EXPLORING INTEGRATED REPORTING—
PILOT PROGRAMME PARTICIPANTS' PRACTICAL GUIDE

(October 2011)

This Practical Guide has been produced by the IIRC for the use of participants in the Pilot Programme to assist in their experimentation with the draft International Integrated Reporting Framework included in the Discussion Paper issued by the IIRC in September 2011. It has been made available to other organizations interested in Integrated Reporting as a source of reference.

INTRODUCTION TO USING THE PILOT PROGRAMME PARTICIPANTS' PRACTICAL GUIDE

In September 2011, the International Integrated Reporting Committee (the IIRC) published a Discussion Paper, *Towards Integrated Reporting: Communicating Value in the 21st Century*. The Discussion Paper includes various concepts that the IIRC is proposing be considered for the development of an International Integrated Reporting Framework (the Framework).

Pilot Programme participants are invited to test out the various concepts contained in the Discussion Paper. This Integrated Reporting Practical Guide (the Guide) has been developed to provide background and guidance to Pilot Programme participants about those concepts. The Guide is not a definitive manual to Integrated Reporting or a checklist for preparation of an Integrated Report under the draft Framework; rather, it is a resource intended to stimulate thinking and experimentation and to suggest possible approaches to aspects of Integrated Reporting.

Organization of the Guide

The Guide comprises the following sections:

SECTION 1: GETTING STARTED

Relevant content from the Discussion Paper is reproduced in the Guide in green shaded boxes for ease of reference. Outside the box, explanations are included to provide insights into IIRC Working Group discussions that influenced the content of the Discussion Paper.

SECTION 1:
GETTING STARTED

Introduction

Integrated Reporting reflects, and depends upon "integrated thinking" within an organization. Integrated thinking relates to the ability of those within the organization to understand and base their decisions on the interconnections between the various factors that contribute to the organization's success over time. Presenting information in an Integrated Report in a way that makes these interconnections apparent to report users helps demonstrate the extent to which "integrated thinking" is occurring in the organization. But how does one get started in Integrated Reporting?

As with your existing processes for developing various external reports, whether it be your annual financial reports, sustainability reports, regulatory filings, etc., it is useful to map out the overall process, who will be involved and the timing.

This section highlights some of the considerations that might be more specific to Integrated Reporting and potential differences between existing reporting processes for financial or sustainability reporting to assist you in getting started and building some of those considerations into your existing reporting plans. It is not necessary to start with a clean sheet of paper; however, you may nevertheless wish to critically challenge some aspects of your existing reporting practices in connection with exploring Integrated Reporting.

Potential Factors of Success

Key to your organization's success in Integrated Reporting will likely be the following:

- ***The involvement and commitment of the senior executives and those charged with governance***—You will want to get them involved early and throughout the process. They can provide leadership support and help set the tone throughout the organization, particularly with those within the organization from whom you will depend on obtaining accurate and reliable information to prepare the Integrated Report.

- ***Elimination of silos***—The more that your organization is able to engage in integrated thinking and break down existing silos (both from a thinking and reporting perspective), the easier Integrated Reporting will naturally flow.

- ***Identification of the right resources and allocation of sufficient time***—Like any project, the right resources need to be identified and sufficient time should be allocated both in planning the process and making time available in the Integrated Reporting team's schedule to execute the plan. Those required to supply information should also be provided with appropriate deadlines. Performing a gap analysis of information readily available with what is believed to be necessary for preparing an Integrated Report early on in the process will also be beneficial.

- ***Effective internal control***—The development of an effective internal control structure is instrumental to obtaining reliable information and achieving reliable reporting regardless of the framework that is being used. It is expected that internal control structures for Integrated Reporting will develop over time.

Mapping the Process

This section suggests a possible approach to preparing an Integrated Report as envisaged in the Discussion Paper. The suggested approach is not intended to be prescriptive and preparers are encouraged to devise their own strategies for Integrated Reporting.

This section of the Guide characterizes the various actions that you might consider in preparing an Integrated Report in 7 stages:

- Stage 1: Getting organized
- Stage 2: Planning your Integrated Reporting process
- Stage 3: Engaging with stakeholders
- Stage 4: Identifying report content
- Stage 5: Assessing systems
- Stage 6: Preparing the report
- Stage 7: Constructive dialogues

The stages are not discrete activities as they are often overlapping and will not necessarily be executed in sequential order. Some of the possible steps that you might take might be performed in more than one stage or performed simultaneously with steps in another stage. In addition, developments in one stage may cause you to revisit the actions that you may have taken in another stage or earlier in the process. Accordingly, the stages and steps should not be viewed as a sequential or linear process.

This section provides further context around the various stages and what might be different from existing reporting practices to act as a "thought jogger" to enable you to better formulate your own work plan. For those organizations that wish to see the context of the highlights of the stages below in an overall reporting process, see **<IR> Tool 1,** *Illustrative Work Plan*.

Following the description of the 7 stages, certain topics identified therein are discussed in more detail in this section:

TOPIC 1: Balancing Principles and Constraints
TOPIC 2: Reporting Boundary and Footprint
TOPIC 3: Establishing Timeframes for Short, Medium and Long Term
TOPIC 4: Applying Relevance and Materiality

A reference to the specific topic is included at the first mention in the description of the stages.

Stage 1—Getting Organized

You might find that the best place for getting organized is to identify where your organization currently is in its external reporting activities, consider whether and to what extent integrated thinking is currently used to manage the organization today, and get the right people involved. This stage may yield useful information for you to use in some of the other stages, as well as identify opportunities in which you might devise a plan to result in an increase in integrated thinking and, ultimately, integrated management within your organization—keep in mind that an Integrated Report is merely intended to be one output of Integrated Reporting. Internally, the organization may benefit from improved data collection resulting from the process. Crucial to a smoother process is the involvement upfront of a wide range of people in your organization.

Some of the key steps in this stage that might be worked into your reporting process are to:

- Review the Discussion Paper and draft Framework included therein (and additional explanatory materials provided in this Guide) to familiarize yourself with the Integrated Reporting concepts
- Obtain a high-level understanding of your organization's current reporting processes and what information it produces
- Identify the nature of reports and disclosures currently issued or reported publicly by your organization (e.g., financial statements, statutory reports, sustainability reports, disclosures on executive remuneration, risk disclosures)

> **Tip**: Based on the above steps:
>
> - What do you see for similarities with your existing external reports and communications:
>   - Financial statements?
>   - Management commentary?
>   - Annual accounts?
>   - Remuneration reports?
>   - Sustainability reports?
>   - Other communications to investors and investment advisors?
> - What do you see as the differences?
> - Have strategic objectives and related strategies been identified?
> - Do you see any ways to break down existing reporting silos?

- Identify the Integrated Reporting team—It is expected for Integrated Reporting that you will most likely need to interact with a much broader group within your organization than you may be doing for either financial or sustainability reporting.

Accordingly, your Integrated Reporting team will need to encompass members covering various areas for your selected reporting boundary (e.g., the consolidated entity or a component such as a subsidiary), including:

- Finance
- Risk management
- Investor relations
- Environmental/sustainability
- HR
- Legal

> **Tip**: Consider drawing upon other internal change management project experiences (e.g., IFRS transition, systems integration) and having someone involved in such prior projects be part of your Integrated Reporting team.

- Meet with senior leadership to establish an understanding of:
  - What Integrated Reporting is about
  - What they would like and might expect to gain from the process
  - How they would like to be involved in the process
- Interview senior management regarding the following:
  - Strategic objectives and related strategies for each of the major businesses or segments
  - What they perceive as the major risks and opportunities
  - Who they perceive to be the major stakeholders
  - How performance will be measured for the reporting year
  - How remuneration is tied to performance
- Identify the capitals on which your organization depends (see *Resources and Relationships or "Capitals"* in **Section 2**), and consider what the impacts are on the various capitals and what other information you might need to seek to obtain such an understanding
- Identify the organization's strategic objectives and major strategies to achieve such objectives that might be central to reporting

> **Tip**: The above steps are intended to get you focused on some of the integral aspects of Integrated Reporting—creating and sustaining value.

- Identify the groups of current stakeholders that the organization engages with, the manners of engagement, frequency and timing, and the results of most recent engagements

> **Tip**: Draw upon the knowledge of individuals from various aspects of your organization to assist in such identification.

This is also a good time to address overall concerns that your organization and Integrated Reporting team might have on such matters as:

- Cost
- Competitive advantage
- Achievability of forward-looking information

Topic 1, *Balancing Principles and Constraints* (in the Topical Guidance below), includes possible approaches to dealing with such concerns.

Stage 2—Planning Your Integrated Reporting Process

Stage 2 might be comprised of the following action steps, also considering the information that you gathered in Stage 1, to assist you in planning your Integrated Reporting process:

- Identify (1) reporting boundary (see **Topic 2**, *Identifying the Reporting Boundary and Footprint*, below), (2) core businesses or segments comprising the reporting boundary, and (3) timeframe for short, medium and long term for the organization (see **Topic 3**, *Establishing Timeframes for Short, Medium, and Long Term*, below)
- Establish the governance and oversight plan for the Integrated Report, including the plan for quality control and assurance activities, if applicable
- Establish tone from the top by obtaining senior management buy-in to ensure that the culture of Integrated Reporting is embedded throughout the organization

> **Tip**: This step might be expanded outward (e.g., through specific messaging to the Integrated Reporting team and the rest of the organization) from the initial buy-in from a senior executive and communications from those charged with governance.

- During planning meetings, consider the following activities in addition to the normal planning activities of establishing timeframes and assignments:
    - Establish process for determining materiality (see **Topic 4**, *Applying Relevance and Materiality*, below)
    - Brainstorm how to engage others in the organization in “integrated thinking” and to break down any existing silos
    - Brainstorm what training should be provided regarding Integrated Reporting and to whom (e.g., senior management of subsidiaries, members of the various departments that will be tasked with providing information or making systems changes)
    - If a report is to be published, discuss the manner in which it will be published (e.g., on-line, printed) and whether it will eliminate other existing forms of reports

Stage 3—Engaging With Stakeholders

In this stage, you will need to consider whether the organization's existing stakeholder engagement arrangements are sufficient to become aware of the matters that are of the most significance to various stakeholders, and consider the implications on the Integrated Reporting process.

> **Tip**: Engaging with all key stakeholders is vital to Integrated Reporting. Investors are interested in knowing that the organization is engaging with stakeholders and, in particular, what the relationships are like. A recent Wharton study showed that stakeholder engagement played a large role in an organization's efforts to maximize profits.[1]

In sustainability reporting, the organization's stakeholders are identified and prioritized for purposes of further engagement. In this stage, you want to analyse whether:

- there are any aspects that would not be sufficiently covered for purposes of Integrated Reporting,
- additional matters should be coordinated with existing stakeholder engagement, or
- any new engagement activities are necessary.

While an organization has many different types of stakeholders with varying needs, an Integrated Report may not respond to all such needs at this time; accordingly, consideration might be given to other means to satisfy such needs (e.g., providing such other information on the organization's website). However, over time, many types of stakeholders may view an Integrated Report as satisfying their needs. In the initial years exploring Integrated Reporting, the primary focus is intended to be on investors; but that is not to say that your organization should focus exclusively on investor needs in preparing an Integrated Report.

> **Tip**: For purposes of Integrated Reporting, it may be helpful to you to summarize the results of engagement and how such information will be used in **Stage 4**, *Identifying Report Content*, including
>
> - Identifying differences between what the organization considers material and what its stakeholders consider material
> - Documenting conclusions regarding what to address in the Integrated Report

Stage 4—Identifying Report Content

It is beneficial if this stage is started as early as possible in the process to enable the gathering of information, assessing the adequacy of systems (see **Stage 5**) and the timely

[1] See "Spinning Gold: The Financial Returns to External Stakeholder Engagement," by Wiltold Henisz, Sinziana Dorobantu and Lite Nartey

preparation of the Integrated Report (see **Stage 6**) in order to obtain the full benefits of Integrated Reporting and maximize the connectivity and integrated thinking aspects.

