



**G100 VIEWS**

**ON**

**INTEGRATED REPORTING**

July 2014

1. The G100's views in integrated reporting have been revisited with the publication of the International Integrated Reporting Council's (IIRC) "International Integrated Reporting Framework" (Framework) in December 2013 and other developments in corporate reporting, including ASIC's Regulatory Guide RG 247 "Effective disclosure in an operating and financial review" (RG 247) and the third edition of the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" (ASXCGC).

2. The IIRC's Framework (paragraph 1.1) defines an integrated report as:

"a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, leads to the creation of value over the short, medium and long term.";

and states that:

"the primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time. It therefore contains relevant information, both financial and other." (paragraph 1.7)

The integrated report is described as a report that brings together material information about an organisation's strategy, governance, performance and prospects that reflects the commercial, social and environmental context in which it operates. The purpose of the integrated report is to provide a clear and concise representation of how an organisation demonstrates stewardship and how it creates and sustains value.

3. The Framework addresses, to a significant extent, some of the concerns raised by the G100 in its submissions to the IIRC, namely, the clarity of the meaning of an integrated report, the form of the report and its relationship to other reports and information. The Framework:

- does not require the preparation of a new or separate report and as such an existing report such as the operating and financial review could be used as the basis of an integrated report. However, transitioning over time to a different approach to reporting requires a legislative and regulatory environment which is conducive to change;
- stresses that an integrated report is not mandatory, that it is principles-based and the format is flexible.

4. The G100 considers that the process of corporate reporting is one of continuous improvement to enable directors and management to clearly articulate and better communicate the company's performance and value adding activities to shareholders and other users in a cost-effective manner. Integrated reporting offers opportunities to continue this process and as explained in the Framework should be allowed to evolve as a principles-based market-led development as companies respond to meet shareholder and market expectations. As such, it is important that companies have the flexibility to adopt innovative approaches to reporting and that regulatory and legislative barriers to experimentation are removed.

The G100 believes that voluntary initiatives in response to market developments and expectations are the best way of achieving improvements in corporate reporting rather than legislating mandatory black-letter requirements (a one-size-fits-all tick the box approach) which is likely to be counterproductive and lead to boilerplate disclosures. The quality, not the quantity, of the information reported is important to users. Market mechanisms are more likely to achieve this outcome than mandating an approach.

5. A perceived shortcoming of current practice and requirements is that an entity's value creation process is often not well explained to, and understood by, shareholders and other users of corporate reports. While many companies presently provide this information to users in various forms, the development of the Framework which focuses on strategy and performance has the potential to provide a consistent basis which should result in improvements in corporate reporting. However, in applying the principles it is important to recognise the challenges posed by the potential disclosure of commercially prejudicial information. In addition,, there are also potential regulatory concerns because the information reported by directors may not, for various reasons, be IFRS compliant and confront issues raised in ASIC Regulatory Guide RG 230 "Disclosing non-IFRS financial information".
6. With the integration and inter-relationships in the international market place, action which is international in scope is the most efficient and effective way to address improvements in practice. While the G100 supports the approach and efforts of the IIRC in developing the Framework we have significant concerns about the number of bodies issuing recommendations on various aspects of corporate reporting and believe there is a compelling need for coordination of effort and outcomes to enhance consistency in approaches to reporting and comparability between entities. The recent formation of the Corporate Reporting Dialogue by the IIRC is a welcome development which provides an opportunity to address these concerns.
7. A significant issue now that the Framework is issued is one of who is to take responsibility/ownership of the project to keep it abreast of current developments and practice and how that organisation liaises with the various international bodies and national jurisdictions in ensuring implementation and compliance. In this context alignment between the IIRC and the IASB and regulators needs to be achieved.
8. In Australia, the review of operations and financial condition, currently required under s299A of *Corporations Act 2001*, provides opportunities for companies to further enhance the content of their reporting in response to changing expectations and provides a vehicle for transitioning to integrated reporting as practice evolves.

For example, guidance developed by industry bodies such as the G100 *"Guide to Review of Operations and Financial Condition"* and ASIC RG 247 provides a flexible approach to achieving improvements without imposing mandatory requirements. The principles on which the integrated report is based extends the focus of the operating and financial review by rebalancing the approach away from reporting on past financial performance towards how the entity is adapting to its environment to create long term value, through linking an entity's business model and strategy to performance targets, risks, results and future outlook. As part of this process, a clearer link needs to be drawn between the target audience of the integrated report, their information needs, the proposed context of the report and the benefits flowing to the organisation, both external and internal, from providing this information. While it seeks to be a market-led development it is important that the integrated report does not add to the disclosure load and impose significant additional compliance costs on companies.

9. The G100 considers that an integrated report or other report applying the principles outlined in the Framework, to the extent that it addresses deficiencies in the current model, could bring greater coherence to corporate reporting. In doing so it is important not to place excessive emphasis on meeting the asserted needs of vocal and influential lobby groups. While information on sustainability risks and their impacts on the business are important to users, integrated reporting should not be viewed as a vehicle for achieving sustainability reporting. Where relevant and material to the entity, sustainability and other material risks should be addressed as part of the normal reporting process such as the operating and financial review (see G100 *Guide to Review of Operations and Financial Condition*, RG 247 and/or in accordance with ASXCGC's Principle 4 *"Safeguard integrity of corporate reporting"* and *"Principle 7 Recognise and manage risk."*)
10. Issues that remain to be addressed include:
  - the potential liability regime confronting directors particularly in view of the disclosure of forward looking information and the quality of non-financial information. Failure to resolve concerns about the current legal liability environment faced by directors remains a key barrier/impediment to achieving progress towards achieving the benefits of integrated reporting;
  - the nature and extent of assurance processes for the integrated report. Credible assurance processes and requirements for dealing with financial and non-financial information need to be developed and applied to maintain trust in reporting which flows from reliability and transparency; and
  - the status of any forward looking information provided, its accuracy and completeness.

11. **The G100 will continue to actively monitor reporting developments to ensure that the interests and views of its members are effectively represented. This will be undertaken through continuing engagement with the relevant bodies such as the International Integrated Reporting Committee (IIRC), the Business Reporting Leaders Forum Leadership Group, regulators and Government.**
12. **Summary points:**
  - a. **Integrated reports must not be an addition to current reporting requirements.**
  - b. **Australia should not prematurely adopt/mandate integrated reporting. The Framework can be used to inform voluntary reporting initiatives.**
  - c. **Focus of reporting should be on communicating meaningful information to users and should not be driven by special interest groups.**
  - d. **Further work is required in respect of:**
    - **the effect on the liability of directors;**
    - **the assurance regime and the auditability of the report; and**
    - **where the integrated report or adapted operating and financial review sits in a company's corporate reporting suite and recent approaches to streamlining corporate reporting.**

Further information

International Integrated Reporting Council *The International <IR> Framework* (2013) ([www.theiirc.org](http://www.theiirc.org))

Group of 100 *Guide to Review of Operations and Financial Condition* (2003) ([www.group100.com.au](http://www.group100.com.au))

ASX Corporate Governance Council *Corporate Governance Principles and Recommendations* 3ed. (2014) ([www.asx.com.au](http://www.asx.com.au))

ASIC Regulatory Guide RG 230 *Disclosing non-IFRS financial information* (2011) ([www.asic.gov.au](http://www.asic.gov.au))

ASIC Regulatory Guide RG 247 *Effective disclosure in an operating and financial review* (2013) ([www.asic.gov.au](http://www.asic.gov.au))

*Unlocking Investment in Infrastructure – B20 Panel of six international accounting networks* (June 2014).