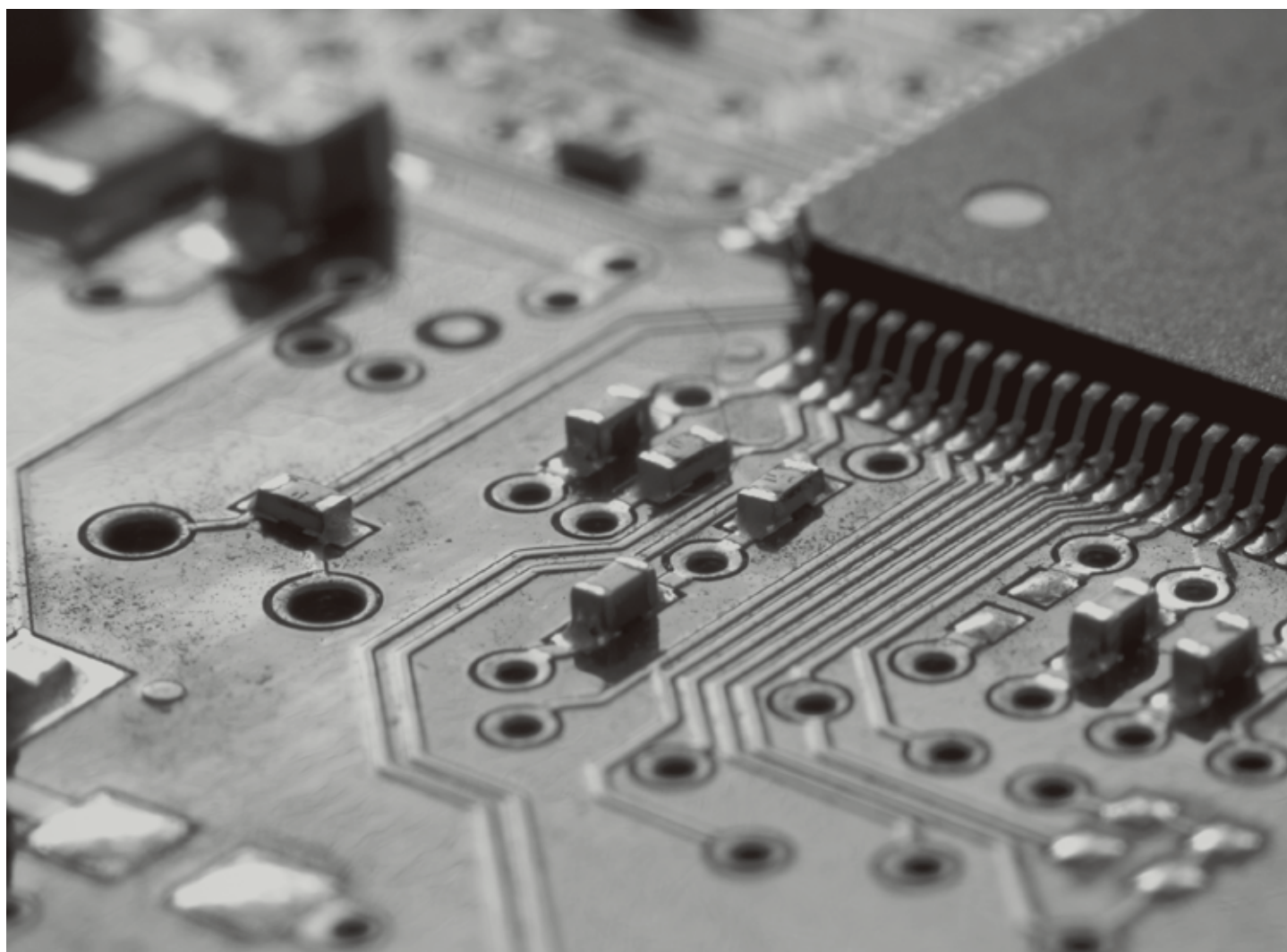


Integrated Reporting Framework consultation roundtable summary

Beijing, Shanghai, Shenzhen, Hong Kong



Introduction

The International Integrated Reporting Council (IIRC) has issued the Consultation Draft of the International Integrated Reporting Framework and is inviting organisations to respond by 15 July 2013 to ensure that its work and the reporting framework it will subsequently produce continue to reflect the needs of the increasing complex and demanding global market.

ACCA has been participating in a range of events to support the consultation process, and a series of roundtable events in Beijing, Shanghai, Shenzhen and Hong Kong was hosted by ACCA in collaboration with the IIRC and local bodies in the month of June to gather feedback from different stakeholders.

Future of Corporate Reporting

Integrated Report <IR> is designed to bring together all the material information about an organisation's strategy, governance, performance and prospects so that it reflects the commercial, environmental and social contexts in which the business works. It is also anticipated that <IR> will bring about changes at the board level, to drive consistency between internal decision making and external reporting.

In all the roundtable discussions, the near unanimous consensus was that <IR> is a right direction forward for corporate reporting.

- Reporting the business model of a company, the wide-ranging 'capitals' it draws on and influences, and how it creates short, medium and long term benefit provides insights not always available to investors presently.

- The concept of the six capitals facilitates a comprehensive review of the value-creating capability of a company.

