

IIRC Council: Meeting of 3 December 2015

Time: 09:00 - 15:40
Venue: Tokyo Stock Exchange Hall (TSE Hall)
 Japan Exchange Group; 2-1 Nihombashi Kabutocho; Chuo-ku; Tokyo 103-8224
Chairman: Mervyn King
Attendance: See attached list

Agenda

Item	Paper
1. Welcome and introduction	
2. Approvals and committee report	
2a Minutes of previous meeting and matters arising	Item 2a
2b Appointments	Item 2b
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4a Introductory session	
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Close	

1. Welcome and introduction

Takafumi Sato (President - Japan Exchange Regulation; IIRC Council member) welcomed the Council to the Japan Exchange Group ('JPX').

The Chairman thanked Dr Sato and JPX for hosting the meeting, welcomed participants to it and summarized the key objective of the meeting as being to provide input to inform development of strategy for 2018 and beyond.

2. Approvals and committee report**2a Minutes of previous meeting and matters arising****Minutes**

The minutes were approved without revision.

Matters arising

N.A.

2b Appointments**Key points of information/discussion**

N.A.

Decisions

The Council appointed the following as members of the Governance and Nominations Committee, in each case for a term of three years: Nelson Carvalho (re-appointment) from the Academia community; and Cobus de Swardt from the Civil Society community.

Actions

N.A.

2c Governance and Nominations Committee report**Key points of information/discussion**

N.A.

Decisions

N.A.

Actions

N.A.

3. CEO briefing**Key points of information/discussion**

Paul Druckman made a presentation on status and prospects addressing the following issues:

<IR> has now moved from headlines to trend-lines

A letter from him as IIRC CEO on climate change was the lead letter in the Financial Times of 20 October 2015 and there have been numerous newspaper articles and headlines around the issues of climate change and sustainable development associated with financial stability, the core elements of the IIRC's vision. All these add up to a 'trend' rather than simply transient headlines.

Sustainable Development Goals ('SDGs') and COP 21

<IR> has been a part of discussions leading to adoption of the SDGs. It is seen as offering a mechanism by which to help organizations demonstrate how their business models and value creation processes relate to the SDGs. The Council meeting takes place while COP21 final negotiations were underway and we are looking at climate change as becoming even more relevant to our work, on the basis that if there are agreements, performance will need to be measured and reported, which will involve the reporting eco-system.

G20/B20

There are three key aspects of G20/B20 process in Turkey last month, where recommendations were made with relevance to <IR>:

- The World SME Forum has been created with a specific reference to <IR> and including case studies around <IR> and SMEs.
- Infrastructure investment was a key theme throughout the summit, again with mention of <IR> being part of the solution. Work continues with the Global Infrastructure Hub created at the G20 summit in Australia last year.
- The cross-cutting theme of the B20, which was focussed on governance and sustainability, was supportive of integrated reporting

In meetings last week with the China Council for the Promotion of International Trade ('CCPIT'), which will serve as secretariat for B20 under the Chinese presidency for 2016, the IIRC was again invited to participate in the B20 process in 2016, which will focus much more heavily on: (a) implementation; and (b) engagement with political leaders throughout the year.

The priorities of China's B20 team in 2016 are inclusive business; a shift in market behaviour from short to long term; and sustainable development. These are the issues that will help to

define the policy and business discourse over the next year. The IIRC is ready to play its role as part of the solution.

International policy shifts

Lady Lynn de Rothschild, co-founder of the Coalition for Inclusive Capitalism, spoke at the <IR> Convention on 10 November 2015 with clarity about how inclusive capitalism could not happen without <IR>. In addition, our collaboration with the Financing Capital for the Long Term project has taken new roads of opportunity. These examples demonstrate that we are playing our part in the capital market shifts around which we concentrate our efforts.

Corporate Reporting Dialogue ('the Dialogue')

Positive progress is being made with the Dialogue, albeit relatively slowly and it offers the potential to be a real 'game changer', in terms of the future of corporate reporting. We are currently exploring means by which to address the current resource constraints that inhibit dedication of required focus and effort to maximise this potential.

