



cutting through complexity

Integrated Reporting

**A key milestone on the journey
to better business reporting**

December 2013, Issue 2013/23

IN THE HEADLINES

kpmg.com/ifrs



“ It is time to move business reporting beyond merely a discussion of past financial performance. Integrated Reporting can play a key role in the drive for better business reporting. ”

– Larry Bradley
Global Head of Audit, KPMG International

Looking beyond short-term earnings – The future of corporate reporting?

The Integrated Reporting Framework is an ambitious attempt to reshape the direction and focus of corporate reporting, aiming to provide investors with a more complete picture of business value by extending reporting beyond historical financial performance. The Framework was launched on 9 December 2013 by the International Integrated Reporting Council (IIRC), following a period of consultation that received an extensive response.

The Framework is likely to be of particular interest to those companies already looking to improve the quality of their narrative reporting as a basis for a better dialogue with their investors.

A principles-based framework for more relevant information

Rather than specify detailed disclosures and measurement bases, the IIRC has defined a principles-based framework that would leave businesses to tell their story on their own terms, rather than through a checklist of disclosures.

Cultural shift

The principles-based approach requires a cultural shift from report preparers to better communicate the value they are creating. Preparers would need to recognise their reporting suite as a platform to explain what drives the underlying value of the business and how management has acted to develop and protect this value. They would need to ask themselves what the user needs to know, rather than what they are required to tell the user.

The increased business relevance that this could bring to the report should be welcomed, but it may be challenging for those who have come to regard their annual reporting as a compliance-led regulatory burden rather than a basis for better shareholder dialogue.

Relationship with other reporting streams

Integrated Reporting does not necessarily intend to replace other reporting streams such as financial, corporate social responsibility, or corporate governance reporting. The IIRC's vision is that preparers should draw together relevant information produced under other more detailed reporting frameworks – e.g. IFRS – to explain the key drivers of business value.

Explaining how long-term value has been developed and protected

Integrated Reporting is a relatively new concept, and has been subject to a variety of interpretations – some of which are more closely linked to sustainability. In finalising the Framework, the IIRC has provided greater clarity over a number of areas, including the following points.

- **Investors are the focus of an integrated report.** Information would only be included in an integrated report if it is considered material to an investor's assessment of the business.
- **The purpose of an integrated report is to explain shareholder value creation.** It does not set out to value the resources controlled by the business.

These two areas in particular should help companies to narrow down the range of information that Integrated Reporting might require them to provide.

Telling the business story

Integrated Reporting is built around seven key components of content:

- business model;
- organisational overview and external environment;
- opportunities and risks;
- strategy and resource allocation;
- performance;

- outlook; and
- governance.

The Framework does not require the content elements to be discrete sections in the report. Rather, they should be seen as a high-level check to ensure that the report covers all of the relevant aspects of the business story.

Linking the components

By linking content across these components, an integrated report can build the story of the business from a basic description of the business model, through the external factors affecting the business and management's strategy for dealing with them and developing the business. This will provide a foundation to discuss the performance, prospects and governance of the business in a way that focuses on its most important aspects.

The linkage across the content elements will help to determine what should and, importantly, what should not be included in the report. For example, if a central part of the business strategy involves developing a particular market, then the logic of Integrated Reporting implies that the company should report on its progress in developing that market.

Focusing on the key drivers of business value

The result should be a report focused on the key drivers of business value – typically built around a thread of five or six key issues that run throughout the report. These should be the same issues that management is focused on in the day-to-day operation of the business, and the same issues that should be driving investors' decision-making.

Reporting the information most relevant to each business

The approach adopted by the IIRC means that the information relevant to each business would be different.

Broadly, we expect Integrated Reporting to result in the following outcomes.

- **More operationally focused measures of performance**, with the aim of helping users to understand progress in implementing strategy, developing business assets and creating new income streams – i.e. leading indicators of performance, rather than lagging ones.
- **Greater focus on explaining key business assets – e.g. customer base, intellectual property and reputation** – with the aim of explaining how these assets have been managed and enhanced in line with the business strategy and changes to the external operating environment.
- **More emphasis on explaining factors driving future performance** – including risks and opportunities – so that users can form their own views on how they might impact on future performance.

This should lead to reports that are more aligned with investors' own cash flow valuation models – in particular, providing a clearer picture of how management's plans and changes in the operating environment are likely to affect medium-term returns, and also helping investors to assess the substantial element of value that is typically locked up in the 'terminal value' element of their models.

Getting ready for change

Many businesses and regulators will adopt an evolutionary approach to Integrated Reporting, seeing it as the future of reporting, rather than something that can be achieved at a single stroke. Companies will need time to develop their reports and reporting systems to support the broader perspective envisaged by Integrated Reporting.

At this stage, management teams should consider how the Framework could support their existing investor communications, and assess how they might achieve this. We suggest that they approach it as an opportunity for more focused reporting, ultimately leading to a more concise report.

“ Building narrative reporting around the business model to explain how the business has been developed should be particularly attractive to management teams looking to move their investor dialogue beyond short-term earnings. ”

- David Matthews
Leader, KPMG's Integrated Reporting team

Key changes from the April 2013 consultation draft

The IIRC's consultation process showed broad support for the draft Framework published in April 2013. The changes to the final version of the Framework address misconceptions about the scope and purpose of an integrated report – specifically:

- clarifying that an integrated report should focus only on matters affecting business value;
- emphasising that the purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time; and
- recognising that an integrated report need not be a stand-alone report.

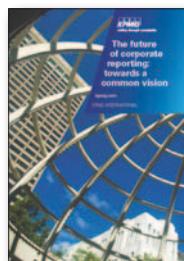
Find out more

You can download a copy of the Framework from the [IIRC website](#).

For further information, please visit our [Integrated Reporting homepage](#) or speak to your usual KPMG contact. You can also download the following publications.



[Integrated Reporting: Addressing the reporting gap](#) provides a brief introduction to Integrated Reporting.



[The future of corporate reporting: towards a common vision](#) tests the premise that fundamental reforms are needed by interviewing ten international leaders in the field.

About the IIRC

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and non-governmental organisations. It has led the development of a global framework for Integrated Reporting, and is promoting the adoption of the Integrated Reporting Framework by regulatory bodies.

© 2013 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

Publication name: *In the Headlines – Integrated Reporting*

Publication number: Issue 2013/23

Publication date: December 2013

KPMG International Standards Group is part of KPMG IFRG Limited.

KPMG International Cooperative ("KPMG International") is a Swiss entity that serves as a coordinating entity for a network of independent firms operating under the KPMG name. KPMG International provides no audit or other client services. Such services are provided solely by member firms of KPMG International (including sublicensees and subsidiaries) in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any other member firm, in any manner whatsoever.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.