Consistent with your other reporting processes, you will want to prepare a list of information needed, who it would most likely be obtained from and when such information would likely be available or by when it would be needed. However, specific to Integrated Reporting, you may want or need to:

- Use the description of the Integrated Reporting Content Elements identified in the Discussion Paper to help develop the list (see **Section 4**)
- Identify organization-specific indicators that might be reported
- Identify potential information gaps between available information and the Content Elements
- Identify relevant safe harbours or requirements for cautionary language applicable to the organization's reporting jurisdiction

In order to apply the Connectivity Principle (see **Section 3**), it may be helpful to further interview senior management regarding certain aspects of the following matters, considering results of earlier interviews (see **Stage 1**) and information obtained throughout other activities:

- Strategic objectives and related strategies for major businesses or segments
- Major risks and opportunities identified
- Performance measures
- Linkages between remuneration and performance

It is important for you to identify the linkages and connections relevant to the Integrated Report. Initially, understanding how the various aspects of the organization and its business model integrate may not be easy to achieve, particularly if many parts of the organization work in silos. However, over time, the application of integrated thinking within the organization should drive the process more naturally.

> **Tip**: Avoid copying material presented by other organizations, even if they have been lauded for their reports. Your Integrated Report needs to be unique to your organization if it is to tell a credible story; producing boilerplate material will defeat the purpose of Integrated Reporting.

Oversight

If you choose to include a statement from those charged with governance, you are encouraged to develop a statement that includes the most meaningful elements for your organization.

Stage 5—Assessing Systems

Designing, implementing and maintaining effective internal control over Integrated Reporting and its underlying information is not only a cornerstone to producing a quality and reliable report, but to the very decision-making process that uses such information. If "integrated management" is to occur, accurate and reliable information is needed.

It is likely that your organization is already collecting much of the information needed for Integrated Reporting; such information currently may be used for operational, sustainability reporting, or other purposes. Accordingly, Integrated Reporting should not be viewed as a new process but rather as an adaption of existing processes.

In determining the nature of information that your organization might report, you need to consider the controls over such information from the initial point of capturing data through its processing, reporting and review. Weaknesses in the control process can result in the use of inaccurate or unreliable information. Accordingly, once you have identified potential report content, you should then assess the adequacy of the systems for capturing and monitoring such information, particularly for the types of information that have not previously been reported externally.

If the systems are inadequate or nonexistent for certain information expected to be included, consider addressing whether such systems can be improved or new systems created. It is also important to consider ways in which to enhance the accuracy and reliability of the information to be reported, including through identification of appropriate review processes.

> **Tip**: If adequate systems are not in place to produce reliable information, consider what might be reported from a qualitative perspective.

In this stage, you also might consider related assurance activities, such as the involvement of internal auditors, external auditors and other external assurance providers.

> **Tip**: Internal auditors may be able to provide assessments about the various systems that they looked at in connection with their internal audits or identify problem areas that you might need to address. External auditors may also be able to provide feedback regarding control matters or share ideas to address problem areas.

Stage 6—Preparing the Report

It is not necessary to wait until the end of your reporting year to start preparing the Integrated Report; given that your Integrated Report should focus on the most material information, much of the work can be concluded before year end. For example, some of the other stages may yield information that you can capture early and thereby save time later. Certainly, much of the drafting could start before year end for many of the matters encompassed by the following four Content Elements of an Integrated Report:

- Organizational overview and business model and, in particular,
    - Mission, principal activities, markets, products and services
    - Business model, value drivers and critical stakeholder dependencies
    - Attitude to risk
- Operating context, including risks and opportunities
- Strategic objectives and strategies to achieve those objectives
- Governance and remuneration and, in particular,
    - Explanation of processes

Changes in the above since prior reporting periods should also be identified. Then it would be a matter of updating such information for any changes that occur in the intervening period.

In identifying the risks and opportunities, consider:

- Major risks to the organization including those relating to the continued availability and quality of the capital resources on which the organization depends
- Significant external factors that affect the organization's ability to create and sustain value in the short, medium and long term
- Opportunities for the organization created as a result of such external factors

Prepare a listing of the organization's major strategies to achieve its strategic objectives and identify those capital resources that are key to such strategies.

Tip: The objective of such a listing is to start to identify relevant information and areas for which additional information may need to be sought from others in the organization such as senior leadership.

In order to fully address the other two Content Elements (i.e., performance and future outlook), you will most likely need to wait until after or close to the end of your reporting year. However, while most quantitative information cannot be completely captured until after year end, you may be able to address many of the qualitative aspects of performance prior to year end, as well as identify matters related to future outlook.

In identifying the material matters to be included in the report, consider:

- Application of the connectivity principle
- Investor and other stakeholders needs

However, before investing too much time in the actual writing of the report, you might want to reach agreement with key management and those charged with governance about the proposed content. The IIRC recognizes that some of the concerns that some organizations may have are regarding (1) the commercial sensitivity of certain information and (2) achievability of forward-looking information (see **Topic 1** below for further discussion).

Tip: Consider preparing an outline of the various matters that you plan to include in the Integrated Report to review with key management. As analysts like short key points, consider using bulleted disclosures rather than flowing narrative. Creation of an outline would be useful in starting to prepare various bulleted key points.

You also should ascertain whether there have been any changes in the organization's reporting jurisdiction with respect to forward-looking statements.

Certain Content Elements talk about building upon other Content Elements. This is meant to apply the Connectivity of Information Guiding Principle in drafting the report; accordingly, the Content Elements should not be treated as silos of information to be reported. Rather the discussion of strategic objectives and strategies should lead to what KPIs and KRIs are used to judge performance, how remuneration is based on such strategies and how performance is measured.

Critically challenge whether the guiding principles have been achieved in the draft report by considering the following:

Strategic focus	Does the draft report provide sufficient insight into the organization's strategic objectives, and how those objectives relate to: (a) its ability to create and sustain value over time and (b) the resources and relationships on which the organization depends?
Connectivity of information	Does the draft report clearly show the connections between the different components of the organization's business model, external factors that affect the organization, and the various resources and relationships on which the organization and its performance depend?
Future orientation	Does the draft report sufficiently explain management's expectations about the future, as well as other information to help report users understand and assess the organization's prospects and the uncertainties it faces?
Responsiveness and stakeholder inclusiveness	Does the draft report provide sufficient insight into: (a) the organization's relationships with its key stakeholders and (b) how and to what extent the organization understands, takes into account, and responds to their needs?
Conciseness, reliability and materiality	Does the draft report provide concise, reliable information that is material to assessing the organization's ability to create and sustain value in the short, medium and long term? • Have boiler-plate disclosures been avoided (where not required for regulatory purposes)? • Is information only included that is of practical use to report users when considering the organization's prospects?

	• Is the historical information accurate? • Do the underlying information, determinations, estimates and assumptions of the organization provide a reasonable basis for the disclosures contained in the report?

Stage 7—Constructive Dialogues

As your organization goes through the various activities of Integrated Reporting, including stakeholder engagement and preparation of the Integrated Report, it is likely that information that is relevant from the organization's strategic objectives and strategies will be uncovered. Any such information should be communicated back through the organization to the extent that management is not already aware of it. Accordingly, you want to be alert for such information throughout the process.

One of the things that will help you for subsequent years is to make notes along the way of problems encountered and things to change in your reporting process (if you haven't changed them en route). Ask the Integrated Reporting team and report reviewers for feedback on improving the process and how integrated thinking can be used to better manage the organization.

> **Tip**: Holding constructive dialogues with the Integrated Reporting team and others in the organization as to key learning aspects and improvements that can be made, not only to the reporting process but to the integrated management of the organization, can be helpful in moving towards the aim of Integrated Reporting.

Topical Guidance

TOPIC 1—Balancing Principles and Constraints

The Discussion Paper highlights various benefits and challenges from a reporting organization's perspective. Several of the challenges may serve as constraints to reporting specific information. In approaching such constraints, you will need to weigh the costs of reporting such types of information against the benefits to be obtained. The table below identifies a few common constraints and the possible approach or considerations that you might consider to deal with such matters while balancing the Guiding Principles.

Constraint	Possible Approach
Cost—It is too costly and too time consuming to implement systems to capture all the information to be reported	It is appropriate for an organization to evaluate the costs associated with reporting in determining the extent, level of specificity, or preciseness of information to include in an Integrated Report, but not to refrain entirely from making disclosures on the basis of cost. Costs to an organization (both time and expense) may arise from the need to establish or strengthen information systems and controls for capturing and aggregating information or making estimates. Until such systems are implemented, it may be impracticable for certain information to be included – or included to the optimum extent, level of specificity, or preciseness. As systems are implemented, the extent, level of specificity, or preciseness may increase. Often, information may be available, but just in a different form, which may help to manage additional costs. If necessary information is not provided, report users may incur costs in obtaining information through other sources or may make sub-optimal decisions as a result of not having that information. Accordingly, that aspect should also be weighed against the costs of the organization to report such information. Information included in an Integrated Report should be central to running the business. Accordingly, if management is making decisions on information that is less than reliable because of the lack of systems to capture the information, the greater cost may be from the inability to make sound decisions. As a result, analyzing the sufficiency of existing systems in conjunction with preparing an Integrated Report may shed more light on areas in which better systems are needed for purposes of managing the business, and not just for Integrated Reporting.

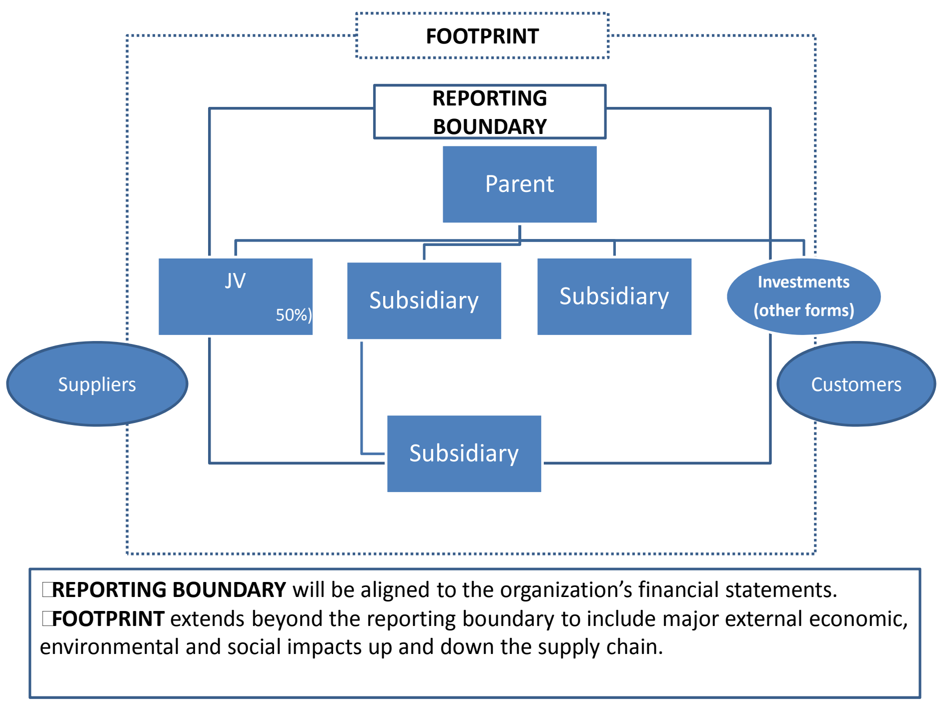
Competitive advantage—Shouldn't disclose highly sensitive information around strategies as competitors may use it to their own advantage	One perceived constraint is the potential for loss of competitive advantage through the disclosure of commercially-sensitive information. It is not expected that your organization would disclose information in an Integrated Report that would significantly harm its competitive advantage; however, the banner of commercial sensitivity should not be used inappropriately to avoid disclosure. If material information is not disclosed because of competitive harm, this fact and the reasons for it should be noted in the Integrated Report. Many corporations already hold analyst calls in which they discuss strategies. Similar to those calls, you might consider how to describe the essence of the strategies that are critical to your organization without identifying specific information that might cause a loss in competitive advantage. However, it is possible that your competitors already know more about your organization than you may think. Accordingly, you might consider what actions a competitor could actually take with such information and how it would impact your organization in considering whether such information would truly harm your competitive advantage. If your organization is interested in explaining why an investor would be more interested in your organization over another, you need to avoid vagueness in describing your organization's strategies. Accordingly, it is a matter of balancing the right amount of information.
Achievability of forward-looking information—Shouldn't disclose forecasts as they may not be achieved, resulting in liability for false statements and higher reputational risk	As forward-looking information is regulated in many jurisdictions, you will want to familiarize yourself with any such requirements and seek legal advice as to the following: • Types of disclosures that may be made, • What cautionary statements may be required or permitted to highlight the uncertainty regarding achievability, and • Whether there are any legal or regulatory obligations to publicly update such disclosures for matters or events that could impact such forecasts and if so, the manner in which such updates are to be made. Key to readers understanding the forward-looking information is a description of the key assumptions applied by the organization in arriving at such forward-looking information, the volatility of those assumptions, and how such information could change if the assumptions don't occur as described.