In response to queries, the CEO indicated that:

- The IIRC provides a secretariat function for the Dialogue, but does not own the initiative, nor is the Dialogue an organization in its own right.
- Participation in the Dialogue offers a valuable means to build relationships in the reporting space.
- Key projects on the Dialogue agenda for 2016 relate to technology (to be led by GRI), and understanding and coordination of major public policy positions (to be led by the IIRC).

Growing the number of integrated reporter organizations

The number of integrated reports has risen considerably in 2015. A KPMG report in Japan stated that 142 Japanese companies produced integrated reports last year and they estimate that over 400 will be produced next year. It is noticeable that not all integrated reports are designated as such and we need to address to this issue. In addition an appropriate balance is required between the quantity and quality of such reports.

He pointed out that CGN from mainland China can be added to the list of integrated reporters and that reports such as Link REIT in Hong Kong are leading the way in Asia, from the viewpoint of how best to understand that the integrated report must be underpinned by strategic thinking.

In response to a query, the CEO indicated that developments such as that in the UK, where the requisite strategic report by listed companies is deemed consistent with an integrated report, are to be welcomed. Though the strategic report currently has an essentially financial focus, the expectation is that this will expand to other capitals over time, which will support the ambition for <IR> to move from 'breakthrough' to 'normalization', whereby it becomes part of standard thinking in the context of the corporate reporting system.

New institutional arrangements

The IIRC now has a new and very high calibre Board of Directors.

In response to ad hoc queries:

- Investors: The CEO agreed that it may not be a necessity to create a dedicated IIRC Investor Network, but that the IIRC could work more closely and in a more coordinated way with and through existing bodies, such as ICGN. <IR> is gaining traction and interest in the investor community, but more focused engagement is required once resources are available.
- Regions: The IIRC expects to make a concerted drive to promote <IR> in China in 2016. Progress in the USA remains slow and challenging, but moves are afoot to identify a Chair for the US Committee, which should commence activities in 2016.

- Comply or explain: The IIRC will consider working with exchanges to further clarify requirements relating to the 'comply or explain' approach, including possible maintenance by companies of an 'explanation register'.
- <IR> Health Index: The CEO agreed that it might be worth considering the establishment of an <IR> health index constructed in such a way as to measure uptake of <IR> in different environments.

Decisions

N.A.

Actions

Council members are to notify the IIRC team if they are interested in participating in task forces established by CCPIT in the context of the China's presidency of B20 during 2016.

4. Strategy for 2018 and beyond**4a Introductory session****Key points of information/discussion**

Paul Druckman introduced the session with a short presentation, in which he stressed the importance in deliberations in the breakout session on strategy to 2018 as alignment, achieving breakthrough momentum. On strategy from 2018 the sessions would focus on the structure of the new system of reporting or cohesion; and scale, the movement from 'breakthrough' to 'normalized'.

Jonathan Bailey (Partner – McKinsey) made a presentation on Focusing Capital on the Long-term.

Christoph Dolderer (Chief Group Accounting Officer - EnBW) made a short presentation from the reporter's perspective and Akitsugu Era (Head, Corporate Governance - BlackRock, Japan) spoke from the investor perspective.

In summary, key points from their presentations and the subsequent discussion are that: (a) <IR> enables corporate management to rethink management information requirements; (b) integrated reporting is very important to 'alpha' generation, as well as to exercise of the 'active' investor and stewardship roles; (c) forward-looking reporting is required to better inform and make an evaluation of future value creation prospects; and (d) any distinction between 'financial' and 'non-financial' issues becomes increasingly artificial and redundant when taking a longer-term view, since financial outcomes and performance inevitably and inextricably derive from non-financial inputs and considerations.

Decisions

N.A.

Actions

N.A.

4b Breakout sessions**Key points of information/discussion**

Participants broke into four groups to address, in turn, the following topics:

Breakout session # 1: Target end state for 2018

Breakout session # 2: Developing a portfolio of strategic options

Breakout session # 3: The language of <IR>

A summary of input from each of the breakout groups is available as an annex hereto.

A brief presentation on corporate governance reforms, stewardship and the link to improved reporting in Japan was made by Professor Masao Hirano (Waseda Business School) between breakout sessions # 1 and # 2.

