.
  - Educating investors.
  - Developing an <IR> assurance model.
  - Involving other communities (e.g., journalists, academics, human resources staff).
  - Working with professional associations as a means to promote uptake of <IR>.
- Anything that can improve awareness on the topic of materiality is an enabler to better understanding of the added value of <IR>.
- Actions
  - Target the buy-side community and support their dialogue with the business reporters.
  - Target pension funds.

#### Actions

- WG members are encouraged to identify areas in which they can leverage their resources and networks in support of the IIRC’s moves towards “breakthrough”.

## **6. Perspectives on <IR>**

### Key points of information/discussion

Sallie Pilot made an introductory presentation.

### Comments and suggestions

The following comments and suggestions were made by individual meeting

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participants during the course of discussion:

- “Fear factor” is probably the main reason why companies include relatively little forward-looking information in their reports, even though they discuss such matters with investors and analysts and such information is in the public domain anyway.
- If sustainability issues are not relevant, or important, to a company, it should not report on them, as they are immaterial.
- Reporting on the six capitals is widespread, although different terminology is often used.
- Meeting participants offered input in break-out session on the following three points:
  - What does ‘good’ look like?
  - How do we help organizations implement or advance <IR>?
  - Evidencing the business case for <IR>.

#### Actions

N.A.

### **7. Any other business**

The WG expressed no objection to the proposal that minutes of previous and future WG meetings would be made available on the IIRC website.

### **Close**

The WG Chairman:

- Thanked participants for their active input on a number of issues and challenges.
- Thanked UNCTAD for hosting the meeting and the IIRC team for preparing it.
- Confirmed that confirmation will be provided at a later date whether the WG meeting scheduled to take place on 16 July 2014 will proceed. A final WG meeting for 2014 will in any event be scheduled to take place in Q4/2014.
- Closed the meeting at 16:50 (CET).



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### Attendance

#### Present

##### *Members/members designate*

Ian	Ball	IFAC	Chairman
Jessica	Fries	A4S	Deputy Chairman
Nelmara	Arbex	GRI	
Yoseph	Asmelash	UNCTAD	
Michel	Bande	Solvay	
Sarah	Bostwick	UNGC	
Frank	Curtiss	Railpen	
Olivia	Gadd	Grant Thornton	(for David Maxwell)
Lois	Guthrie	Zurich Insurance	
Rodney	Irwin	WBCSD	
Dongsoo	Kim	Korea Productivity Center	
Bob	Laux	Microsoft	
David	Matthews	KPMG	
Mardi	McBrien	CDP	(for Pedro Faria)
Anthony	Miller	UNCTAD	
Mark	O'Sullivan	PwC	(for John Hitchins)
Amy	Pawlicki	WICI	
Michael	Polya	State Street Global Advisors	
Leigh	Roberts	SAICA	
Louise	Schreiber	Natixis Asset Management	(for Hervé Guez)
Roger	Simnett	University of New South Wales	
Neil	Stevenson	ACCA	
Susanne	Stormer	Novo Nordisk	
Kristen	Sullivan	Deloitte	
Alan	Teixeira	IASB	
Daniel	Tisch	Global Alliance for PR & Comm	
Kevin	Troup	Standard Life	
Zinga	Venner	World Bank	
Kyosuke	Wagai	JICPA	
Yuki	Yasui	UNEP-FI	

##### *Observers*

Jean	Andrews	GRI	
Anne-Léonore	Boffi	WBCSD	
Yoichi	Mori	JICPA	TTF
Elizabeth	Stokes	AkzoNobel	TTF

##### *IIRC Directors*

Paul	Druckman	CEO
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##### *Guests*

Aneta	Dyakova	Tomorrow's Company
Tony	Manwaring	Tomorrow's Company
Sallie	Pilot	Black Sun



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### Attendance

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#### **Secretariat**

Lisa	French
Jonathan	Labrey
Michael	Nugent
Philippe	Peuch-Lestrade
Andrew	Smith

#### **Apologies**

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

Pedro	Faria	CDP	
Ralf	Frank	DVFA/EFFAS	
Robert	Giglietti	General Electric	
Hervé	Guez	Natixis Asset Management	
Joyce	Haboucha	Rockefeller Financial	
Dan	Hanson	Jarislowsky Fraser	
John	Hitchins	PwC	
Stephen	Kibsey	La Caisse	
Alan	Knight	SROI Network	
Claudia	Kruse	APG Asset Management	
Brendan	LeBlanc	Ernst & Young	
Stephanie	Maier	Aviva Investors	
Robert	Massie	New Economics Institute	
David	Maxwell	Grant Thornton	
Jeanne	Ng	CLP	
Susana	Penarrubia	Deutsche Bank	TTF
Simon	Pringle	BDO	
Peter	Proestakes	FASB	
Janet	Ranganathan	World Resources Institute	
Nick	Ridehalgh	BRLF	
Alan	Willis	Independent/CICA	
Helene	Winch	PRI	

##### **Observers**

Martijn	Bos	Eumedion	TTF
Joanne	Boyes	PotashCorp	TTF
Bastian	Buck	GRI	TTF
Christoph	Dolderer	EnBW	TTF
Kelly	Freeman	PotashCorp	TTF
Kim	Holmstrom	European Commission	TTF
Bess	Joffe	Goldman Sachs	TTF
Lothar	Rieth	EnBW	TTF
Charles	Tilley	CIMA	TTF
José	Wanderley	Natura	TTF