

## Comment

on the discussion paper "*Towards Integrated Reporting – Communicating Value in the 21st Century*" by the *International Integrated Reporting Committee (IIRC)*

**Effective: 14 December 2011**

On 12 September 2011, the IIRC published the discussion paper "Towards Integrated Reporting – Communicating Value in the 21st Century". econsense would like to constructively participate in IIRC's discussion process and welcomes the paper by the IIRC in its aim to integrate future compatibility into the strategy and reporting of companies as an integral element.

We consider integrated reporting to be an instrument that can provide a framework for companies to express the significant processes of forward-looking actions in addition to financial key figures.

The IIRC's discussion paper is useful as a conceptual sketch for the discussion on integrated reporting. In the following, we would like to detail some concrete notes on the discussion paper and address some unresolved issues:

1. Integrated reporting as defined by the IIRC means a completely new form of financial reporting. The IIRC's goal is to change corporate thinking and acting by also identifying significant social and ecological value drivers in addition to the commercial value drivers, making them measurable and expressing them in the reporting (integrated thinking). This way of thinking should be communicated more clearly by the IIRC in order to increase understanding of IIRC's concerns. For broad acceptance, it would in addition be helpful to provide empirical evidence for IIRC's underlying correlations and the derived conclusions.
2. According to the discussion paper, the financial market to date does not have enough information in the reporting to assess a company's performance and the strategic alignment. The IIRC is requested to name any lacking assessment factors.
3. It should in addition be clarified how financial market actors today include ESG data in their assessments and if they are equipped to modify their financial data processing models. The question of whether new/other assessment methods need to be developed for this should be clarified.
4. In this connection, the issue that a change in conduct must also be expected from report readers should be addressed. For instance, how will the IIRC convince mainstream financial market actors (e.g. investors, analysts, raters and finance market-related institutions) of the necessity and added value of integrated reporting? Or: What indicators are there that readers of financial reports will also want to see ESG data in addition to the economic and financial situation of a company?
5. The challenge for companies in their reporting lies in bringing together the categories of objectives of completeness, materiality and strategic relevance. This conflict of objectives should be brought up as a topic by the IIRC and solutions should be proposed.
6. Future orientation and sustainability are integral components of a company's strategy as well as its reporting. This is already being demanded by various stakeholders and is also partially practiced. The IIRC should highlight this more.

7. In the econsense member companies, but also in many other multinational companies, it is already practice to publish numerous non-financial performance indicators (e.g. in the management report of the financial report or in the sustainability report). The IIRC has not yet provided a sufficient baseline study outlining which ESG data are already demanded today and how many companies already publish this data, how they publish it and where. Such a baseline study can serve as a basis for a gap analysis of the information expected to be included in an integrated report.
8. There are currently several initiatives globally to modify the reporting to the changing information needs of stakeholders (for instance, the "Financial Statement Presentation" project by the IASB). The IIRC should take the interactions between these initiatives into account and show how these could possibly be integrated.
9. Companies are today already subject to extensive statutory reporting obligations – national as well as international (e.g. the German Commercial Code, the Accounting Standards Committee of Germany, IFRS); in addition to numerous voluntary reporting standards (e.g. GRI A+ or EFFAS Level III). The IIRC should clarify the issue of which effects integrated reporting will have on the statutory requirements, the expense to the companies as well as on existing standards. One of the issues posed here is – consistently thought through to the end – that of whether the consequence of integrated reporting should possibly be the absorption of an existing standard into a new standard, or whether an additional report should be introduced that will be subordinate to the corporate reports produced to date. In this connection, issues such as whether national, legally binding reporting requirements and their legal consequences are to be replaced by integrated reporting and which procedures should be used here should also be considered.
10. How will other stakeholders outside of the financial markets be included by the IIRC ("Tearing down stakeholder silos")?
11. Integrated reporting for companies as defined by the IIRC also means making future-oriented statements, for instance, with regard to their research and development activities and future products. It remains to be discussed here how aspects of compliance and governance can be entrenched and competitive distortions be prevented.
12. What is the impact of an increase in forward-looking statements in reports in terms of legal liability (disclaimer to the forward-looking statement)?
13. The linked representation of long term company objectives, strategies, associated risk management - measures, central value drivers and the comparative advantages of a company in this respect raise questions of the nature and scope of the confirmation services provided by auditors.
14. Increasingly, qualitative and linked information must be assessed by the stakeholders and audited by auditors. Relevant performance benchmarks for this are largely lacking to date. The first step here would be to clearly define the significant terms of integrated reporting.
15. What schedules does the IIRC envisage for the reporting to be done? The time intervals between the reports need critical review, in particular against the background of a possibly higher preparation expense for an integrated report and the legal reporting requirements; in Germany in particular due to the German Corporate Governance Codex and the publication deadlines mentioned therein for financial information.
16. How are the governance structures of the IIRC permanently secured and legitimised?

17. Corporate cultures have their roots in national values for international companies as well. The members of econsense would like to see IIRC take these aspects into account more strongly in the further development of integrated reporting, as well as – in a next step – more concrete process descriptions and objectives (what should an IR look like in the end compared to FRs, SAs, road maps, milestones, etc).

econsense will be pleased to contribute further to the discussion process of the IIRC and remain available as a dialogue partner.