

7th Colloquium Memorandum



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Opening statement — Professor Mervyn King

The changing market cap

Towards the end of the 20th Century, the limited liability company was using natural assets faster than nature was regenerating them - clearly not a sustainable matter. By 1997, it became apparent that the makeup of the market capitalisation of some iconic companies was changing as a result. As we turned into 21st century only about 20% of the makeup of the market cap was reflected as additives in a balance sheet according to financial reporting standards. This led to the drafting of guidelines by the Global Reporting Initiative ([GRI](#)) to guide corporations, and other organizations, on how to report on these [incorporeals](#), intangibles, sustainability and now called ESG — Environment, Social and Governance — issues.

Impacts on duties of accountability

When I was Chairman of the United Nations on Governance and Oversight and Chairman of this Global Reporting Initiative [IFAC](#) held a meeting at the United Nations. We discussed how directors were not discharging their duties of accountability in the following cases:

- annual reports consisting of only financial statements that did not reflect the make-up of the market cap; and
- financial statements and reporting on the impacts of the company on the economy, society and the environment that was divorced from reality as these things work together, not in silos

The discussions then started about connecting or integrating this information.

Reporting to effectively demonstrate accountability

Connected Reporting or Integrated Reporting? The etymology of the word connecting is *link* and the etymology of the word integration is *system*. It was therefore argued that the term “Integrated Reporting” would better reflect what was required. This led to the GRI and Accounting for Sustainability ([A4S](#)) launching the International Integrated Reporting Council ([IIRC](#)), of which I became the Chairman.

The start of Integrated Reporting

In 2009, as Chairman of the King Committee on corporate governance in South Africa, we recommended that South Africa should follow an approach of integrated reports and drafted a framework for such a report. The Johannesburg Stock Exchange agreed and made integrated reporting a listing requirement. The IIRC used this as the basis on which to develop the [<IR> Framework](#) which has become well known as the International Integrated Reporting Framework. This was the start of integrating the financial and non-financial information.

Inside-out and outside-in

Importantly though, we were still looking at sustainability from the ‘inside-out’ – the impact of the company and its products and outcomes, on the economy, society, and the environment. Meanwhile there were some seismic events, such as the collapse of [Lehman Brothers](#), which

showed the impacts external factors could have on the company. It was these events that launched the Sustainability Accounting Standards Board ([SASB](#)). SASB started looking at sustainability from the 'outside-in' - that is from the perspective of the impacts of the Brundtland Commission's three critical dimensions for sustainable development (people, planet, and prosperity) on the company. We saw that sustainability, like a coin, had two sides.

A myriad of standards developed and are now consolidating

Thereafter a myriad of framework providers and standard setters leaped into this ESG space. I gave a talk in London where I said that it was a moral and social outrage that standard setters saw themselves as competitors when they all should have the same outcome in mind – namely a global comprehensive corporate reporting system. I said we needed some consistency in this reporting rather than the clutter and confusion which was being created for preparers and users. I am told that this had some effect and soon the [Group of Five](#), which included the IIRC and SASB, issued a statement of intent to collaborate. Inevitably, collaboration led to talks of merger and SASB and the IIRC merged to create the Value Reporting Foundation ([VRF](#)). Further progress led to a 'sale' of the VRF to the IFRS Foundation ([IFRS](#)) and the SASB standards were pushed into a new body, the International Sustainability Standards Board ([ISSB](#)) under the oversight of the IFRS, a sibling to the International Accounting Standards Board ([IASB](#)). This is due for completion by the end of June 2022.

The positioning of Integrated Reporting Framework

The <IR> Framework, as a result, is being positioned within the IFRS Foundation. There is a problem with this because, although the IASB and ISSB have the authority to set standards and evolve, the IFRS Foundation does not have such powers as it is positioned as a monitoring and oversight board under IOSCO. I speculate that the answer to this problem is for the IFRS to pass ownership of the <IR> Framework jointly to the IASB and ISSB to form a Working Group in regard to the <IR> Framework. This would be a baseline for the creation of the integration and connectivity of the financial and non-financial information. Meanwhile the ISSB would issue baseline sustainability reporting disclosures on which different jurisdictions, using a building blocks approach, can add pertinent layers.

Common cause

The beginning of the end of clutter and confusion was the issuing of the statement of collaboration. Now we are at the beginning of the end of all that. We are creating a large stepping-stone towards moving from one side of the river of corporate reporting's clutter and confusion to the other side of a global comprehensive corporate reporting system. What is intriguing in the developing standards and regulations — the European Union's European Sustainability Reporting Standards ([ESRS](#)), China's statements, the ISSB Standards and the United States Securities and Exchange Commission's regulations — is that there is common cause; a need for connectivity between financial and non-financial information.

