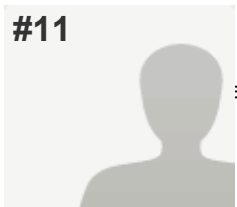


#11



COMPLETE

3S

ARGE Consulting and Argüden Governance Academy

Q4: Country/ Region

Turkey

Q5: Stakeholder Group

Other (please specify)

BOTH REPORT PREPARER AND CONSULTANT

Q6: Any preliminary or introductory comments (Example: If the response is the result of a focus group, please indicate attendees and their respective stakeholder groups).

THIS COMMENTS HAVE BEEN PREPARED BY ARGE AND ARGUDEN GOVERNANCE ACADEMY BASED ON THEIR EXPERIENCES IN PREPARATION AND ADVOCACY WORK DURINF B20 TURKEY, CHINA AND GERMANY

PAGE 2: Multiple capitals**Q7: Q1(a) What is your experience with the multiple capitals approach in integrated reports?**

Multiple capital approach is a useful tool to explain which resources are important (material) for organization's operations and value creation. This approach allows organizations to focus on the resources they need for long term success and value creation. Critical resources have been identified and strategy of the organization has been built on these resources by using capitals approach. Resource vulnerabilities could be identified at the first stages of strategy development which helps organization to focus on a risk management strategy that could encourage to work on different alternatives to mitigate the potential risks. We could say that capitals approach's primary role is in strategy development rather than preparing integrated report.

The term capitals have not been used in all the integrated reports produced so far. Some of the organizations prefer to use resources and some of them just state the names of the capitals.

Q8: Q1(b) What, if anything, should be done and by whom to improve this aspect of implementation?

Relation between capitals and materiality, strategy and risk management have to be emphasized by IIRC team and their local partners in their future efforts. These efforts could be training programs, documents, expert opinions, experience sharing documents and sessions. We believe that these efforts would help organizations to internalize multiple capital approach.

PAGE 3: Connectivity and integrated thinking**Q9: Q2(a) What is your experience with connectivity in integrated reports as an indication of integrated thinking and/or enabler of enhanced decisions?**

Integrated thinking is the most important aspect of integrated reporting approach. Integrated thinking is important to make informed decisions based on understanding the mutual dependencies and interactions between each business unit or department in an organization. This understanding would be critical in designing organization strategy and determining key performance indicators for business units, departments and management team. This approach would help to transform silo based management approach to integrated management approach. Integrated management approach is important in value creation process. Sometimes silo approach could cause value distraction rather than value creation. Because in a silo management approach business unit targets could be more important than value creation of organization. Some of the targets could be realized but the situation could change and achievement of targets could be distractive rather than value creating.

Integrated thinking approach could be the most difficult tool to implement. Because this needs collective decision making, collective thinking and good team work in and between departments in an organization. People could be reluctant to cooperate and they would like to keep the power of decision making by themselves. However integrated thinking needs cooperation of business units and departments, task forces from different units in dealing with issues. Integrated thinking produces a holistic approach to decision making and value creation by an organization which improves the capability to realize the targets and to deal with risks (both positive and negative ones).

Q10: Q2(b) What, if anything, should be done and by whom to improve this aspect of implementation?

IIRC needs to focus on board and top management teams of the organizations to show the importance of integrating thinking for long term value creation by an organization.

Boards and top management teams need to support, disseminate and encourage integrated thinking approach in the organizations. This could be done by forming groups by the participation of multiple departments or taskforces for specific issues.

Boards could use integrated report framework as their board reporting approach. This approach could help adoption of integrated thinking because board needs concise, connected and good quality information for their decision making practices.

