

Integrated reporting: a step towards *Better Business Reporting*



The IIRC¹ recently published a discussion paper (DP) *Towards Integrated Reporting – Communicating Value in the 21st Century*. This DP describes the IIRC's vision for an enhanced, integrated, future-oriented approach to reporting. This new approach would put historical financial reporting in a broader context and connect it more effectively to an entity's strategy and business model. The DP also offers initial proposals for developing an International Integrated Reporting Framework and outlines the next steps towards its creation and adoption. These next steps include a two-year pilot programme beginning in 2011 and publication of an exposure draft in 2012. Comments on the DP are requested by 14 December 2011.

Summary of the proposals

Changing outlook

The IIRC believes that the growing complexity of reporting, and its narrow focus on financial measures, is not keeping pace with expanded stakeholder expectations. Changes that need to be addressed include globalisation and resulting interdependencies in economies and supply chains, technology, rapid population growth and increasing global consumption. Therefore the IIRC is working to develop an integrated reporting model to re-focus the scope of company reporting. This would include:

- providing more information about a company's strategy and business model;
- linking the discussion of strategy more closely to financial results;
- reporting the use of various types of non-financial capital that are important inputs to the business; and
- making meaningful corporate reporting more concise through focus on the content.

What is an integrated report?

The IIRC expects the main output to be an integrated report. This report would become an organisation's primary report, replacing rather than adding to existing

Highlights

- The IIRC is working to develop an integrated reporting model to re-focus the scope of company reporting
- The main output is expected to be an 'integrated report' which would be an organisation's primary report
- The proposed 'integrated report' would provide more concise, meaningful corporate reporting combining the different strands of reporting into a coherent whole
- The objective of the DP is to forge a global consensus about the direction in which reporting should evolve

reporting requirements. This would provide a reference point for other communication such as presentations, detailed financial information, operational data and sustainability information.

An integrated report would address an organisation's stewardship not only of the financial capital but also of other types of capital that it employs, including manufactured, e.g. buildings or machinery; human; intellectual; natural, e.g. air, water, and social capital, its impact on them and their interdependence. Integrated reporting should result in a broader explanation of performance than traditional reporting.

Framework and future direction

The objective of the DP is to test and validate the IIRC's thinking and framework and to forge a global consensus about the direction in which reporting should evolve.

The framework is intended to provide high-level guidance to organisations in order to provide consistency of content and approach. In addition, it will provide broad parameters within which consistent regulatory reporting regimes can be developed across different jurisdictions.

The DP includes guiding principles and elements which would be applied in determining the content of such reports. The elements set out are:

- organisational overview and business model;
- operating context, including risks and opportunities;
- strategic objectives and strategies to achieve those objectives;
- governance and remuneration;
- performance; and
- future outlook.

These elements would be guided by the principles of a strategic focus, connectivity of information, future orientation, responsiveness and shareholder inclusiveness. The desired

qualities of an integrated report include conciseness, reliability and materiality.

While integrated reports are intended to meet the needs of a broad range of stakeholders, initially the IIRC intends to focus the development of the framework on the needs of investors in debt and equity instruments in capital markets. The initial focus is on reporting by large companies. However, the IIRC expects that the concepts underlying integrated reporting will be applicable equally to small and medium-sized entities, the public sector and non-profit organisations.

Request for views

The IIRC has posed both open and specific questions to gather views on its future work programme and invites comments on all aspects of the DP. The IIRC's comment deadline is 14 December 2011.

KPMG participation and available resources

KPMG released a publication accompanying the release of the DP, *Integrated Reporting: Performance insight through better business reporting*. This publication provides background on integrated reporting and with other information in relation to integrated reporting, is available at: www.kpmg.com/integratedreporting.

About IIRC

The IIRC comprises a cross section of leaders from the corporate, investment, accounting, securities, regulatory, academic and standard setting sectors as well as civil society. More information about the IIRC can be found at www.theiirc.org.

Abbreviation

- 1 IIRC: International Integrated Reporting Committee.

kpmg.com/ifrs

***In the Headlines* is KPMG's update on International Financial Reporting Standards (IFRSs) and financial reporting related regulatory developments.**

If you would like further information on any of the matters discussed in this issue of *In the Headlines*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.