Hence, the content and the theme of the 7th Colloquium - "Connectivity".

Connecting financial and non-financial information —

Veronica Poole

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Thinking in an integrated manner

Nowadays, the words ‘connectivity’ and ‘integration’ are regularly used in the context of corporate reporting, corporate governance, business strategy and standard-setting. ‘Integrated Thinking’ has also become an important term in business vocabulary. Integrated thinking involves integrating considerations of people, planet and prosperity (Brundtland’s three critical dimensions for sustainable development) into the core of the business — taking a holistic view of the factors that can create or erode value. Integrated thinking helps companies understand enterprise value and balance short- and long-term outcomes and consider its reliance on a wide range of resources. This understanding is business critical for companies to be able to create value sustainably over time.

The changing operating context is an integrated system

The context in which companies now operate has been transformed by climate change, nature loss, and social unrest, exacerbated by the global pandemic and geopolitics. These issues can impact businesses significantly. Digitally-enabled transparency has also increased awareness and changed societal expectations of how companies should be involved in addressing these issues. This, in turn, affects the business license to operate and ultimately a company’s enterprise value. Investors understand that companies with strong sustainability records can deliver superior financial returns and therefore increasingly seek out companies that integrate sustainability into the core of their business, or in other words, apply integrated thinking.

Embedding integrated thinking

Adopting integrated thinking often demands organizational change, business model transformation, and a cultural shift, it frequently involves multi-year programmes to build capacity, codify new organizational Key Performance Indicators (KPIs) and foster organizational transparency and accountability. Deloitte has developed a Roadmap that helps companies to progress on this journey.

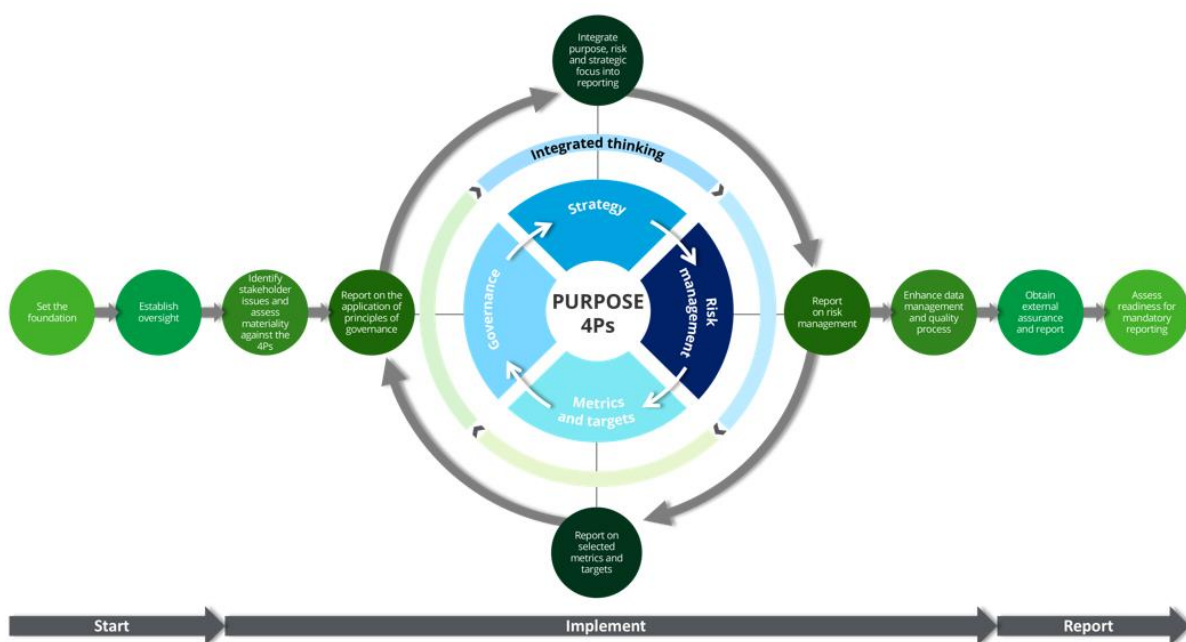
At the centre is company purpose

The company’s ability to create long-term enterprise value is directly linked to how it aligns its purpose and values with the expectations of society. The purpose of business, in many respects, is being redefined as enterprises move to acknowledging the importance of delivering value to all stakeholders and recognising that the prosperity of society at large is a prerequisite for the success of a company.