	Accordingly, you might also focus on whether your organization's key assumptions are reasonable for the disclosures to be made and the nature and sufficiency of cautionary statements with respect thereto.

TOPIC 2—Identifying the Reporting Boundary and Footprint

The reporting boundary in an Integrated Report is aligned to the organization's financial statements; accordingly, component entities are included in the reporting boundary to the same extent that they are for financial reporting purposes. However, Integrated Reporting also covers an organization's footprint—the organization's view of its major external economic, environmental and social impacts up and down the value chain in the short, medium and long term. An organization's footprint extends beyond its reporting boundary, as illustrated in Diagram 1.1 below.

Diagram 1.1, *Reporting Boundary and Footprint*



Reporting on the organization's footprint may result in the organization including information in its Integrated Report about entities outside of its control but with which it has important relationships.

For example, discussions regarding your organization's footprint might include matters such as the full economic, environmental and social impacts relating to partially-owned entities or the impacts of entities outside of your organization's control (such as through key relationships).

> **Tip**: In reporting on your organization's footprint, consider what matters in the supply chain can significantly affect the organization's creation of value. Quantifications of such matters might be shown separately from the quantification of those matters within the reporting boundary so that readers of the report could aggregate information according to their own needs.

For example, for a mining company, the collapse of a mine trapping its workers will have significant repercussions not only for the organization but for the entire surrounding community. Costs to extricate the miners may be borne by other organizations in addition to the mining company. The mining company may not have sufficient materials to supply to customers, which in turn may create shortages for customers to produce or sell goods.

Although boundaries in an Integrated Report are aligned to the organization's financial report, matters may be analysed for Integrated Reporting at the level (e.g., subsidiary or other component) or geographic region at which the risks or opportunities occur and strategic objectives related thereto are set.

For example, a risk may be material to one of the organization's strategic objectives; however, such risk is material only at one subsidiary but not the others. In reporting on the risk, the organization discloses its response in terms of that subsidiary as well as the implications on the organization as a whole.

The means in which you obtain information with respect to your organization's footprint varies. Some information may be publicly available, some may be obtained in connection with financial reporting, while obtaining other information may depend on the strength of the organization's relationships with others.

Including in the Integrated Report a high-level description of the organization's footprint together with a clear description of the differences between the organization's reporting boundary and its footprint may bring clarity to readers in understanding the organization and the impacts of its value creation process. The description of an organization's footprint addresses the organization's view of its major impacts on the economy, the environment and society.

> **Tip**: In describing such impacts, you may want to obtain an understanding of such other parties' processes and practices to the extent possible.

There are inherent limitations to the information that an organization may be able to obtain and, accordingly, be able to assess and disclose regarding its footprint. It is recognized that the extent of information available to your organization about entities it does not control may be limited. Further, it may be difficult for your organization to assess precisely how such entities actually are, or will be, impacted.

> **Tip**: Disclosing limitations (and actions being taken to overcome them) to obtaining and assessing information regarding your organization's footprint will provide context to your organization's views about its major impacts.

Refer to the ***<IR> Tool 2***, *Reference Materials Listing*, for other documents that provide insights on reporting boundary and footprint.

TOPIC 3—Establishing Timeframes for Short, Medium and Long Term

Timeframe encompasses information that relates to the time dimensions of past, present and future. Examples of past, present and future time dimensions include historical performance, matters currently under consideration, and forward-looking information, respectively.

Given the nature of the issues that Integrated Reporting seeks to address, the future time dimension that your organization needs to consider for purposes of preparing an Integrated Report will typically be longer than it is today. The length of the future dimension may vary by sector.

It would be helpful to readers if your organization identifies in its Integrated Report the time horizons that it uses for short, medium and long term with respect to the future-orientated information.

> **For example**, you might define the time horizons as follows: Short term—within the next year; medium term—in the next 2-5 years; and long term—the period after 5 years through which the organization does its long-range vision. Whereas, another organization might define the short-term horizon as within the next 1-2 years, the medium term as within the next 3-7 years and long term to be within the next 8-20 years because its business cycles may be longer than your organization.

Accordingly, there is no set answer for establishing the length of each term.

TOPIC 4—Applying Relevance and Materiality

Recap of Guiding Principle

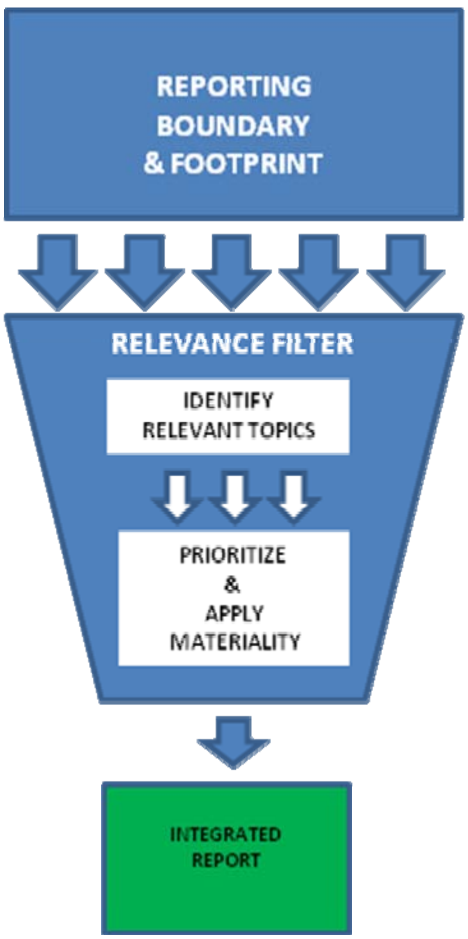
The Guiding Principle of "conciseness, reliability and materiality" states that an Integrated Report provides concise, reliable information that is material to assessing the organization's ability to create and sustain value in the short, medium and long term.

As stated in the Discussion Paper, senior management and those charged with governance must exercise judgement in distinguishing between information that is material, and should therefore be included in the Integrated Report, and other information that may be relatively static or only relevant to some report users. Conciseness is enhanced when only material information is included in an Integrated Report.

Considerations in Application

In developing the proposed Guiding Principle included in the draft Framework, the IIRC Working Group discussed application of the aspects of relevance and materiality in terms of a relevance filter—a two-part filter to determine what information is to be captured and analysed and, ultimately, included in the Integrated Report, as illustrated in Diagram 1.2 below.

Diagram 1.2, *Relevance Filter*



The first filter would identify relevant topics within the organization's reporting boundary and footprint that might be included to address the information needs of users (i.e., the population of possible topics) and the second filter prioritises information about those topics, considering whether it is material from a quantitative or qualitative perspective.

For example, a reporting organization identifies its strategies to achieve its strategic objectives using the first filter. To this information, the organization then applies the second filter to prioritize these strategies and determine which ones are material, either qualitatively or quantitatively, to the achievement of the organization's strategic objectives in the short, medium or long term. In prioritizing the strategies, the organization may consider the significance of a particular strategy to its business model, the significance of the risks and opportunities with respect to each strategy, constraints regarding availability of resources, significance of key relationships, as well as matters that are of significance to stakeholders (e.g., strategies that reduce environmental impacts, such as through the design and manufacturing of "green" products, activities to reduce greenhouse gas emissions, or recycling efforts; strategies that improve conditions in communities through employment or community development programs).

In financial reporting, information is considered material if omitting it or misstating it could influence the decisions that users make on the basis of the financial information of the specific organization. The same principle holds true for Integrated Reporting. However, materiality is often more difficult to measure in Integrated Reporting than financial reporting and, accordingly, a great deal of judgment is required.

Materiality sets the bar for whether the 'right things' are being reported. In applying the guiding principle, only the most material matters are disclosed. Accordingly, what may be material for one organization may not be material for another. Therefore, you will need to exercise judgement in applying the concepts of materiality to your own fact pattern.

Tip: In applying the two-part filter, you might analyse matters by creating a scoring system against a series of questions using a scale (e.g., categories of high, medium or low, or something similar), and associated points assigned to each. The higher the combined score, the more material such matter might be. Possible questions might include:

- How significant is a particular strategy to the achievement of the strategic objectives?
- How significant is the opportunity?
- Are there significant risks related thereto that could have adverse consequences (e.g., limited suppliers, changes in price or availability)?
- For external factors, how significant an impact might it have on the organization's ability to create and sustain value in the short, medium and long term?
- For the various capitals, are there significant implications on the organization's ability to create and sustain value in the short, medium and long term?
- How significant is the organization's impact (positive and negative) on the various capitals?
- How significant is the information to stakeholders? Is it requested by many?
- What information is required to be disclosed by law or regulation?
- To what degree is the information used to manage the organization?
- How critical is the information in understanding the organization's ability to create value in the future?

You may also run into a possible conflict between making a determination of what is material for the current year and consistency with prior years. Certain matters could be material one year, and not be ranked as high in a subsequent year not because they are any less material on their own but because their relative ranking with other matters makes them less material in comparison.

For example, several major events may have occurred in the current year that result in issues more material than your prior year issues, such as a natural disaster may have destroyed a major supplier's facility making it more difficult to get components necessary for production, and a major customer who represents 20% of your annual sales may have declared bankruptcy, leaving future sales to such customer uncertain.

Given the extent of judgment that is necessary in applying the principle of relevance and materiality, a senior level of management should be involved in this process. The board or other governance body of the organization also plays an important role in this area.

Tip: Involving senior management and the governance body in relevance and materiality discussions early on in the process may avoid the possible need to change direction later.

In addition to disclosing material matters, consideration might be given to describing the process that was followed for determining what to include in the report, including consideration of material trends.

SECTION 2:

CENTRAL UNDERPINNINGS OF INTEGRATED REPORTING —THE BUSINESS MODEL AND VALUE CREATION

Overview

This section discusses in further detail the concepts included in the draft Framework section of the Discussion Paper regarding the business model and value creation and the possible reporting connectivity with the cycles of value creation. While this section discusses the concepts of value in a little more depth, part of your exploration activities in the Pilot Programme will be for you to define value.

Central to Integrated Reporting is the organization's business model. There is no single, generally accepted definition of the term "business model". However, it is often seen as the process by which an organization seeks to create and sustain value.

