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IRSC: Integrated reporting game changer for corporations

PETALING JAYA: Integrated reporting (IR) is a game changer for corporate reporting that enables investors to make informed decisions and for organisations to better attract sustainable capital and financing, said Datuk Johan Idris, chairman* of the Integrated Reporting Steering Committee (IRSC) of the Malaysian Institute of Accountants (MIA).

Speaking at a recent two-day event on IR, Johan said that IR went beyond conventional financial reporting and regulatory compliance to address how organisations used financial and non-financial capitals (eg financial, human, intellectual, social, intangibles, environmental, etc.) to create greater value over the short, medium and long term.

Communication is key. IR informs stakeholders of the organisation's strategies, governance, performance and activities in a clear and concise, and most importantly connected manner.

The event was organised by the MIA, the leading advocate of IR in Malaysia, with the aim to create

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greater awareness of the subject and to encourage adoption among public listed companies (PLCs).

Both the Investor's Roundtable and the Engagement Session with PLCs held in early August were organised by the MIA and supported by the Securities Commission (SC).

The IRSC, meanwhile, was established within MIA on Dec 18, 2014 upon SC's. The members of IRSC comprise of accounting profession-

als from corporate, public practice, professional accountancy bodies and institutional investors.

Among early adopters present at the event were DBS Group Holdings Ltd (Singapore) managing director Mikkel Larsen.

Larsen said DBS's conversion to IR was a success due to management support and tone from the top. "You need strong buy-in from management and someone who is passionate about IR. You need a driver and senior management leadership."

The early adopters recommended using IR's concept of materiality and conciseness to slim down reporting.

"Lots of annual reports today suffer the peacock effect," said Suresh Gooneratne, chief financial officer of Diesel & Motor Engineering PLC, Sri Lanka, which has adopted IR since 2011. Just like peacocks developed longer and more beautiful feathers as they evolved to attract peahens, "companies have started to disclose more and more in their annual reports and this has become counter-productive."

Speaking from an investors' perspective, Pru Bennett, director of Blackrock Australia, a global leader in investment management, cautioned organisations against boiler-plate reporting and producing tremendously long reports.

"The boiler-plate approach is very regulatory-driven and doesn't convey the thinking of the board and management to shareholders. A 500-page annual report also makes it very difficult to find out what the board is thinking and the future direction of the company." Bennett also noted that mandatory quarterly reporting was of little use to investors and burdensome to PLCs.

All panelists encouraged Malaysian organisations not to be afraid and to just get started on IR using the IIRC's IR framework released in 2013 as a guide. "IR is not about seeking perfection or creating the perfect report. It is your story and it is your journey. The important thing is to get on the journey to drive integrated thinking and better behaviour," said Labrey.

While some panelists believed that mandating IR might be the way

forward to drive adoption, the IIRC believes that IR should be market-led and market-driven and adopted on a voluntary basis. However, regulatory engagement will be essential to lessen the burden of regulation – such as mandatory and prescriptive quarterly reporting – and hence free up resources for IR adoption.

"Regulatory engagement is an area which needs to be taken forward. There is a pressing need to arrange dialogues and consultations with regulators to address duplication," said International Integrated Reporting Council (IIRC) chief strategy officer Jonathan Labrey.

Going forward, Johan said that the MIA and the IRSC would continue to engage and collaborate with relevant agencies and professional accountancy bodies to promote IR in Malaysia. A key initiative is the collaboration with ACCA to conduct an IR survey across all stakeholders in the second half of 2015. The survey aims to gauge the level of awareness on IR and the preparedness of Malaysian organisations for IR adoption.