Living the purpose

Companies must live their purpose - considerations of planet, people, and prosperity should be embedded into a company’s governance, strategy, risk management, and metrics and targets:

- **Governance** is the foundation for driving performance and delivering long-term success. Integrated thinking requires appropriate oversight and ownership and the board will therefore need to make sure the company's purpose incorporates considerations of people, planet, and prosperity appropriately, that culture and values are aligned to that purpose, and that appropriate targets are set.
- **Strategy** should also be grounded in integrated thinking. The company's strategic approach should consider the cost, availability, and limits on use of resources, business transformation and organisational change, and address potential trade-offs.
- **Risk** management requires a holistic approach, which ultimately means integration of sustainability risks in the overall Enterprise Risk Management process, subject to the same ownership, monitoring, control, and reporting to the board, as are in place for financial risks.
- **Metrics and targets** should be aligned with the strategy and the commitments made by the company. A review of systems, processes and controls will be needed to incorporate these broader KPIs into management accounting and reporting.
- **Reporting** is a critical part of integrated thinking; it should reflect the integrated approach and be authentic to how the business is run in order to inspire trust and enhance enterprise value.



Both micro and macro considerations

Integrated thinking is essential not only at an individual company level but should also be applied at an ecosystem level. Critically, we need connected thinking across jurisdictions.

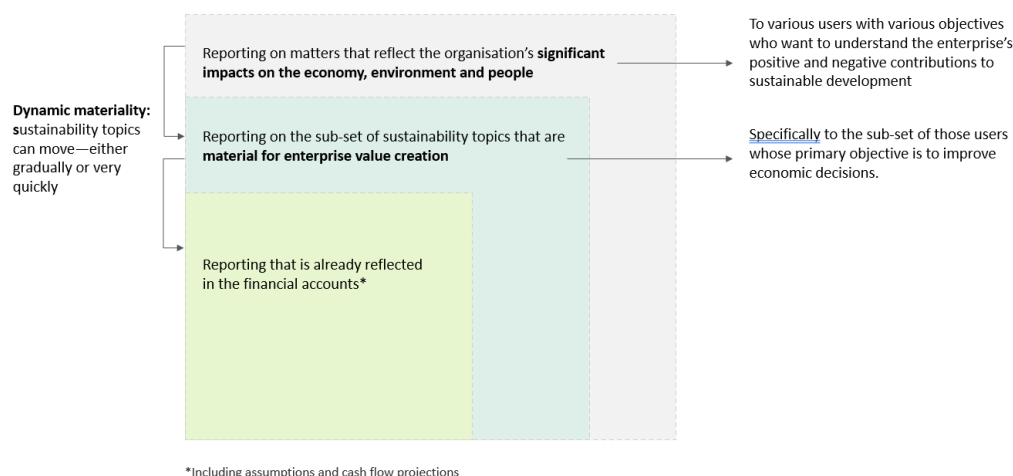
- **Director duties** should encompass responsibility to consider sustainability including the company's impact on stakeholders and the environment.
- **Corporate Governance codes** should establish clear expectations for boards to enhance their governance and controls over sustainability information to support their reporting on how they discharge their fiduciary duties and to set the right tone for behaviour change.

- **Proportionality** should be respected to achieve effective and practical measures across the range of companies that contribute to economic growth, from SMEs to the largest Public Interest Entities; this should enable the flow of information on sustainability risks and opportunities across value chains.
- **Standard-setting**, as a critical element of the capital markets ecosystem, should deliver consistent, comparable, and reliable information to support capital allocation decisions and support public policy objectives where these demand transparency on how companies comply with specific policies or on their broader impacts on society.
- **Connectivity in standard-setting** should enable information that connects disclosure about material sustainability matters to the information in the financial statements that shows how companies' governance, strategy and risk management over these sustainability matters affect financial performance.
- **Assurance, education, monitoring and enforcement** would also benefit from an integrated approach.

Materiality

A fragmented approach to standards and regulation is challenging. It leads to the lack of comparability, promotes compliance mentality, increases complexity and costs for companies and ultimately results in reduced transparency. To create a coherent, comprehensive and interoperable corporate reporting system, and thus avoid fragmentation, we should look at the concept that lies at the heart of corporate reporting — materiality. Materiality is the filter that helps us determine what sustainability information should be disclosed to serve the needs of capital markets and what information could satisfy broader objectives. The 'Group of 5' of the leading sustainability standard-setters and framework providers view materiality as nested and dynamic.