An organization determines its business model through choices that typically recognize that value is not created by or within the organization alone, but is:

- influenced by external factors (including economic conditions, societal issues and technological change) that present risks and opportunities, which create the context within which the organization operates,
- co-created through relationships with others (including employees, partners, networks, suppliers and customers), and
- dependent on the availability, affordability, quality and management of various resources, or "capitals" (financial, manufactured, human, intellectual, natural, and social).

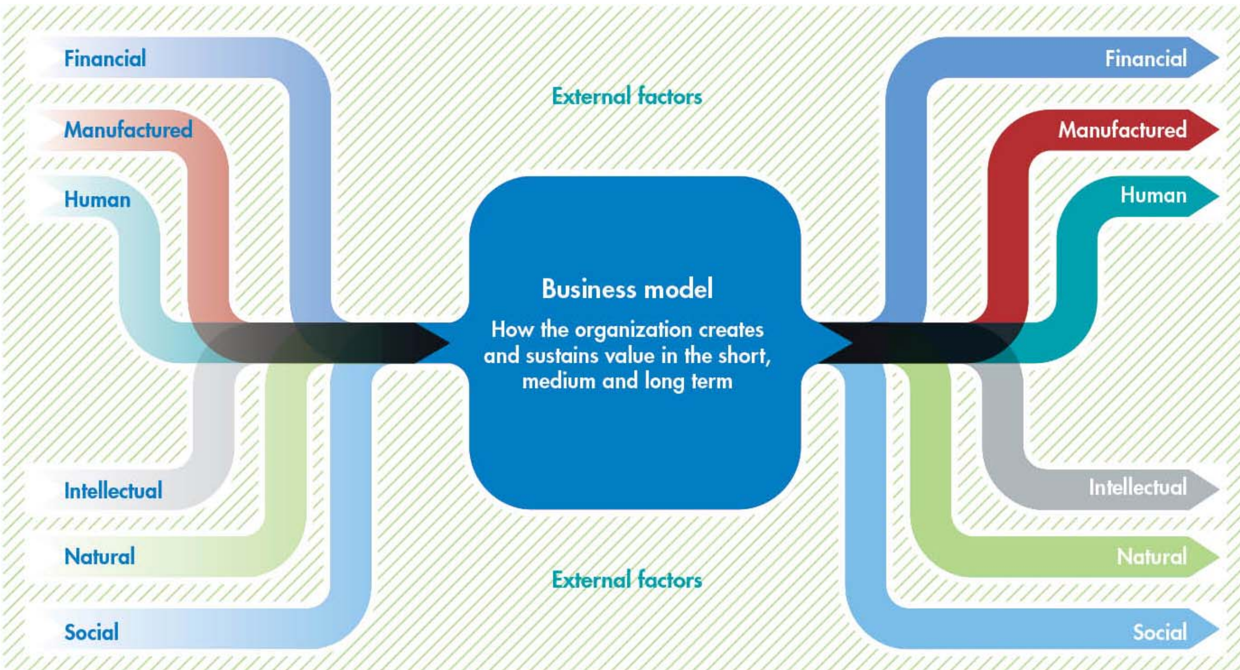
Integrated Reporting therefore aims to provide insights about:

- significant external factors that affect an organization,
- the resources and relationships used and affected by the organization, and
- how the organization's business model interacts with external factors and resources and relationships to create and sustain value over time.

By describing, and measuring where it is practicable, the material components of value creation and, importantly, the relationships between them, Integrated Reporting results in a broader explanation of performance than traditional reporting. In particular, it makes visible all the relevant capitals on which performance (past, present and future) depends, how the organization uses those capitals, and its impact on them as illustrated by the diagram below [Diagram 2.1]. This information is critical to the effective allocation of scarce resources. It will provide a meaningful presentation of the organization's prospects for long term resilience and success, and facilitate the informational needs of, and assessments by, investors and other stakeholders.

Importantly, a reporting framework centred around an organization's business model provides a better basis for management to explain what really matters, bringing reporting closer to the way the business is run.

Diagram 2.1, *Overview of Value Creation*



Value

For the purpose of this Guide, the term "value" is used more widely than traditional methods of assessing performance that reference almost entirely financial measures. Increasingly, the value of an organization is driven by broader, intangible factors including:

- The social benefit or cost of products and services
- The reputation of its brand
- Its influence in the marketplace
- The talents, skills and innovation of its employees.

Value reflects the way in which an organization's business model impacts, positively or negatively, the various capitals the organization draws upon or has a relationship with, and thereby depends on for its success. Value can, therefore, be thought of as an outcome of an organization's business model. However, as discussed in the overview of this section, part of your exploration activities in the Pilot Programme will be for you to define value.

Integrated Reporting is designed to measure and communicate the way in which an organization's business model creates and sustains value. In some cases, as a result of various factors, value might become depleted. The concept of value can apply not only to value for the organization and its investors, but also to value for other stakeholders, including society at large. This is recognised by the IIRC, which expects that Integrated Reports will be of interest to a very broad range of stakeholders in the long term. Initially, however, the primary users of Integrated Reports are likely to be long-term investors (providers of debt and equity) and other stakeholders who have similar information needs, such as governments, employees, suppliers and customers. As Integrated Reporting evolves, explicit consideration will be given to how the International Integrated Reporting Framework can be tailored to address broader information needs that stakeholders may have. This reflects the broader implications of the impact an organization's business model may have on the various capitals.

The components of Diagram 2.1 are further explained below.

External Factors

External factors in the marketplace create the context within which an organization operates. They affect both the organization directly, and the availability and quality of the capitals the organization uses in creating short- and long-term value.

External factors include:

- Macro and micro economic conditions, such as economic stability, globalization, industry trends, market shifts and specific regulation
- Societal issues, such as population shift, human rights, collective values and education systems
- Environmental issues, such as climate change and biodiversity
- Competitive forces
- Customer demand
- Technological change

Resources and Relationships or "Capitals"

All organizations depend on a variety of resources and relationships for their success. The extent to which organizations are running them down or building them up has an important impact on the availability of the resources and the strength of the relationships that support the long-term viability of those organizations. These resources and relationships can be conceived as different forms of "capital".

The purpose of the following categorization and descriptions, based on various sources and established models[2], is to help readers understand the concepts underlying the Discussion Paper; it is not intended to be the only way the capitals can be categorized or described. The extent to which different organizations use or impact each of these capitals varies: not all capitals are equally relevant or applicable to all organizations.

[2] These sources include White, A.L (2010), "The Five Capitals of Integrated Reporting – Toward a Holistic Architecture for Corporate Disclosure" and Forum for the Future (2009), "The Five Capitals Model – a framework for sustainability"

Financial capital: The pool of funds that is:

- available to the organization for use in the production of goods or the provision of services, and
- obtained through financing, such as debt, equity or grants, or generated through operations or investments.

Manufactured capital: Manufactured physical objects (as distinct from natural physical objects) that are available to the organization for use in the production of goods or the provision of services, including:

- buildings,
- equipment, and
- infrastructure (such as roads, ports, bridges, and waste and water treatment plants).

Human capital: People's skills and experience, and their motivations to innovate, including their:

- alignment with and support of the organization's governance framework and ethical values such as its recognition of human rights,
- ability to understand and implement an organization's strategies, and
- loyalties and motivations for improving processes, goods and services, including their ability to lead and to collaborate.

Intellectual capital: Intangibles that provide competitive advantage, including:

- intellectual property, such as patents, copyrights, software and organizational systems, procedures and protocols, and
- the intangibles that are associated with the brand and reputation that an organization has developed.

Natural capital: Natural capital is an input to the production of goods or the provision of services. An organization's activities also impact, positively or negatively, natural capital. It includes:

- water, land, minerals and forests, and
- biodiversity and eco-system health.

Social capital: The institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being. Social capital includes:

- common values and behaviours,
- key relationships, and the trust and customer loyalty that an organization has developed and strives to build and protect with customers, suppliers and business partners, and
- an organization's social license to operate.

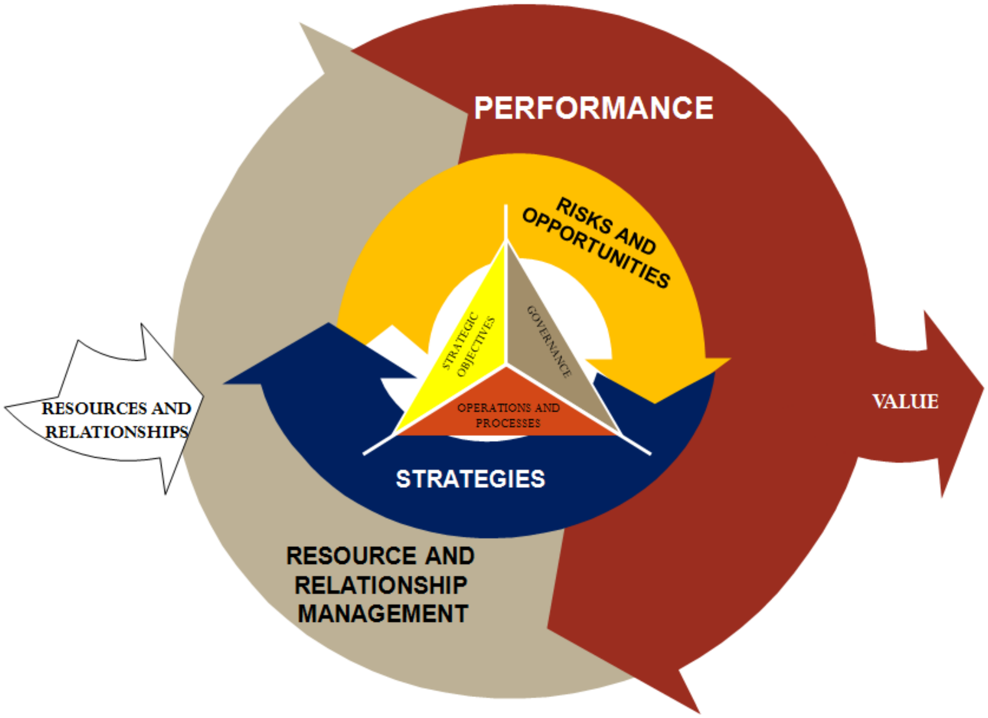
The Business Model

As depicted in Diagram 2.1, an organization's business model is at the heart of value creation. Typically a business model, which operates within the context of external factors, takes into account:

- *Inputs*, i.e., the resources and relationships discussed previously;
- *Choices made by the organization*, about such matters as:
    - Its mission, vision, objectives, values and goals
    - What it offers to the market and to customers (sometimes referred to as a value proposition)
    - Its strategies, including which activities to pursue in order to differentiate the organization from its competitors and to maintain or improve its position in the value network and wider market
    - The policies and practices that support the business model, such as remuneration, pricing, talent and competency management, branding, attitude to risk, appetite for opportunity, operational policies and processes
    - Governance, including leadership and oversight of how decisions are made; and
- *Outcomes*, i.e., the value created as discussed previously, which, for individual organizations, equates to "performance" in a broad sense.

The business model is shaped by the choices an organization makes and, accordingly, evolves over time. These choices are iterative in that the cumulative effect of past choices creates new scenarios about which choices are made, the effect of which creates further scenarios and the need for more choices in the future. One way to look at this series of interrelated, and often complex, choices is to picture them, for the purpose of explanation, as if they were a sequential process, as depicted in Diagram 2.2 and described in more detail below.

Diagram 2.2, *Business Model Inner Workings*



Initially, an organization is set up on the basis of an entrepreneurial idea from which strategic objectives are then set. Linked very closely to this choice is (a) how the organization will be governed and (b) what operations and procedures those charged with governance will implement in pursuit of the strategic objectives. The outcome of these choices becomes the nucleus of the business model. Flowing from this core is a consideration of the risks and opportunities that confront the organization and a choice of how those risks will be mitigated or managed and the opportunities maximized. These include trade-offs between the various capitals (e.g., clearing land, thereby depleting natural capital, in order to build railways, thereby increasing manufactured capital and potentially social capital).