Decisions

N.A.

Actions

N.A.

4c Plenary feedback session

Key points of information/discussion

A summary of feedback provided from the breakout sessions in the plenary session is provided in the annex hereto.

CEO reflections

The CEO's reflections on the feedback are summarised as follows:

- The reluctance to expand the primary audience for <IR> beyond providers of financial capital is understandable, given the very extensive debates on this topic in the process to develop the International <IR> Framework. However, it is important to understand that the application of <IR> is of great relevance to a broader audience than providers of financial capital. This issue should be taken under advisement accordingly.
- The possibility should be considered at some point in the future of a body of trustees overseeing the corporate reporting system as a whole, under which other organizations would sit.
- The overarching theme is integrated thinking and integrated decision-making, which equates to better business. We shouldn't preach to companies, but invite consideration and recognition of <IR> as a methodology for, or way of indicating, a better business.
- Delivery of the breakthrough phase objective will only be achieved with the active participation of champions of <IR>, which clearly includes Council members.

Decisions

N.A.

Actions

- The IIRC team is to develop a paper for the next Council meeting on the future strategic direction.
- The IIRC team will provide Appendices articulating the conversations held within each of the break out sessions
- The IIRC team is to engage with Council for input on delivering the breakthrough phase objective, notably for help in driving uptake of <IR> at country, profession and industry level.

6. Any other business

Key points of information/discussion

The Chairman noted that the next Council meeting is scheduled to take place in Frankfurt on 27 April 2016.

Decisions

N.A.

Actions

N.A.

7. Chairman's closing statement

The Chairman thanked participants for their contributions to the day's proceedings, JPX for hosting the meeting, McKinsey team for their support and the IIRC for the preparation. He closed the meeting at 15:40 (JST).

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Present
Members/alternates

Mervyn	King	Chairman of the Council	
Gordon	Beal	CPA Canada	(for Kevin Dancey)
Erik	Breen	ICGN	
Clement K. W.	Chan	BDO	(for Martin van Roekel)
Chun Wee	Chiew	ACCA	(for Alan Hatfield)
Mahendra K.	Chouhan	Asian Centre for Corp. Gov. & Sust.	
Vania Maria	Da Costa Borgerth	BNDES	(for Nelson Carvalho)
Jean-Charles	De Lasteyrie	French Interest	
Christoph	Dolderer	EnBW	(for Thomas Kusterer)
Sandra	Guerra	IBGC	
Farha-Joyce	Haboucha	Rockefeller & Co.	
Stephen	Harrison	Global Accounting Alliance	
Eric	Hespenheide	Institute of Internal Auditors	(for Richard Chambers)
Ryozo	Himino	IOSCO	(for Ranjit Singh)
Rodney	Irwin	WBCSD	
Parvatheesam	Kanchinadham	Tata	(for Koushik Chatterjee)
Olivia	Kirtley	IFAC	
Ian	Mackintosh	IASB	(for Hans Hoogervorst)
Brad J.	Monterio	IMA	(for Jeffrey Thomson)
Kimitaka	Mori	JICPA	
Michiyo	Morisawa	CDP	(for Paul Simpson)
Asako	Nagai	Business for Social Responsibility	(for Aron Cramer)
Terence	Nombembe	SAICA	
William	O'Mara	KPMG	
Amy	Pawlicki	AICPA	(for Timothy Christen)
Geert	Peeters	CLP Holdings	
Takafumi	Sato	Japan Exchange Group	
Richard	Sexton	PwC	(for Dennis Nally)
Susanne	Stormer	Novo Nordisk	
Mashiko	Tezuka	Deloitte	(for David Cruickshank)
Charles	Tilley	CIMA	
Keichi	Ushijima	Ernst & Young	
Angeli	Van Buren	Eumedion	
Lee	White	CAANZ	
Stefano	Zambon	WICI	

Observers

Robin	Edme	Group of Friends of Paragraph 47	
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Guests

Jonathan	Bailey	McKinsey & Co.	
Akitsugu	Era	BlackRock	
Asta	Fjeldsted	McKinsey & Co.	
Masao	Hirano	Waseda Business School	
Shigeharu	Kawahara	KPMG	
Tasuku	Kuwabara	McKinsey & Co.	
Yoichi	Mori	JICPA	
Gary	Pflugrath	IFAC	
Lothar	Rieth	EnBW	
Natsuko	Yamazaki	McKinsey & Co.	