- Reporting affects behaviour. Through reporting on its business model, the management of a company would be compelled to confront and address deficiencies and issues that may have been hidden in the past. <IR> enables internal reflection within the company.

Concerns and Challenges

The roundtable participants raised some concerns about the proposed framework and the practical challenges relating to its implementation.

- The first barrier to overcome is the mind-set of investors as well as that of the management of the reporting companies and their accountants. Based on the feedback from the roundtable participants, the belief is that a significant proportion of investors are focused on the financial results of a company and may not be keen to learn more about the company's business model, the capitals it draws and influences, or the associated external outcomes. Not all investors take a long term investment horizon too. Given that IIRC promotes a market-driven approach, the perceived lack of motivated investors may be a hurdle to more wide-spread adoption of <IR>.
- In China, a majority of listed companies are state-owned enterprises, and the roundtable

participants were curious whether the concepts within the draft <IR> framework are as relevant.

- While the draft framework clarified that it is not expected that all capitals need to be quantified for <IR> purposes, the view was that some quantification will help track the KPIs and performance (over time) of a company, and will be helpful for comparison purposes with the company's peers. The roundtable participants hence called for more guidelines that will help promote consistency and comparability.
- A common concern among companies is that disclosure of forward-looking information; the opportunities and risks faced by the companies may lead to loss of competitive advantages, or may have legal ramifications. IIRC can help address the concern by clarifying the extent to which such information is expected to be disclosed.

The Content Elements for <IR>

- One of the feedbacks received was that the content elements proposed in the draft <IR> framework are not new concepts. Most of them are already expected to be disclosed in the prospectus a company publishes when seeking public listing. Accordingly, internal data required to populate these content elements should already exist at least for the larger companies.
- Even though IIRC is conscientious about maintaining a principle-based approach to the framework (which is important as rule-based or compliance-based reporting tend to relegate into box-ticking exercises), the roundtable participants generally prefer more guidance on what would typically be disclosed e.g. KPIs on the different capitals that companies from a certain industry would be expected to report on.

- Participants highlighted that certain elements of an <IR>, such as the business model, governance structure of a company, may remain unchanged over the short term, and the disclosures thereof may hence remain unchanged over a few editions of the <IR>. IIRC may wish to explain where such information should reside (e.g. on the web-page with an appropriate reference) so the <IR> will focus on the new developments during the period reported. This will avoid a situation where the report becoming stagnant over time with a material portion of the report comprising of static information.
- IIRC should more explicitly and actively promote the use of different and creative medium to communicate <IR>, not just in written or printed form but video, interactive web interface and so on. IIRC should lead by example by using even more creative means in its communication.

Assurance

Although assurance was considered critical to the credibility of <IR> by the participants to the roundtables, they expressed concerns over certain challenges that assurance providers may face.

- Non-financial disclosures as well as forward looking information involve significant judgement and are, by nature, more subjective and difficult to establish a true and fair view. While corporate reporting of today, including financial statements based on the International Financial Reporting Standards (IFRS) or IFRS-aligned local standards, already involves significantly more judgements and estimates compared to a decade ago, assurance providers will likely need

to refine their practices and methodologies considerably to cater to <IR> assurance work.

- The fact that an <IR> expands the reporting horizon of a company beyond financial measures means the collective skill sets of the audit team will need to be multifaceted as well.
- Some participants expected that assurance providers may try to agree on more restrictive scopes of assurance with the management of companies, and expressed concerns that this may result in many different assurance products, which will hinder the users' appreciation of the degree of assurance provided in each instant.

Suggestions to IIRC

A selection of recommendations put forth by participants to the various roundtables is listed below.

- While the participants appreciated the need for a principle-based approach, some of them believe that to operationalise the <IR> concepts and encourage wider adoption, IIRC should work with local bodies to develop implementation guidelines for regions, sectors and industries. Such guidance will also help facilitate standardisation and comparability, as mentioned in an earlier comment.
- Support of regulators is important especially in the early stage of promoting <IR>. The IIRC should also engage Stock Exchanges as well as information intermediaries like credit rating agencies and analysts.
- On top of the pilot program currently involving the investors and business networks, IIRC should consider setting up a network for analysts and investment advisors / fund managers.
- Training and education in general is critical, especially for management and business leaders so as to highlight the business case for <IR>.

- For a start, leading listed companies in each jurisdiction, especially those with established sustainability reporting practices, should be encouraged to join the IIRC Pilot program or national pilot schemes.

- IIRC should consider organising awards for leading practices in <IR> at the international level and / or partnering local bodies to recognise leading practices at a national or regional level. The benefits are: companies will be incentivised to do <IR> and to do it well; aspiring businesses will have recognised leading practices to learn from.

- In China, availability of documents, guidelines, supporting materials in Chinese is crucial to promote adoption. Quite a number of participants, including those who are bilingual and have read both the original and Chinese-translated versions of the draft framework, highlighted that the current Chinese translation needs considerable polishing up in order to ensure that the nuance of the IIRC's intents is not lost in translation. In addition, IIRC should consider establishing a more permanent presence in China to fully engage the 2nd largest economy in the world, and to build up <IR> expertise in the market with local language capabilities.