These decisions lead to choices of strategies designed to achieve the organization's strategic objectives. How these strategies are implemented determines how the organization manages the resources and relationships upon which it depends, which in turn determines how the organization performs. While performance has traditionally been measured predominantly in financial terms, performance in the broader sense equates to the overall value an organization creates or depletes (i.e., the net impacts of its decisions and trade-offs on all the capitals).

Because choices are iterative and their implications are cumulative, past performance feeds back into the business model thereby creating new choices, including possible changes in the business model over time. In particular, comparisons of past performance are made against goals and targets designed to measure the extent to which strategic objectives have been achieved. This leads to choices about adjustments that may be needed to the strategic objectives, changes to governance practices, etc., and so the web of choices and consequences continues.

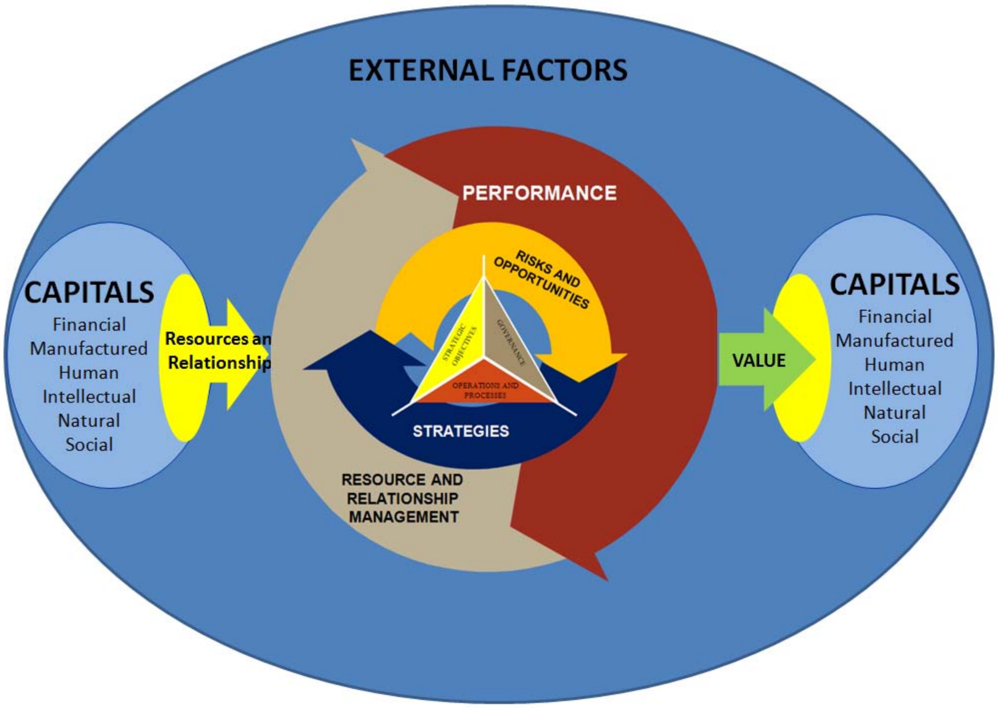
Periodic Integrated Reporting, therefore, addresses two cycles of value creation—the first looks back from past to present on the value created and the related analysis of performance, and the second looks from the present to the future and to the organization's prospects for success over time.

As noted above, this discussion has, for the purpose of explanation, been presented as if the series of interrelated choices an organization makes were totally sequential. It is, in reality, a far more complex and richer process. For example, an organization's strategies will be shaped by its current market position and management's assessment of how the market and competitive environment is likely to change in the future. This ambition will interface with, and be shaped by, the governance arrangements and the way in which the organization is led and motivated. The strategies will also influence the nature of the business model and its mode of operation; in part, this will determine the nature of the value chain and the risks and dependencies placed on other key stakeholders and business relationships. Being able to clearly articulate in an Integrated Report this richness and interconnectedness of choices and consequences as it affects value creation is important in demonstrating the realities that an organization faces.

Reporting Context—Connectivity With the Cycles of Value Creation

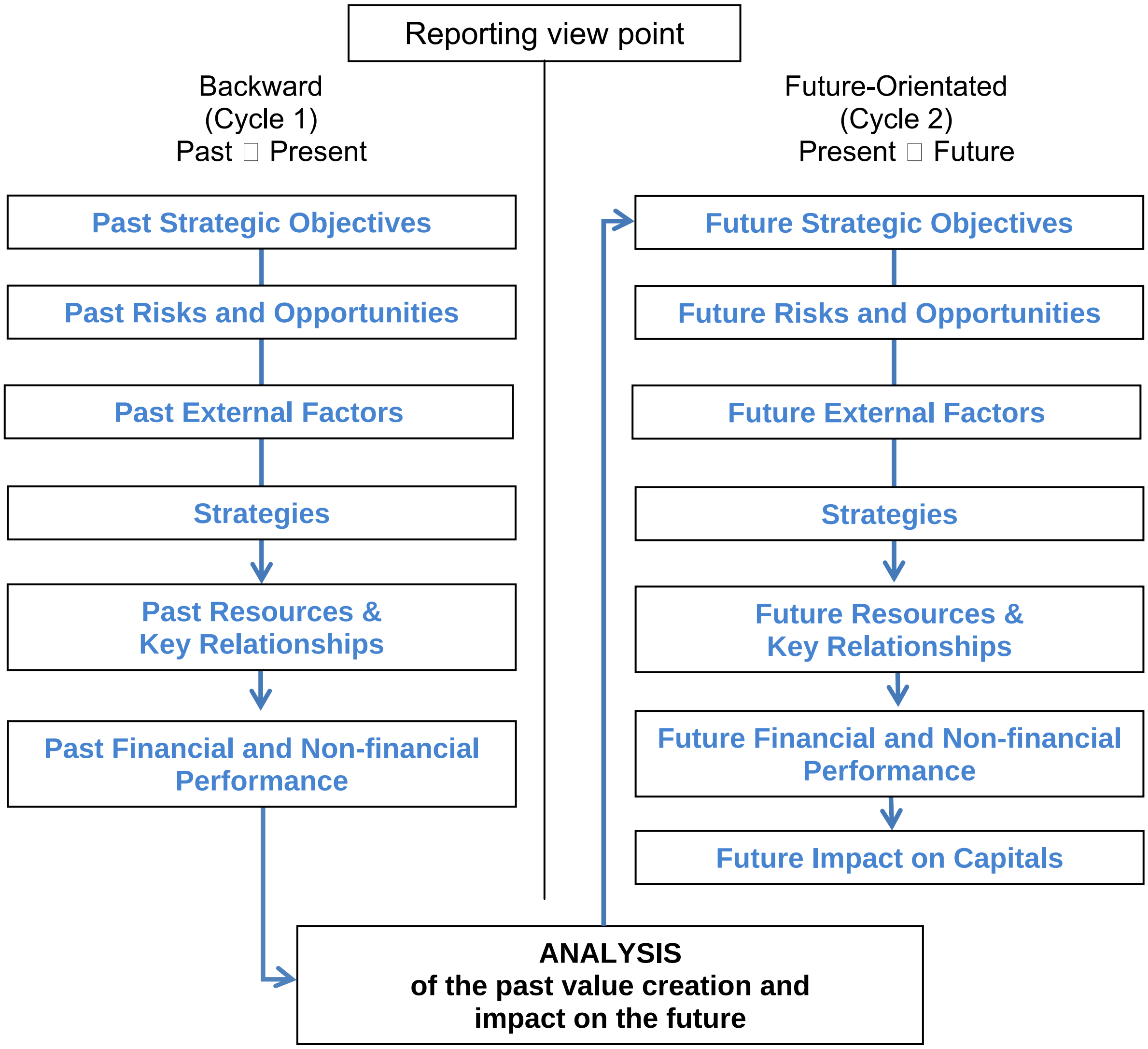
Diagram 2.3 below combines the two diagrams already described. It represents the story of an organization that Integrated Reporting is attempting to tell. By describing, and measuring where that is practicable and material, the components of value creation and, importantly, the relationships between them, Integrated Reporting results in a broader explanation of performance than traditional reporting. In particular, it makes visible the various forms of capital on which performance (past, current and future) depends, how the organization uses those capitals, and its impact on them. This information is critical to understanding the organization's prospects for long-term success.

Diagram 2.3, *The Integrated Reporting Story*



While the organization's value creation process is an on-going activity that results in the long-term shift of resources and relationships, it is also important for the organization to analyse its performance by comparing what it has set out in the past with current performance and its expectations for future performance in order to evaluate progress and its ability to create and sustain value in the future. Therefore, Integrated Reporting will address two cycles of value creation; the first looks back on the value creation process as well as the value created from past to present and related analysis of performance, and the second looks at the value creation process from the present to the future, and expectations for performance in the future, as illustrated in Diagram 2.4.

Diagram 2.4, *Value Creation Reporting Cycles*



An Integrated Report is meant to provide a better understanding of management's internal thought process through the discussion of the organization's value creation activities. An Integrated Report includes the most relevant and material matters to provide this understanding. **Section 4**, *Addressing the Integrated Reporting Content Elements*, provides a more illustrative description of the report elements and the inter-linkages between them.

The following lists the practical steps that you might take to prepare an Integrated Report based on the concepts of your organization's value creation process. It is important to show the flow and connectivity of the information.

Cycle 1: Reporting Value Creation from Past to Present

Strategic objectives and strategies

- Describe the past strategic objectives by explaining (a) how the organization was governed and (b) what operations and processes those charged with governance implemented in pursuit of the strategic objectives.
- Identify the risks and opportunities that confront the organization and how those risks will be mitigated or managed and the opportunities maximized. Such decisions include “trade-offs” with respect to the various forms of capital.
- Identify external factors that affect the organization, both directly and indirectly, by influencing the availability and quality of the capitals that the organization uses in creating value. External factors include, for example:
    - Macro and micro economic conditions (such as economic stability, globalization, industry trends, market shifts and specific regulation)
    - Societal issues (such as population shift, human rights, health and poverty, collective values and education systems)
    - Environmental challenges (such as climate change and the loss of ecosystems)
    - Competitive forces
    - Customer demand
    - Technological change.
- Describe how the organization designed its strategies based on the risks and opportunities, as well as external factors, to achieve its strategic objectives.

Resources and key relationships

- Describe how these strategies were implemented by explaining how the organization manages the resources and relationships upon which it depends, which, in turn, affects how the organization performs.
- On the execution of your organization’s strategies, describe how the organization managed its selections of the various forms of capital, its key relationships, and the interconnections between them.
- Describe the actions taken to create value, including with respect to both financial and non-financial performance.

Performance

- Describe how the organization’s past performance has impacted the relevant forms of capital in the short, medium and long term. Such description may include financial and non-financial measures, KPIs and KRIs.

Analysis of the past value creation

- Describe any past management arrangements that caused the actual performance or returns, including profits, to be unsatisfactory and explain any actions taken or changes made to result in expected improvements to the future-orientated cycle.

Cycle 2: Reporting Value Creation from Present to Future:

Strategic objectives and strategies

- Based on the analysis of past performance and the allocation between the various forms of capital and key relationships (including the current status of each), describe how the organization's strategic objectives have or will change and, accordingly, will affect its future strategies with the identification of current and anticipated risks and opportunities, which may include both internal and external factors.

Resources and key relationships

- On the execution of the strategies described above, describe (1) how the organization will manage its selection of the various capitals and its key relationships and (2) the interconnections between them.
- Describe the actions to be taken to create value, including with respect to both future financial and nonfinancial performance.

Performance

- Describe the organization's perspective of how its future performance is expected to impact the various capitals in the short, medium and long term.