PAGE 4: Key stakeholders' legitimate needs and interests**Q11: Q3(a) What is your experience with the identification, in integrated reports, of key stakeholders' legitimate needs and interests and how those needs and interests are considered and addressed?**

The key stakeholders' needs become more of a concern of organizations nowadays, since it is important for license to operate, creating competitive advantage and attracting financial resources. Therefore, organizations developed their relations with key stakeholders. They prepare their stakeholder maps and present in their integrated reports. Organizations explain their relations with stakeholders and how they respond to their key stakeholders' needs and interests. This approach improves transparency and trust between organizations and their stakeholders. Due to improved transparency, organizations respond more seriously to stakeholders' expectation.

Q12: Q3(b) What, if anything, should be done and by whom to improve this aspect of implementation?

Boards could play a role in monitoring and for some cases directly take part in key stakeholder relations. Boards need to follow the responses to stakeholders' expectations by the organization.

PAGE 5: Materiality and value creation

Q13: Q4(a) What is your experience with the Framework's definition of materiality, in particular: • Application of the value creation lens? • Use of different time periods to identify material matters?

Application of value creation lens in materiality determination is important to determine material issues in connection with the strategy of the organization. Organizations make their strategies to create value, material issues would have an impact on realization of the strategy and targets both in positive and negative manner. Determining material issues and showing their impacts in the strategy, value creation capability and organization's responses to the impacts of material issues becomes an integrated reporting practice and is used more commonly. Improved transparency on materiality improves trust of stakeholders especially like investors, financial capital providers and shareholders. Materiality determination has been realized internally in most of the cases. External stakeholders' views have been included through the people in the organization who has direct contact with stakeholders. This might be improved with the inclusion of external stakeholders.

Materiality is important for understanding the issues effecting organization's strategy and assigning priorities for dealing with them. Prioritization could support to move in the right direction to realize the targets and strategy which would improve stakeholder confidence and trust. Organization would be considered as the which makes informed decisions.

Q14: Q4(b) What, if anything, should be done and by whom to improve this aspect of implementation?

IIRC could emphasize the importance of materiality through trainings, publications, expert opinions and experience sharing.

This process needs to be directed by CFO and CRO. All related parties should be part of this process. CEO and board need to monitor and interfere the process if needed.

PAGE 6: Conciseness

Q15: Q5(a) What is your experience with the conciseness of integrated reports?

Integrated reporting is a journey and improvements have been realized in each forward step. Companies produce longer reports when they start this journey. As they internalize integrated thinking within the organization, the end product "Integrated Report" become more concise. Another aspect is the size of the reports is highly correlated with institutions' business activities. Some of the produced integrated reports could be more concise and focused due to the limited number of business activities of the institutions.

Q16: Q5(b) What, if anything, should be done and by whom to improve this aspect of implementation?

CEO could take the lead; main efforts could be spent by C-level executives. CEO could encourage and support integrated thinking approach for conciseness.

PAGE 7: Business model – outputs and outcomes

Q17: Q6(a) What is your experience with the reporting of business model information, particularly outputs and outcomes?

Business model reporting has reached a satisfactory level. All integrated reports include business models of organizations with enough details. Inputs and outputs are clearly defined and explained. The only improvement area could be the outcomes and value creation. Outcomes and value creation may need to be analyzed and could be reported and visualized in more detailed manner.

Q18: Q6(b) What, if anything, should be done and by whom to improve this aspect of implementation?

CEO could take the lead; main efforts could be spent by C-level executives.

PAGE 8: Those charged with governance / Framework identification

Q19: Q7(a) What is your experience with whether reports: (i) identify the involvement of those charged with governance, and (ii) indicate that they are presented in accordance with the Framework? What are the implications of excluding such information?

It seems that some of the reports have been prepared with board involvement in the form of approval of the information given in the report. However, some of them prepared by the management and board's involvement doesn't exist or limited.

Each report contains information regarding governance structures of the organizations. However, the information provided may not cover details in the framework like;

- Leaders' backgrounds, skills
- Strategic decision making processes
- The effect of governance bodies on strategic direction and monitoring

Q20: Q7(b) What, if anything, should be done and by whom to improve these aspects of implementation?

Improvement could be achieved by more involvement of the board to integrated reporting process.