Dynamic materiality recognises that whilst a company may have many positive and negative impacts on people, planet and social prosperity, a subset of those impacts can, in turn, positively or negatively affect the company's business model and therefore create or erode its enterprise value and financial returns to providers of financial capital.

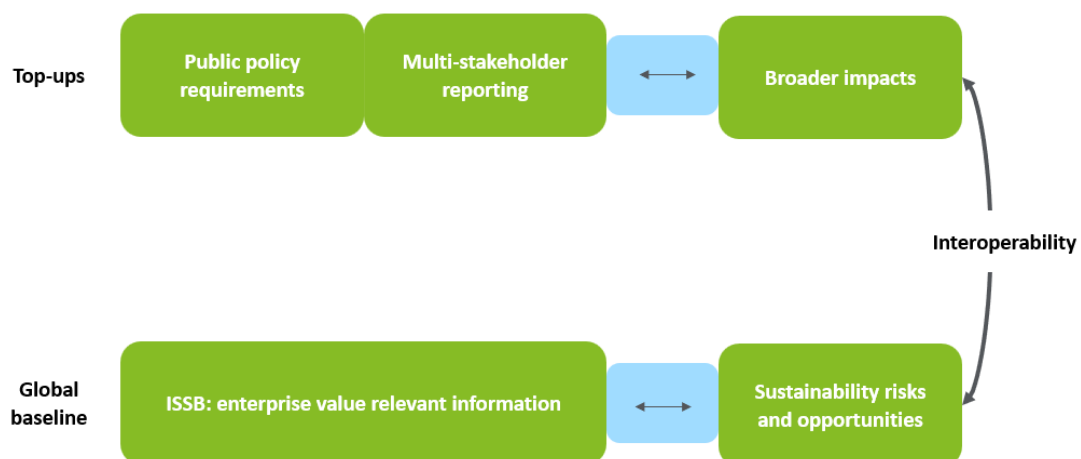


- **Big lens** includes all sustainability matters that reflect a company's positive or negative contribution to sustainable development and matters that could inform assessments and decisions by a wide range of users.
- **Middle lens** includes those sustainability matters that influence enterprise value, that is those matters that affect a company's ability to generate financial returns to providers of financial capital.
- **Small lens** represents those sustainability matters that influence enterprise value, but which are already accounted for and disclosed in the financial statements.

Thinking about materiality through these lenses highlights how a comprehensive system of corporate reporting standards can be built. It is often referred to as a building block approach.

Building blocks

The establishment of the International Sustainability Standards Board ([ISSB](#)) by the [IFRS Foundation](#) has made a significant step towards building a comprehensive system for the disclosure of sustainability matters relevant to enterprise value.



If the ISSB standards are implemented consistently around the globe, they should facilitate consistent and comparable reporting by companies across jurisdictions, which will help us make informed capital allocation decisions and direct capital to long-term, resilient, and sustainable enterprise. Further blocks ('top ups') can be designed to meet specific public policy priorities at jurisdiction level or reporting on impacts relevant to broader stakeholders.

Interconnected reporting standards

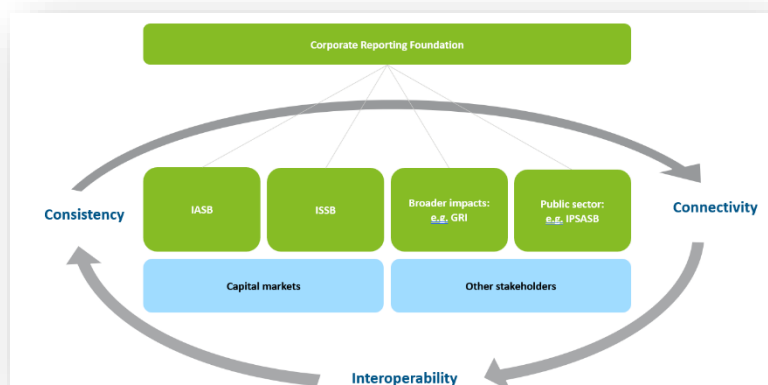
The ISSB is uniquely positioned to address the needs of capital markets because of the structural connectivity achieved through the IFRS Foundation. It follows then that the International Accounting Standards Board ([IASB](#)) and ISSB will need to work together to evolve common concepts and reporting principles that facilitate connected reporting. The IASB and ISSB will need to develop something similar to an integrated reporting framework. This can be an evolution of the existing <IR> framework and IASB management commentary (see [IFRS news release](#)).