Future outlook

- Explain the organization's plans as to (1) how it will maintain and enhance the various capitals that remain relevant, (2) how it will make up for scarce or unusable forms of capital needed in the future organizational management, and (3) what kind of investments will be made for these purposes.

SECTION 3:
APPLYING THE GUIDING PRINCIPLES TO PREPARING AN INTEGRATED REPORT

The Guiding Principles

The Discussion Paper proposes five guiding principles to underpin the preparation of an Integrated Report, informing the content of the report and how information is presented. These are:

- Strategic focus
- Connectivity of information
- Future orientation
- Responsiveness and stakeholder inclusiveness
- Conciseness, reliability and materiality

Further context is providing around applying each of the principles together with tips on how such principles may be applied in addressing specific Content Elements.

Strategic focus: *An Integrated Report provides insight into the organization's strategic objectives, and how those objectives relate to its ability to create and sustain value over time and the resources and relationships on which the organization depends.*

An Integrated Report communicates what is important to the organization from a strategic perspective. It outlines:

- the organization's strategic objectives;
- the strategies it has in place, or plans to implement, in order to achieve them; and
- how they relate to other components of its business model.

This may include, for example, highlighting significant new opportunities, risks and dependencies that flow from the organization's market position, strategies and business model.

It also clearly articulates how the organization uses resources and relationships. This includes reporting on financial, manufactured, human, intellectual, natural and social capital to the extent each contributes materially to the organization's ability to create and sustain value.

Refer back to **Section 2** for the description of how the business model and various resources and relationships are used to create value.

Tip: In describing strategic objectives, link those objectives to how they respond to key risks and opportunities that the organization faces. Relate performance back to how the organization has been achieving its strategic objectives. Describe the organization's future outlook from a strategic perspective.

Connectivity of information: *An Integrated Report shows the connections between the different components of the organization's business model, external factors that affect the organization, and the various resources and relationships on which the organization and its performance depends.*

Connectivity is central to ensuring that an Integrated Report:

- illuminates the changing nature of business decision-making, and the critical linkages in business thinking and activity; and
- helps to break down established silos in the way information is reported, and the traditional focus primarily on financial matters.

Examples of connectivity include:

- information about how changes in the market environment impact strategy;
- links between the different elements in the organization's market analysis and its assessment and explanation of risk; and
- how strategies link to key performance indicators (KPIs), key risk indicators (KRIs) and remuneration.

Importantly, an Integrated Report clearly presents the linkage between financial performance and the organization's use of, and impact on, the significant resources and relationships upon which it depends.

Integrated Reporting permits a holistic assessment of the ability of an organization to create and sustain value in the short, medium and long term. By reinforcing the connectivity of information, Integrated Reporting can help organizations to take more sustainable decisions and enable investors and other stakeholders to obtain a more accurate and complete view of the performance of an organization.

Tip: The more that integrated thinking is embedded into the management of the organization, the more naturally will the application of the concept of connectivity of information flow into reporting. Accordingly, introducing ways to increase the amount of integrated thinking in your organization should help drive your Integrated Reporting process.

Future orientation: *An Integrated Report includes management's expectations about the future, as well as other information to help report users understand and assess the organization's prospects and the uncertainties it faces.*

Future orientation includes:

- how the organization balances short- and long-term interests;
- where the organization expects it will go over time;
- how it plans to get there; and
- what the critical enablers, challenges and barriers may be along the way.

This involves analyzing:

- how sustainable the organization's business model is;
- the relationship between past and future performance; and
- the factors that may change that relationship, for example, whether the organization will be able to access the resources it needs at a price it can afford.

An Integrated Report may include targets, forecasts, projections, estimates, and sensitivity analyses.

In providing future-orientated information, you might consider relevant information from recognized external sources, estimates of key performance indicators (KPIs) and key risk indicators (KRIs) for the future.

As discussed in **Section 1**, particular care is needed to avoid creating "boiler-plate" disclosures. Rather, you would include only information that is of practical use to report users when considering the organization's prospects.

Future-orientated information is, by its nature, more uncertain and, therefore, less precise than historical information. Uncertainty is not, however, a reason in itself to exclude such information, but it does mean that key estimates and significant assumptions used by management, together with possible risks, should be included so report users can properly assess that information.

As discussed in **TOPIC 1**, you will want to familiarize yourself with any legal or regulatory requirements regarding forward-looking information and seek legal advice as to the following:

- Types of disclosures that may be made,
- What cautionary statements may be required or permitted to highlight the uncertainty regarding achievability, and

- Whether there are any legal or regulatory obligations to publicly update such disclosures for matters or events that could impact such forecasts and if so, the manner in which such updates are to be made.

> **Tip**: It is best to identify any requirements applicable to your organization's reporting jurisdiction at the start of the reporting process and ascertain towards the end of the reporting process whether there have been any subsequent changes that need to be considered.

Responsiveness and stakeholder inclusiveness: *An Integrated Report provides insight into the organization's relationships with its key stakeholders and how and to what extent the organization understands, takes into account and responds to their needs.*

Integrated Reporting emphasizes the importance of relationships with the organization's stakeholders.

Stakeholders provide useful insights about matters that are important to them, including economic, environmental and social issues. This assists the organization to:

- identify material issues;
- develop and evaluate strategies; and
- manage activities, including strategic and accountable responses to material issues.

An Integrated Report enhances transparency and accountability, which are essential in building trust and resilience, by disclosing:

- the nature and quality of the organization's relationships with key stakeholders, such as customers, suppliers, employees and local communities; and
- how their issues are understood, taken into account and responded to.

Responsiveness is demonstrated through decisions, actions and performance, as well as communication with stakeholders. Making internal processes more transparent is valuable to most stakeholders.

> **Tip**: Stakeholders also provide useful insights about their information needs, which directly assist the organization in preparing an Integrated Report. However, communications to specific stakeholders with particular information needs may take various forms and appear elsewhere rather than in the Integrated Report. For example, an organization may produce a sustainability report giving further details of economic, social and

environmental impacts, use the internet to communicate detailed information to augment disclosures in an Integrated Report, or post information on dedicated webpages designed for specific stakeholders.

Conciseness, reliability and materiality: *An Integrated Report provides concise, reliable information that is material to assessing the organization's ability to create and sustain value in the short, medium and long term.*

Senior management and those charged with governance must exercise judgement in:

- distinguishing between information that is material and should therefore be included in the Integrated Report, and other information that may be relatively static or only relevant to some report users; conciseness is enhanced when the latter is included separately on the organization's website or in other forms of communication; and
- deciding whether information is sufficiently reliable to be included in an Integrated Report.

While reliable information needs to be complete, neutral and free from error, it is recognized that this is seldom, if ever, achievable in every respect, so the objective is to maximize these qualities to the extent practicable, for example, by ensuring that any negative issues are as faithfully reported as positive ones. Reliability also encompasses the need for information to be comparable between organizations and consistent for the same organization over time. Reliability is enhanced by mechanisms such as robust stakeholder engagement and independent, external assurance.

Application of Conciseness Concept

The intent is to eliminate clutter that detracts from being able to clearly see the organization's ability to create and sustain value over time, and for the organization to describe such ability in succinct terms. An Integrated Report is more understandable when it is presented in plain language that avoids jargon. The implications of certain information may need to be explicitly stated, but this should not involve unnecessary detail or complexity.

Tip: Consider using bulleted disclosures rather than free flowing text. If the use of technical terms is unavoidable, a glossary may be included to assist report users.

Application of Reliability Concept

The Discussion Paper identifies a number of qualitative characteristics of reliable information:

- Complete
- Neutral
- Free from error
- Comparable between organizations
- Consistent for the same organization over time

These are similar to the principles for defining report content and ensuring report quality used by the Global Reporting Initiative[3], the qualitative characteristics of useful financial information used by The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB)[4], and similar principles in other reporting frameworks. Similarly, each characteristic might be described in the following light with respect to Integrated Reporting:

- *Completeness: A complete Integrated Report includes all information necessary for report users to understand the organization's ability to create and sustain value in the short, medium and long term.*

  In assessing completeness, senior management and those charged with governance assess whether the Integrated Report sufficiently addresses all aspects of the Content Elements (see **Section 4**) considering stakeholders' information needs, including their need for concise, "uncluttered" information.

- *Neutrality: A neutral Integrated Report is balanced and fair.*

  Information is not slanted, weighted, emphasised, de-emphasised, or otherwise manipulated to change the probability that it will be received either favourably or unfavourably by report users. It neither understates nor overstates material matters relating to the organization's ability to create and sustain value in the short, medium and long term.

- *Freedom from error: There are no material errors or omissions in the Integrated Report.*

  The organization uses processes and controls to reduce to an acceptably low level the risk that reported information contains a material error, and does not knowingly permit errors to be included in an Integrated Report.

[3] Global Reporting Initiative (2011) *Sustainability Reporting Guidelines*, Version 3.1
[4] International Accounting Standards Board and Financial Accounting Standards Board (2010): *An Improved Conceptual Framework for International Financial Reporting Standards and US Generally Accepted Accounting Practices*— Completion of Phase One.

- *Comparability and consistency: Information is presented in a way that enables comparison with other organizations, and on a basis that is consistent from one period to another.*

  Although the specific information in Integrated Reports necessarily varies from one organization to another, addressing the questions relating to the Content Elements enhances comparability between organizations.

  > **Tip**: Another powerful tool for enhancing comparability is the inclusion of benchmark data, such as industry benchmarks, and the use of sector-specific KPIs defined by, for example, an industry body.

  Reporting policies are followed consistently from one period to the next unless a change is needed to improve the quality of information reported. When a significant change has been made, the organization explains the reason for the change, describing (and quantifying, if practicable and material) its impact.

  When information in the Integrated Report is similar to or based on other information published by the organization, it is prepared on the same basis as, or is easily reconcilable with, that other information. For example, where a KPI or discussion of performance covers a similar topic to information published in the organization's financial statements or sustainability report, its consistency is enhanced if it is prepared on the same basis, and for the same period, as that other information.

Judgement is also needed in deciding whether information is sufficiently *reliable* to be included in an Integrated Report.

In considering whether information is sufficiently reliable, consider the following:

- Quantified historical information:
  - How is the information captured, summarized and reviewed?
  - What is the level of precision?
  - How is it used for decision-making?
- Future orientated information:
  - What are the underlying assumptions?
  - What is the level of precision?
  - Are the assumptions reasonable?
  - Are the assumptions consistent with the assumptions used to manage the business?

> **Tip**: If quantified information is deemed not to be sufficiently reliable, consider whether there is qualitative information that might be provided.

Application of Materiality Concept

Similar to the discussion regarding reliability, the previously mentioned reporting frameworks include a principle regarding materiality along the lines of the following:

> *Materiality: Information is material if omitting it or misstating it could significantly influence the decisions of report users. Materiality is based on the nature or magnitude, or both, of an item in the particular circumstance of an individual organization.*

For purposes of the initial development of the draft Framework, the report users whose information needs are considered in making materiality decisions are long-term investors (providers of debt and equity) and other stakeholders who have similar information needs, such as governments, employees, suppliers and customers. As Integrated Reporting evolves, explicit consideration will be given to how the Framework can be tailored to address broader information needs that stakeholders may have.

Assessing materiality includes exercising judgement about whether key information is being obscured by less material or immaterial information that may be relevant to only some users and would be better communicated by other means and excluded from the Integrated Report.

> **Tip**: Detailed information that does not change frequently, such as a listing of subsidiaries, may best be included on a linked section of the organization's website rather than in its Integrated Report; however, consideration needs to be given to whether there are any prohibitions or legal restraints against including such information outside of the report if the Integrated Report is being used to satisfy particular regulatory requirements.
>
> When information is linked to more detailed information outside of the Integrated Report, for example, by hyperlinks on the organization's website, care needs to be taken to ensure that such information will continue to be accessible.