PAGE 9: Other Guiding Principles

Q21: Q8(a) What is your experience with the application of these remaining three Guiding Principles in integrated reports?

One of the main concerns of integrated reporting is strategic focus and future orientation. It seems that this aim has been mostly realized. All of the reports contain organization strategy and their future plans. There is room for improvement but this idea has acceptance.

Reporters try to give complete information covering all material issues by considering both positive and negative impacts. However, we could say that bias is on the positive side.

Most of the reports contain consistent and comparable information. It allows to make comparison with peers.

Q22: Q8(b) What, if anything, should be done and by whom to improve these aspects of implementation?

Board and top management needs to lead future orientation which is one of the board's main responsibility.

The other two issues need to be directed by top management team.

PAGE 10: Other Content Elements

Q23: Q9(a) What is your experience with how these remaining Content Elements are reported in integrated reports?

The remaining content elements are; organizational overview and external environment, risks and opportunities, strategy and resource allocation, performance, outlook, basis of preparation and general reporting guidance.

All of the above issues could be considered as mostly covered satisfactorily. There could be room for improvement in outlook perspective which could be critical for future orientation.

Q24: Q9(b) What, if anything, should be done and by whom to improve these aspects of implementation?

Board could review outlook information

PAGE 11: Other quality issues**Q25: Q10(a) Aside from any quality issues already raised in Q1-Q9, what is your experience with the quality of integrated reports?**

There are very high quality reports on one side and there are reports which need improvement on the other side. The main aim of the integrated report is to give critical information to its key stakeholders. Some reports are collection of information, not very focused on the purpose, some has mixed comparison bases. Framework is useful, however integrated thinking needs to be improved within the organization to prepare better reports.

Q26: Q10(b) What, if anything, should be done and by whom to improve this aspect of implementation?

Training programs could improve the quality.

PAGE 12: Other enablers, incentive and barriers**Q27: Q11(a) What is your experience with enablers, incentives or barriers to Framework implementation not covered by other questions, including the extent to which they apply particularly to: • Specific jurisdictions? • Large or small organizations? • Private, public or non-profit sectors? • Different stages of Framework implementation?**

Even though integrated reporting is a very useful and efficient communication tool, it seems that most of the jurisdictions are not ready to take action for adoption of integrated reporting. Integrated reporting and sustainability could have different priorities and may not be at the top of each nation's agenda. Regulations regarding governance and directors' liability could also play an important role in adoption of integrated reporting. Directors in some countries (like Australia) might be discouraged by regulation relating to directors' liability.

So far only South African Stock Exchange has made integrated reporting a listing requirement. South African companies issue integrated reports for almost 6 years. They have made good progress regarding the quality of produced reports. We could say that King III report/code is the main driving force of adoption in South Africa. EU Directive 2014/95/EU (which amends Directive 2013/34/EU) regarding disclosure of non-financial information by certain undertakings and groups could be a stepping stone for adoption integrated reporting in EU. According to directive; Companies with 500 average number of employees during a financial year must include in the management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including: a brief description of the undertaking's business model, a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented, the outcome of those policies, the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks, non-financial key performance indicators relevant to the particular business. EU stated that the above information could be disclosed by using international reporting approaches therefore adopted a flexible approach. Integrated report could be leading reporting standard with effective awareness raising in EU countries. Some of the big companies based in EU are already using integrated reporting approach.

Another example of adoption of integrated reporting approach is BM&FBOVESPA's Report or Explain for Sustainability or Integrated Reports program which has started in December 2011. Report or Explain approach has been adopted as a recommendation for voluntary adherence by listed companies on Stock Exchange to encourage disclosure of ESG (Environmental, Social and Governance) related information, which has been increasingly demanded by investors. The request was for listed companies to inform annually if and where they disclosed ESG information. Where reporting was not available, an explanation was required. Companies were not obliged to respond. To avoid creating a new document, information was to be stated in a Reference Form issued by the Brazilian Securities Commission (CVM), Brazil's capital markets regulator, under a generic item – "Item 7.8: Description of other material long-term information". This action has been supported by the stock exchange through training programs and workshops. The progress could be seen in below figure . Implementation has started in 2017 and we will be able to see the first reports in 2018 (some of the companies already have the reports but we would see how this measure will be implemented and enforced from 2018 onwards.