Intangibles

Connectivity in standard setting should lead to connected thinking about specific accounting issues, such as intangibles. Many intangible assets don't readily meet the definition of assets in the financial reporting conceptual framework (because of the inability to demonstrate control) and so they are not recognised on balance sheets. However, identifying them and understanding how they are managed, enhanced, and maintained is fundamental to understanding the value of a business today. Another example is accounting and disclosure in respect of climate change. The [ISSB exposure draft on climate](#) disclosure considers impacts of climate change on financial statements. In my view, this is an opportunity for the IASB to consider possible enhancements to IFRS, for example relating to the disclosure of estimation uncertainty in the notes to the financial statements.

Proposed blueprint for connectivity

We have made a significant step by creating ISSB and creating a mechanism to deliver more comprehensive and connected disclosure to serve the needs of capital markets. I believe we need to be even more ambitious and consider connectivity and interoperability with other elements that support the



broader corporate and public reporting ecosystem. This comprehensive vision should incorporate the wider lens of reporting on broader sustainability impacts where establishing a direct link to a specific company activity isn't always possible. The Global Reporting Initiative ([GRI](#)) has a strong history of operating in this space, and this valuable knowledge and experience should be used to achieve interoperability with the ISSB standards. In that regard, I welcome the announcement of [collaboration between GRI and the ISSB](#) and the formation of the ISSB working group to [include jurisdictional initiatives](#). We could go further by evolving the IFRS Foundation to become a Corporate (or even Public) Reporting Foundation by bringing some of that connected approach into the way we think about public sector reporting.

Conclusion

I'm a great believer in integrated thinking at both individual company level and at the corporate reporting ecosystem level. Integrated thinking moves us forward at a greater pace, which is exactly what we need in order to make progress in sustainable development, progress in achieving the [UN's Sustainable Development Goals](#) and to give us a fighting chance to mitigate the risks of climate change.

The role of Integrated Reporting in reviving the economy — Alan Johnson

The language of accounting is changing

It is a privilege to be IFAC President, especially now. This is a time of many challenges but also many opportunities. For centuries, accounting has been the language of business, governments, trade, and capital markets. In the 21st century, however, it has become clear that this language is insufficient in a rapidly changing world. Even the fundamental concepts of what value *is*, and how value should be *created*, are not accounted for in the traditional financial methods of reporting on an organization's activities and impacts.

Organizations are pivoting to integrated thinking and reporting

Organizations are therefore increasingly using integrated thinking and reporting to connect all important aspects of value creation and sustainability, Integrated Reporting brings together related narrative, quantified, and monetised information:

1. It incorporates the same level of quality expected from financial reporting;
2. It is a predictive as well as a historical analysis of performance and resilience; and
3. It can enable integrated management thinking, which is what is ultimately needed to improve decision making and capital allocation.

Organizations are using integrated reports to get the best, most complete information to investors and stakeholders, and to engage with them about the full scope of a company's activities, and importantly, its role in society. IFAC supported the formation of the IIRC in 2010 to enhance corporate reporting in a way that would enable boards of directors to discharge a duty of accountability well beyond financial performance. Since then, the number of organizations using integrated reports has now grown to more than 2,500 organizations in more than 70 countries.

Consistent, comparable, reliable, and assurable information

Financial accounting and reporting on their own are no longer sufficient for boards to discharge their duty of accountability for long-term value creation. We need to move to a reporting system that delivers consistent, comparable, reliable, and assurable information related to enterprise value creation and sustainable development. IFAC has, therefore, supported the creation of the International Sustainability Standards Board (ISSB) under the auspices of the IFRS Foundation. Climate and other sustainability issues are global in nature and the ISSB, with its multi-jurisdictional footprint reflecting this reality, can deliver a global solution for sustainability and facilitate a global implementation of its standards. Achieving the full promise of the ISSB certainly will be a much longer effort and I encourage all stakeholders in value creation to remain engaged at the jurisdiction level and to speak strongly in support of the ISSB's two initial pronouncements, which are currently in a public comment period.