SECTION 4:
ADDRESSING THE INTEGRATED REPORTING CONTENT ELEMENTS

Overview of the Content Elements

An Integrated Report includes the following Content Elements, answering the respective question posed for each. These elements are fundamentally linked to each other and are presented in the Integrated Report in a way that makes the interconnections between them apparent, rather than as isolated, standalone sections. Explanations of material changes since prior reporting periods are particularly important.

- **Organizational overview and business model:** What does the organization do and how does it create and sustain value in the short, medium and long term?
- **Operating context, including risks and opportunities:** What are the circumstances under which the organization operates, including the key resources and relationships on which it depends and the key risks and opportunities that it faces?
- **Strategic objectives and strategies to achieve those objectives**: Where does the organization want to go and how is it going to get there?
- **Governance and remuneration**: What is the organization's governance structure, and how does governance support the strategic objectives of the organization and relate to the organization's approach to remuneration?
- **Performance**: How has the organization performed against its strategic objectives and related strategies?
- **Future outlook**: What opportunities, challenges and uncertainties is the organization likely to encounter in achieving its strategic objectives and what are the resulting implications for its strategies and future performance?

The description included below of each Content Element is neither prescriptive nor intended to limit what is included in an Integrated Report. Therefore, each Content Element is stated in the form of a question rather than a listing of content. Accordingly, senior management and those charged with governance should exercise judgment in applying the Guiding Principles to determine what matters are reported, as well as how they are reported (e.g., whether detailed and relatively static information should appear on the organization's website with only a reference to where it can be found included in the Integrated Report).

As discussed in **Section 1**, care is needed in preparing information for the Integrated Report to avoid "boiler-plate" disclosures. Rather, only information that is of practical use to report users in helping them understand the organization's ability to create and sustain value in the short, medium and long term should be included.

Non-financial information should be linked to financial information. For example, merely providing the number of new patents obtained does not provide a sense of how that creates value for the organization and how much value it might provide in the future. Likewise, financial information should be linked to non-financial achievements, for example, the amount of capital expenditures incurred to decrease energy consumption, water consumption or waste creation, and the implications for future value creation provide more decision-useful information. New programs and benefits put in place to improve retention and increase productivity might be discussed in terms of financial costs to and resulting benefits and savings achieved by the organization as a result.

The application guidance column (right column) in the table below contains guidance and additional questions that an organization might consider in responding to the question for each element. Such guidance and questions are intended to generate ideas, help identify issues and trigger memories of past and current events that might be responsive to reporting; it is not meant that each of the additional questions should be responded to in drafting the Integrated Report.

In general, reporting on the various Content Elements also includes changes in relevant factors from prior reporting periods.

Section 1, *Getting Started*, provides additional guidance in applying various concepts to the determination of matters to include in an Integrated Report, including the following:

- Balancing principles and constraints
- Identifying the reporting boundary and footprint
- Establishing timeframes for short, medium and long term
- Applying relevance and materiality

Application to a Component

If the organization intends to prepare an Integrated Report for a component rather than the entire organization (e.g., for a subsidiary), such component would need to prepare financial statements at the component level. The determination of the entities included in the reporting boundary would align to those included in the component's financial statements.

Organizational overview and business model: *What does the organization do and how does it create and sustain value in the short, medium and long term?*

The Integrated Report provides essential context by identifying:

- the organization's mission, principal activities, markets, products and services;
- its business model, value drivers and critical stakeholder dependencies; and
- its attitude to risk.

An Integrated Report identifies the entities included in the reporting boundary, which aligns with the entities included for financial reporting purposes.

An Integrated Report includes a high-level description of the organization's business model (i.e., how it creates and sustains value in the short, medium and long term) and its attitude to risk, which influences its ability to create and sustain value.

This information, together with an explanation of material changes since prior reporting periods, provides essential context to the report user.

Application Guidance

In responding to the overall question, consider what stakeholders should know about the following to understand the organization and what makes it unique:

- Who is the reporting organization?
- What is its mission?
- What is the reporting boundary?
- What entities are within it?
- What do they do/how do they create value?
- What is the organization's footprint?
- What drives or hinders the organization's value creation process?
- What affect do regulations have on its ability to create and sustain value?
- How does the organization's attitude towards risk impact its business model?
- How are the key risks identified, prioritized and managed?
- What material changes have occurred in the organization, its business model, or its attitude to risk since the prior reporting period?
- What are the implications of such material changes on current and future performance?

Refer to **Topic 1** of **Section 1** for further discussion of reporting boundary and footprint.

Tip: Include material changes and their implications in the Integrated Report. More detailed and relatively static information, such as an unchanged listing of subsidiaries, would normally be communicated more effectively via a website or other form of communication.

Operating context, including risks and opportunities: *What are the circumstances under which the organization operates, including the key resources and relationships on which it depends and the key risks and opportunities that it faces?*

To provide context, an Integrated Report identifies:

- the commercial, social and environmental context within which the organization operates, including significant laws and regulations that affect the organization's ability to create and sustain value in the short, medium and long term;
- the resources and relationships that are key to the organization's success, including key stakeholders, their legitimate needs, interests and expectations, and their importance to the organization; and
- the organization's key risks and opportunities, including those that relate to its relationships and to its impact on, and the continued availability, quality and affordability of, relevant resources

This Content Element builds on the high-level overview of the organization and includes:

- a more in-depth description of material issues;
- the organization's process for determining which issues it considers material; and
- how the material issues affect the organization's ability to create and sustain value over time (e.g., how the organization integrates key emerging or escalating risks and opportunities into its strategies).

Application Guidance

To properly understand the entity, users need to understand the context in which the organization operates.

In responding to the overall question, consider the following:

- On what opportunities is senior management most focusing its attention and why?
- What risks is senior management most concerned about and why?
- Who are the key stakeholders? What are they most concerned about and why?
- How are the material risks managed?
- What are the external factors that most affect the organization and how does the organization respond to change?
- What are the implications of the regulatory environment on its ability to create and sustain value?
- What relationships are key to the organization's success and how are they managed to create and sustain value?
- What resources are critical to the organization's value creation process?
- What would happen if the availability or affordability of such key resources were to be negatively impacted?
- What negative impacts do the organization's operations have on the various capitals?

Tip: Building on another element is meant to be a continuous discussion rather than each element treated as a silo of information. Consider the use of bulleted disclosures rather than flowing narrative.

Strategic objectives and strategies to achieve those objectives: *Where does the organization want to go and how is it going to get there?*

An Integrated Report describes the organization's strategic objectives and its strategies to achieve those objectives. It sets out how the organization will measure achievement and target outcomes for the short, medium and long term.

This discussion builds on the description of the organizational overview and operating context to provide report users with an understanding of what drives and protects the value of the organization. It identifies:

- risk management arrangements related to key resources and relationships;
- the linkage between strategies and other Content Elements; and
- what makes the organization unique and able to realize value in the future, such as the extent to which sustainability considerations have been embedded into its strategy to give it a competitive advantage.

An Integrated Report may also include a description of stakeholder engagement used in formulating strategies.

Application Guidance

Consider the following in responding to the Content Element question:

- What are the organization's major long-term and short-term strategic objectives and how do they link to one another?
- What is the value proposition behind such objectives?
- What principal strategies are intended to achieve these objectives?
- What makes the organization unique from other organizations in its industry?
- What changes have been made to the organization's strategic objectives and strategies in light of changes in its operating context?
- What risks can prevent the organization from successfully executing its strategies and how are such risks managed?
- What relationships are key to achieving the strategic objectives and how are they managed?
- What targets (KPIs) does senior management use to track progress in achieving the organization's strategic objectives and how are they monitored?

Note: KPIs should be designed to align with strategic objectives and strategies. Any financial KPIs included in an Integrated Report should be, to the extent relevant, grounded in the accounting standards used for preparing the organization's financial statements, and non-financial KPIs should be consistent with those reported by the organization in other communications using such KPIs.

Tip: Consider the changes in information needs of report users from prior reporting periods, and the key KPIs and KRIs used internally by management and those charged with governance, along with related goals or targets.

Governance and remuneration: What is the organization's governance structure, and how does governance support the strategic objectives of the organization and relate to the organization's approach to remuneration?

An Integrated Report provides insight about the organization's oversight and tone at the top. It includes:

- an explanation of the organization's leadership and strategic decision-making processes, including the skill set of those charged with governance;
- what actions those charged with governance have taken to influence the strategic direction of the organization, including its culture, ethical values and relationships with key stakeholders; and
- how the remuneration of executives and those charged with governance is linked to performance in the short, medium and long term, including how it is linked to the organization's use of and impact on the resources and relationships on which it depends.

An Integrated Report may involve both quantitative and qualitative information about oversight arrangements for remuneration of senior executives and those charged with governance; and how the links between strategies and performance are used to arrive at performance-based compensation, including future remuneration and fixed versus variable remuneration.

Application Guidance

In responding to the Content Element consider the following, applying the Guiding Principles (in particular, the connectivity of information, future orientation, and responsiveness and stakeholder inclusiveness principles):

- How does the governance structure influence the way the organization creates value?
- Are the organization's strategic objectives linked to its governance and remuneration and does the Integrated Report clearly articulate the connection?
- What keeps the key executives and governance body awake at night?
- Are material actions of the governance body reported?
- Is there appropriate balance between positive actions and actions that did not achieve favorable results?
- What succession planning is in place for the future?

In many jurisdictions, regulations drive disclosures on governance and remuneration. Accordingly, if the Integrated Report is being used to satisfy regulatory requirements, consideration needs to be given to including information necessary to comply with such requirements.

> **For example**, in the U.S., consider the "say-on-pay" aspects of the Dodd-Frank Act.[5]

Insights about oversight may be provided through a high-level description of the governance structure, which might identify subcommittees of the main governance body (e.g., audit, nominating, remuneration, risk, and sustainability committees) where relevant, and may be illustrated using a diagram.

	With respect to remuneration, the Integrated Report should focus on the alignment between governance processes and decision making with respect to risk appetite. It also may focus on significant compensation policies and plans (including cash, deferred compensation, pension and stock arrangements) for senior executives and those charged with governance, and should demonstrate how they are linked to risk appetite and performance. **Tip**: KPIs regarding pay aligned with governance processes and decision-making with respect to risk appetite demonstrate integrated thinking and would be more appropriate for inclusion in an Integrated Report than more detailed or relatively static information, which might be included elsewhere with an appropriate reference to where to find it. Oversight over the Integrated Reporting process is also important. The organization may include a statement that identifies the governance body that has oversight responsibilities for Integrated Reporting. That body may include its own statement regarding the Integrated Report (see discussion of oversight in **Stage 4** of **Section 1**).

Performance: *How has the organization performed against its strategic objectives and related strategies?*

An Integrated Report includes qualitative and quantitative information, including:

- KPIs and KRIs regarding the organization's performance against its strategic objectives and related strategies;
- the organization's impacts (both positive and negative) on the resources and relationships on which it depends;
- the significant external factors impacting performance; and
- how the organization fared against its targets.

Information regarding financial performance is integrated with information regarding performance with respect to the other capitals. The discussion also encompasses how innovation affects the ability of the organization to create and sustain value.

Performance information includes a description of the organization's view of its major external economic, environmental and social impacts and risks up and down the value chain, along with material quantitative information to the extent practicable.

While other reports and communications (such as financial statements, a sustainability report or detailed website disclosures) may be referenced or linked for those report users who want additional detail on various aspects of performance, the performance discussion in an Integrated Report is considerably more

Application Guidance

Consider the following in reporting on performance:

- What financial performance measures best summarize the organization's performance and how could such information be linked to its strategic objectives?
- Should condensed financial statements or financial highlights be included?
- What capitals have been used and how?
- What was the impact on the various capitals of the organization's value creation process?
- Did any regulations have a material impact on performance (e.g., a constraint on revenues as a result of regulatory rate setting)?
- Has the organization's non-compliance with certain laws or regulations affected (or could they significantly affect) the organization's operations and, if so, should such matters be highlighted in the discussion of performance?
- Have other external factors affected performance and how?
- Have KPIs changed (e.g., employee or customer satisfaction indicators) and, if so, what are the key impacts across the value chain? What actions are being taken?