From 2015 onwards Brazilian Securities Exchange Commission take responsibility for reporting. This experience showed that voluntary measures through sustainability self-regulation in some of the capital markets do work. It has been also understood that companies which did not report or explain realized that there would be no major consequences and carried on with their decision of not reporting. This supports that stakeholders especially investor community and regulator would be the primary drivers of this change.

ARGE Consulting was the Knowledge Partner of "Governance and Sustainability Theme" of B20 Turkey 2015. ARGE has worked in close cooperation with UNGC and IIRC during this process. We have presented our main message in our policy report as "Good governance is the key for inclusive and sustainable development. Therefore, G20 governments need to focus on creating a regulatory environment where transparency in the public and private sectors is the norm, by advocating the adoption of principled business practices, such as those advanced by the United Nations Global Compact, and actions towards the achievement of the United Nations Sustainable Development Goals. Governments should also embrace Integrated Reporting across the economy as the most effective way of improving transparency and building trust."

Dr Yilmaz Argüden and Dr. Erkin Erimez from ARGE were SME Task Force Members in B20 Turkey 2015. ARGE has achieved (Dr. Yilmaz Argüden has spent an enormous effort for inclusion) to include integrated reporting in recommendations made in B20 SMEs & Entrepreneurship Taskforce Policy Paper. Integrated report has been stated as part of Recommendation 2 "Improve SMEs' Access to Finance"'s action item 2.2 . Dr. Argüden and Dr. Erimez have served in SME task Force in B20 China2016 and Dr. Erimez has been serving in SME Task Force B20 Germany2017 where they always emphasized the importance of integrated reporting. However integrated reporting has not find a place in recommendations of SME Task Forces' Policy Papers in B20 China2016 and B20 Germany2017.

ARGE has conducted a workshop in OECD Paris in June 2015 where Mr Druckman was one of the panellist with the participation of business representatives from B20 member states. What we observed during this workshop, report preparation and B20 process business is not very keen on adoption of integrated reporting practices in the near future. Although multilaterals (like World Bank, IFC, ILO, OECD, etc..) support and encourage the implementation of integrated reporting, a similar approach could be observed for regulators as well. EU has taken a courageous step to adopt non-financial reporting directive. If the outcome would be successful, that would be a best practice for other jurisdictions and regulators.

The non-profit Argüden Governance Academy, , is the first Turkish institution and among one of the earliest non-profits in the world to adopt International <IR> Framework. It was such a beneficial experience for us to prepare our Annual Report for our first full year of operation, in line with the International <IR> Framework. In the preparation process, we got together with all the team members to analyze each operating area, related functions, and connections with our mission, vision, and strategy. This led us to question the interconnections through the 'value creation process' which consists of inputs, outputs, outcomes, and values created for all stakeholders at the end. The reporting process enabled us as a team to internalize our business model and our philosophy better than ever. We are pleased to hear that our Integrated Report received attention from other institutions and encouraged them to go ahead with adopting the Framework.

Q28: Q11(b) What, if anything, should be done and by whom to improve these aspects of implementation?

Stakeholders, especially investors community and financial institutions, could play a critical role for voluntary adoption of integrated reporting practices.

Regulators would move in to this direction based on prioritization of national agenda items.

Private sector needs to take the lead for adoption. Best practices need to be show and benefits of integrated reporting needs to be highlighted since adult learning is benefit driven process. This approach needs to be spread through global value chains by multinationals. The adoption period needs to be flexible for SMEs.

NGOs play a critical role to raise awareness regarding the integrated thinking and the integrated reporting practices.