The Climate Disclosures Standards Board and the Value Reporting Foundation

A fragmented approach to sustainability reporting standard-setting brings inefficiency, increased cost to investors and companies, and a lack of trust. Combining the CDSB and the VRF with the IFRS Foundation provides a much-needed consolidation which positions the ISSB to build upon these existing initiatives and harmonise the landscape. Ultimately, this system will deliver a comprehensive global baseline of sustainability information, material to enterprise value, connected to financial reporting through the fundamental concepts and guiding principles of integrated reporting. These organizations are the basis for the next, crucial phase of international standard-setting on sustainability reporting and for effective integrated thinking and reporting.

Interconnected corporate reporting is necessary

The accounting profession must remember that it is a partner in the pursuit of economic recovery. We want to support, deliver, and act on a full understanding of value and value creation in each of our organizations. Corporate reporting is not only about creating greater transparency and accountability for performance; it also, conveys how a company creates and sustains value and ensures that this information truly reflects a business's operations and impacts. This information gets to the heart of the public interest: everyone needs the most complete picture of value and value creation that an organization can offer. This is a precondition for achieving a sustainable economic and environmental future. To better position investors and asset managers to allocate capital toward long-term value creation, there is a strong need not only to move to global standard setting for non-financial reporting under the ISSB, but at the same time to embrace integrated reporting principles. The development, adoption, and implementation of the ISSB's standards will enhance the quality of reporting and support robust assurance practices. However, interconnected corporate reporting that has integrated thinking at its heart is the foundation for changing corporate behaviour and practices. The International Integrated Reporting Framework provides the strategic context and framework for global efforts to develop standards and ensures alignment between internal thinking and external reporting.

Maximising the benefits of integrated reporting

Those companies that benefit the most from an integrated reporting approach usually have their Chief Financial Officers (CFO) and finance teams as a central part of this effort. These leaders are ideally positioned to shift the corporate mindset from short-term shareholder value creation to long-term stakeholder value creation and protection. Through integrated reporting, they can better deliver these insights as needed. These leaders can connect non-financial areas to core strategic objectives and the financial decisions that are made and ensure that external and internal reporting is consistent. Integrated reporting empowers organizations to break down reporting silos and recast reporting as a more meaningful activity involving the measurement, management, and communication of what matters to long-term success. It is through the *integration* of corporate disclosures that investors and other stakeholders can properly assess a company's exposure to sustainability risks, its ability to manage those risks, and its actual performance on sustainability and all other issues.

True sustainability requires behavioural change

For our work toward sustainability to have real value, however, it must lead to different *behaviours*: whether a company's *behaviours* change is the truer measure of its progress in aligning short-term decisions toward long-term value creation, sustainability, and resiliency. Any company can claim to be building sustainability information into, for example, its strategic decision making; however, the bar is much higher than that: **companies must also, in practice, choose to act differently.**

Professional accountants and investors are well positioned

Professional accountants are well positioned to objectively identify and analyse strategic trade-offs. The sustainability and multi-stakeholder agendas often present such trade-offs, and a judgment call is needed about how they can be reconciled with business objectives. Professional accountants are well positioned and need to understand how best to address these challenges in planning and execution.

A re-orientation of society towards sustainability and fairness is required

Professional accountants can lead on sustainability to fulfil their public interest mandate by making informed decisions that build resilience into foundational systems and institutions. They can help those in the private and public sectors make the tough choices that are inevitably facing every organization and country. Developing, adopting, and implementing global standards for sustainability disclosures remains a critical task for the profession and should be a top priority and tackled with the urgency of the climate emergency itself.

The significant contributions of Professor Mervyn King

I would like to thank Mervyn. Mervyn is the main reason why, for the past 10 years or so, we have been talking about Integrated Reporting. He is a renowned international corporate governance expert and sustainability pioneer, challenging business to change the way they address corporate strategy and corporate governance, forcing us all to think and plan on a longer-term horizon and ensure that organizations' purpose goes well beyond the interests of just a few stakeholders. The creation of the IIRC was his initiative, and it has driven much of the change in both corporate decision-making and in corporate reporting. He has challenged the accounting profession to step up, to understand its role in creating, protecting, and reporting value and, of course, to ensure there is effective governance at the heart of every organization. His leadership has resulted in:

- Improvements to the quality of information;
- A more cohesive and efficient approach to corporate reporting;
- Enhancements to accountability and stewardship; and
- Driven integrated thinking, decision-making and actions that focus on the creation of value over the short, medium, and long term.

On behalf of IFAC and the accountancy profession, I thank you, Mervyn, for your significant contributions over many decades to making the world more fair and more sustainable.