Tip: It is important for an organization to explain the operating context for performance in order to ensure that the user clearly understands the basis for material variations in KPIs and KRIs.

A description of the organization's view of its

concise and connected. The linkages between past and current performance and between current performance and future outlook should be made clear. An Integrated Report is intended to tell a complete but concise story of the organization's performance from a strategic perspective; accordingly, the key is to link the organization's performance back to the description of its strategic objectives and related KPIs identified for measuring performance against strategic objectives.	major external impacts and risks up and down the value chain (i.e., its footprint) assists report users in understanding how the organization's footprint affects its ability to create and sustain value in the short, medium and long term. Performance information regarding the organization's footprint may include information about such things as the macroeconomic implications, carbon emissions or labour practices of entities with which the organization has important relationships, such as key suppliers. **For example**, it is increasingly common for organizations to report on greenhouse gases emitted by the producers of the electricity the organization consumes. Refer to **Topic 2** of **Section 1** for further discussion regarding reporting on the organization's footprint.

Future outlook: *What opportunities, challenges and uncertainties is the organization likely to encounter in achieving its strategic objectives and what are the resulting implications for its strategies and future performance?*

Future outlook builds on other Content Elements to highlight anticipated changes over time. It provides information, built on sound and transparent analysis, about:

- how the organization is currently equipped to respond to the operating context that it is likely to face in the future;
- how the organization balances short- and long-term interests;
- potential repercussions of where the organization expects it will go in the short, medium and long term;
- the actions needed to get there; and
- the associated uncertainties

The Integrated Report should identify any real risks that could have extreme consequences, even though the probability of their occurrence might be considered quite small.

An Integrated Report includes a discussion of the potential implications, including implications for future performance and future targets, of:

- External factors, risks and opportunities, with an analysis of how these could affect the achievement of strategic objectives; and
- Resources and relationships on which the organization depends (e.g., the continued availability of skilled labour or natural resources), including how key relationships are managed, and why they are, or may be, important to the

Application Guidance

In responding to the question, consider whether past performance is indicative of future performance:

- What opportunities have senior management's attention the most?
- What challenges and uncertainties is senior management most concerned about?
- Has the organization changed its strategic objectives from those in the past year?
- Have any major new opportunities arisen?
- Have any new challenges or uncertainties arisen?
- Will issues created by existing challenges and uncertainties become more significant in the future?
- What variables of external factors, resources and relationships are most susceptible to change that would significantly impact the organization's ability to create and sustain value in the future, and how?

The discussion provides report users with an understanding of the organization's key assumptions regarding the future use of resources and relationships. It may also include lead indicators, forecasts and projections, relevant information from recognised external sources, estimates of financial and non-financial KPIs and KRIs for the future, and sensitivity analyses (see the discussion of the Future Orientation Guiding Principle in **Section 3**).

If quantified information relating to prospects for the future is included, the key estimates and significant assumptions used by management should be explained, together with possible risks, so that report users can assess the likelihood that they will be achieved.

organization's ability to create and sustain value over time.	

GLOSSARY

The definitions included below are intended to clarify the context in which such terms are used in the Guide and, accordingly, are not intended to be established definitions.

Assurability: Different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, on the adherence of the Integrated Report to the standards or framework applied in its preparation.

Assurance: Result of a service to improve the quality of information, or its context, for decision-makers (internal assurance) or to add credibility regarding the reliability of information typically to parties external to the organization (external assurance).

Audit: Systematic examination or verification of a organization's books of account against specific criteria by qualified accountants, such as accounting standards in the case of a financial statement audit or organizational policies and procedures in the case of an internal audit.

Boundaries: See Reporting Boundary; Footprint.

Business model: The process by which an organization seeks to create and sustain value.

Capitals: The resources and relationships that support the long-term viability of an organization, such as:

- *Financial capital*—The pool of funds that is available to the organization for use in the production of goods or the provision of services, and obtained through financing, such as debt, equity or grants, or generated through operations or investments.
- *Manufactured capital*—Manufactured physical objects (as distinct from natural physical objects) that are available to the organization for use in the production of goods or the provision of services, including: buildings, equipment, and infrastructure (such as roads, ports, bridges and waste and water treatment plants)
- *Human capital*—People's skills and experience, and their motivations to innovate, including their alignment with and support of the organization's governance framework and ethical values such as its recognition of human rights; their ability to understand and implement an organization's strategies; and their loyalties and motivations for improving processes, goods and services, including their ability to lead and to collaborate,
- *Intellectual capital*—Intangibles that provide competitive advantage, including: intellectual property, such as patents, copyrights, software and organizational systems, procedures and protocols; and the intangibles that are associated with the brand and reputation that an organization has developed.
- *Natural capital*—An input to the production of goods or the provision of services, including water, land, minerals and forests; and biodiversity and eco-system health. An organization's activities also impact, positively or negatively, on natural capital), and
- *Social capital*—The institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and

collective well-being, including common values and behaviours; key relationships, and the trust and loyalty that an organization has developed and strives to build and protect with customers, suppliers and business partners; and an organization's social license to operate.

Capital allocation: A process of how an organization divides its financial resources and other sources of capital between different processes, people and projects. Overall, it is management's goal to optimize capital allocation so that it generates as much wealth as possible for its shareholders.

Comparability: The quality or state of being similar or alike.

Connectivity: The connection between the different components of the organization's business model, external factors that affect the organization and the various resources and relationships on which the organization and its performance depend. Connectivity of information is one of the Guiding Principles.

Content Elements: Key items that are included and interconnected in an Integrated Report based on the application of the Guiding Principles. The Content Elements identified in the Discussion Paper are:

- Organizational overview and business model
- Operating context, including risks and opportunities
- Strategic objectives and strategies to achieve those objectives
- Governance and remuneration
- Performance
- Future outlook

ESG: A term used to refer to environmental, social and governance (ESG) factors, particularly in the context of financial markets and investment decision-making.

External factors: Facts or situations from outside the organization which influence or impact the organization. External factors may be characterized as economic conditions, societal issues and technological changes.

Footprint: Impacts of an organization that extends beyond its reporting boundary, which in an Integrated Report would include major external economic, environmental and social impacts up and down the supply chain.

Future orientation: One of the Guiding Principles for preparation of an Integrated Report to include management's expectations about the future, as well as other information to help report users understand and assess the organization's prospects and the uncertainties it faces.

Governance: Establishment of policies, and continuous monitoring of their proper implementation, by the members of the governing body of an organization. It includes the mechanisms required to balance the powers of the members (with the associated accountability), and their primary duty of enhancing the prosperity and viability of the organization.

Guiding Principles: Concepts that describe the outcomes that an Integrated Report should achieve and that guide decisions made throughout the Integrated Reporting process. The Guiding Principles proposed in the Discussion Paper include:

- Strategic focus
- Connectivity of information
- Future orientation
- Responsiveness and stakeholder inclusiveness
- Conciseness, reliability and materiality

Impacts: Measure of the tangible and intangible effects (consequences) of an external factor on the organization and of the organization's actions or influence upon another.

Inclusivity: See Stakeholder engagement.

Integrated Report: A single report that provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value.

Integrated Reporting: A process that brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates.

Integrated Reporting Framework: A framework to guide organizations on communicating the broad set of information needed by investors and other stakeholders to assess the organization's long-term prospects in a clear, concise, connected and comparable format.

Integrated thinking: Application of the collective mind of those charged with governance and the ability of management, to monitor, manage and communicate the full complexity of the value-creation, process, and how this contributes to success over time; may also be referred to as integrated management.

Interdependency: A dynamic of being mutually and physically responsible to, and sharing a common set of relationships with many others, such as between strategy and risk, financial and nonfinancial performance, governance and performance, and between the organization's own performance and that of others in its value chain.

International Integrated Reporting Framework: A framework for Integrated Reporting to be developed by the International Integrated Reporting Committee that would be international in scope.

Investors: The owner of a financial asset, including capital stock and debt.

Key performance indicators (KPIs): A set of quantifiable measures used to assess an organization's performance in critical areas.

Key risk indicators (KRIs): The indicators by which key risks (those which the organization perceives to be its most significant risks) can be easily identified and managed.

Mainstream report: The primary reporting vehicle.

Management commentary: A narrative description by the organization to provide insights into its performance. Management commentary may be required in particular jurisdictions or prepared voluntarily. Frameworks for management commentary may be established by regulation or be developed by others (e.g., a broad, non-binding framework for the presentation of management commentary that relates to financial statements prepared in accordance with International Financial Reporting Standards (IFRSs) has been issued by the International Accounting Standards Board).

Materiality: A matter is material if it will influence the decisions, actions or performance of an individual or an organization. In a financial reporting context, a matter is material if it would be likely to influence investment decisions taken by current or prospective shareholders. In the context of sustainability reporting, the concept is extended to incorporate environmental, social or economic factors relevant and significant to the organization and its stakeholders.

Non-financial information: Information regarding an organization's performance measured in other than financial terms (e.g., sustainability measurements). Such measurements may be in quantitative or qualitative terms.

Opportunities: An occasion or situation which makes it possible for an organization to do something that it wants to do or has to do, or the possibility of doing something.

Outcomes: Intangible results of an activity, plan, process, or program. In an Integrated Report, it also includes the action(s) taken through the analysis or comparison with the intended or projected results.

Outputs: Quantifiable or tangible results of an activity, effort, or process; often an output can be expressed in numbers (quantitatively measured).

Performance: Qualitative and quantitative information about how the organization has performed against its strategic objectives and related strategies.

Relevance: Pertinence (relation) to the matter at hand. In an Integrated Report, relevance is considered in relation to the organization's reporting boundary and footprint, and the Content Elements.

Remuneration: The total compensation received by an executive, which includes not only the base salary but options, bonuses, expense accounts and other forms of compensation.

Reporting boundary: The reporting boundary for an Integrated Report refers to the range of entities whose performance is covered in the organization's financial statements.

Resources and relationships: See Capitals.

Responsiveness: Quick to act, especially to meet the needs of someone (e.g., a stakeholder) or something (e.g., a regulation)

Risk: The potential that a chosen action or activity (including the choice of inaction) will lead to a loss (an undesirable outcome).

Stakeholder: A person, group or organization who can affect or be affected by an organization's actions, objectives or policies. Stakeholders in a business organization may include creditors, customers, directors, employees, governments, shareholders, suppliers, unions and the community from which the organization draws its resources.

Stakeholder engagement: An activity that an organization uses to help it identify and respond to significant concerns of a variety of stakeholders and thereby achieve inclusivity.

Stewardship: The responsibility for taking good care of resources entrusted to the organization.

Strategies: The pattern of decisions and actions that are taken by an organization to achieve its strategic objectives.

Strategic objective: Ultimate objective that an organization is striving to achieve through its strategies.

Supply chain: The system of organizations, people, technology, activities, information and resources involved in delivering a product or service.

Sustainability: Actions and approaches adopted by an organization compatible with, and contributing to, sustainable development.

Sustainability report: A report produced by an organization to report the impacts (positive and negative) of its operations on society and the environment, and its performance in this regard.

Those charged with governance: The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial and integrated reporting processes. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Value chain: The high-level interrelationship between an organization's key operations or activities (including upstream activities) that are involved in delivering value to that business' customers.

Value creation: A mechanism which converts financial and non-financial inputs to certain outputs including financial performance. It is influenced by external factors that present risks and opportunities, which create the context within which an organization operates, co-created through relationships with others, and dependent on the availability, affordability, quality and management of various resources, or “capitals”.