IIRC Directors

Jane	Diplock		
Paul	Druckman	Chief Executive Officer, IIRC	
Izumi	Kobayashi		
Barry	Melancon	Chairman of the Board, IIRC	
David	Nussbaum		

IIRC Team

Laura	Girella	
Jonathan	Labrey	
Hiroko	Ozawa	
Andrew	Smith	
Neil	Stevenson	

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Apologies
Members

Mustafa	Baltaci	FEAS	Proxy to the Chairman
Nelson	Carvalho	Universidade de São Paulo	Represented by alternate
Richard	Chambers	Institute of Internal Auditors	Represented by alternate
Koushik	Chatterjee	Tata	Represented by alternate
Sok Hui	Chng	DBS Group	
Timothy	Christen	AICPA	
Aron	Cramer	Business for Social Responsibility	Represented by alternate
David	Cruickshank	Deloitte	Represented by alternate
Kevin	Dancey	CPA Canada	Represented by alternate
Cobus	De Swardt	Transparency International	Proxy to the Chairman
Yogesh Chander	Devshwar	CII-ITC Centre of Excellence	
Robert	Eccles	Harvard Business School	Proxy to the Chairman
Michelle	Edkins	BlackRock	Proxy to the Chairman
Margaret M.	Foran	Prudential Financial	Proxy to the Chairman
Steve	Gunders	SASB	
Alan	Hatfield	ACCA	Represented by alternate
Chris	Hitchen	RPMI Railpen	Proxy to Erik Breen
Hans	Hoogervorst	IASB	Represented by alternate
Michael	Izza	ICAEW	Proxy to Stephen Harrison
Frank	Klein	EFFAS	Proxy to the Chairman
Claudia	Kruse	APG Asset Management	
Thomas	Kusterer	EnBW	Represented by alternate
Robert	Laux	Microsoft Corporation	Proxy to the Chairman
Chun Seon	Lee	Korea Productivity Center	Proxy to the Chairman
José Roberto	Lettiere	Natura	
Mindy S.	Lubber	Ceres	Proxy to the Chairman
Alex	Malley	CPA Australia	Proxy to the Chairman
Michael	Meehan	Global Reporting Initiative	
Mark	Moody-Stuart	UN Global Compact	Proxy to the Chairman
Dennis	Nally	PwC	Represented by alternate
Edward	Nusbaum	Grant Thornton	Proxy to the Chairman
Saker	Nusseibeh	Hermes	Proxy to the Chairman
Sandra	Peters	CFA Institute	
Russell	Picot	HSBC	Proxy to the Chairman
David	Pitt-Watson	UNEP FI	
Renato	Proença Lopes	PREVI	
Fiona	Reynolds	PRI	Proxy to the Chairman
Richard	Samans	World Economic Forum	
Paul	Simpson	CDP	Represented by alternate
Ranjit Ajit	Singh	IOSCO	Represented by alternate
Christoph	Stükelberger	Globethics.net	Proxy to the Chairman
Jeffrey	Thomson	IMA	Represented by alternate
Daniel	Tisch	Global Alliance for PR & Comm Mgt	Proxy to the Chairman
Martin	van Roekel	BDO	Represented by alternate
Zinga	Venner	World Bank	
Janet	Voûte	Nestle	Proxy to the Chairman
Simon	Walker	Institute of Directors	Proxy to the Chairman
Mark	Weinberger	Ernst & Young	Represented by alternate
Andrew	Wright	A4S	
James	Zhan	UNCTAD	Proxy to the Chairman

Observers

Russell	Golden	FASB
Kevin	McKinley	ISO
Richard	Thorpe	FSB

IIRC Directors

Peter	Bakker
Helen	Brand
Alexsandro	Broedel Lopes
Timothy P.	Flynn
Reuel	Khoza
Upendra Kumar	Sinha
Christian	Strenger