The GRI's approach to interoperability — Eelco van der Enden

The Global Reporting Initiative (GRI)

GRI has existed for 25 years, during which time Mervyn was Chair, and its purpose has remained to facilitate societal fact-based discussions about impacts. We do this by providing reporting standards for the disclosure of business impacts on the environment and socio-economic cohesion. These standards are developed through rigorous due process and are freely available as a public good. The uptake of these standards has been growing exponentially. Over the last years we have seen more than 783,000 downloads of the standards and an increase to nearly 11,000 Standard users.

Environment, Society and Governance (ESG)

Although sustainability, or ESG, is about the Environment, Society and Governance, mostly emphasis is placed on the “E” — environment. Perhaps this is because the climate and carbon are more easily understood and more easily expressed in monetary terms. Social issues, such as human rights, diversity, and equal pay, are not as easily expressed. But these impacts are being increasingly scrutinised — 60% of the downloads of our standards were related to social matters.

How fragmented is the environment?

GRI promotes the need for global convergence and a global base line for sustainability reporting. GRI believes in reduced fragmentation and reduced complexity.

- **The European Financial Reporting Advisory Group (EFRAG):** EFRAG is executing on the Corporate Social Reporting Directive and publishing the European Sustainability Reporting Standards (ESRS). These standards, which provide a focus on both enterprise value and impact reporting, will be mandatory for certain companies from 2023, and will require assurance by an external auditor. GRI has been assisting EFRAG in the development of the ESRS. We need to note that this isn't an adoption of the GRI standards by EFRAG, but rather a provision of guidance.
- **The International Sustainability Standards Board (ISSB):** GRI has concluded a Memorandum of Understanding (MOU) with the ISSB to merge agendas, align definitions and co-operate on future standards. GRI and the ISSB agree that: (i) financial and impact reporting are of equal importance; (ii) a clear, globally comparable reporting baseline is essential; and (iii) fragmented reporting initiatives at country levels should be limited. The first step has been the development of the two-pillar structure:
 1. Investor-focused capital market standards of IFRS Sustainability Disclosure Standards developed by the ISSB
 2. Multi-stakeholder standards of GRI standards as developed by the Global Sustainability Standards Board (GSSB).

Keeping it simple

GRI has a 25-year history and growing base of organizations reporting voluntarily against its standards and the IFRS Foundation has a history of use of the International Accounting Standards; together this makes an existing proof of concept. The environment has been in place for a number of years already, providing both financial and non-financial reporting to the satisfaction of stakeholders. It is logical for regulators to build on this proof of concept and drive for comparable and predictable publications on this basis. GRI does not see the need to change something which has been fundamentally proven to be a winning concept, especially given the current focus of society, and the capital markets, on the operationalisation of a global baseline. The intention is there, and the hope is there, that regulators and politicians will re-use and not reinvent.

The three global public consultations

The world is currently consulting on three broad sustainability standards – the ISSB draft standards, the ESRS draft and that published by the United States’ Securities Exchange Commission (SEC). The GRI does not believe that the United States will move to mandatory impact reporting – the SEC does not have this mandate and politically it will be difficult. However, large American corporations are interested in impact reporting and do care about their impacts. Many US corporates are already using GRI standards, more than those using the SASB standards.

Mandatory impact reporting and ‘twilighting’

GRI is neutral in this discussion and recognises that making something legally mandatory does not guarantee the achievement of the intended objectives. Europe will see mandatory reporting based on the GRI guidance; and voluntary impact reporting on the GRI standards will also be evident; but now we can also have something in between which I call ‘twilighting’. Recently, the SEC ruled that investors can force a vote at a company’s general shareholder meeting even in the event that the vote is neither legally required nor is it voluntarily offered by the company. This is something in between, the ‘twilight’, where organizations cannot ignore calls by significant shareholders (or stakeholders) for a say on company policy.

Conclusion

The system is not that difficult from a conceptual standard-setting perspective. It is not an alphabet soup. The answer is simple, the ISSB standards provide an ‘outside-in’ perspective (reporting on the environmental and social impacts on the company) and the GRI standards provide an ‘inside-out’ perspective (reporting on the impact of the company society and the environment). These are two sides of the same coin and together provide the intended holistic view.

Integrated reporting and the anatomy of a corporate —

Suresh Gooneratne

The corporate anatomy

The human anatomy is extremely complex and sophisticated and so is that of a corporate. A corporate entity is a complex collection of systems featuring resources, drivers, interdependencies, cultures and many more facets, operating in an environment where change is a norm. Whilst a human anatomy requires limited interventions, in cases such as disease, an organisation requires management interventions throughout its lifespan. Both the human and the corporate require an integrated approach to effectively administer interventions due to these anatomical complexities.

The need for new knowledge

Knowledge is key to this integration. In order to create and nurture a corporate anatomy, we need to know about its workings — internal interactions as well as internal interactions with external factors — in the short, medium, and long terms. We know that knowledge created through research on corporate anatomy stands well behind the research about the human anatomy. So, in order to improve this knowledge, we need to conduct research and seek technology solutions to elicit more information about the corporate interplays, trade-off impacts and sensitivities.

Integrated reporting

Reporting on an integrated, complex corporate is beneficial for both the corporate as well as its stakeholders. Internally, such integrated reporting promotes efficient utilisation of resources whilst externally it helps the corporate to communicate with stakeholders more objectively and transparently. Such integrated reporting also helps to synchronise and combine internal reporting with external reporting. The integrated reporting discipline has brought to the corporate anatomy concepts such as value, capitals, integrated thinking, and connectivity.

Integrated thinking

Building on the integrated reporting concepts, integrated thinking provides even more benefits. Integrated thinking is about the understanding and management of the total corporate anatomy and the behaviour of its systems and resources. The uniform and consistent embedment of integrated thinking in decision-making can bring many benefits including:

- **Embedded short, medium, and long-term impact assessments in decisions:** For example, before money is spent, associated benefits and a view (research) of its effectiveness over the short and medium term are assessed and considered.
- **Company-wide trade-off thinking:** For example, embedding controls to ensure that value (whether created or diminished) is assessed across the company, and all forms of capitals, including the outcomes resulting from historic decisions, are considered.

Institutionalising integrated thinking

Institutionalising integrated thinking comes at a cost and should therefore be considered in the context of materiality. Some pre-requisites for its institutionalisation include Board commitment:

- To the beliefs that:
 - Value creation depends on the quality and quantity of required capitals that will be available in the future, and not only on financial and manufactured capital;
 - It is necessary to manage and oversee *all* capitals; and
 - Institutionalised management frameworks should be available for all capitals with targets, KPIs and milestones to be achieved.
- To oversee the performance of each capital and delegate their monitoring to other senior Executive Management Forums.
- To seek technological advancements to support their organization's integrated thinking.
 - Some examples of where integrated thinking can be applied include:

Examples where integrated thinking can be institutionalised

Financial Capital ROE Total Shareholder Return Capital Gearing Ratio Working Capital Management Efficiency Investment in Marketing Financial Return on Marketing Investment (ROMI) Training Investment Key economic indicators	Manufactured Capital Actual Investment Vs. Return Appraisal Future Capital Needed Vs. Actual Available Outsourcing effectiveness Assessment of Road Network (Mobility Business)	Intellectual Capital Future Capacity Needed Vs. Actual Capacity Knowledge Retention KPI Technology Benchmarking Technology Adoption Indicator Technology Lag Assessment Effectiveness of Quality and HSE Management Systems
Human Capital Effectiveness of Social Accountability Management System Assessment of Employee Experience Employer Brand Value Return on Training Investment (ROTI) Effectiveness of Succession Planning Effectiveness of carrier path mapping Employee Retention/ Attrition	Social and Relationship Capital Compliance with Environmental Management System Compliance with Social Accountability Management System Stakeholder Engagement Effectiveness Assessment of Brand Value Continuous Assessment of penetration of Values Impact Analysis of Marketing Investment Assessment of Environmental Burden to the society Assessment of do good to environment and society Assessment of Customer Experience Zero Landfill Zero impact on Biodiversity	Natural Capital Effectiveness of Environmental Management System Availability of Water and Natural Resources Saving in use of Natural Resources Use of Renewable Energy Power Storage Change in arable land (Agri business)

Overcoming resistance to integrated thinking

The reasons for lack of motivation for organizations to institutionalise integrated thinking include:

- The significant level of complexity involved in articulating the corporate anatomy;
- The dominance of financial capital considerations over other capitals; and
- The focus on short-term returns.

Boards should seek to overcome such resistance and provide guidance to embrace integration.

Moral Responsibility

Expending of capitals create a chain of outcomes and impacts. In a world where resources or capitals are limited, we have a moral responsibility to objectively use resources at our disposal. To do this we need to have a full view of outcomes in the short, medium, and long term, triggered by our expending of resources. Therefore, making best use of resources is a moral obligation.

Konica Minolta's Integrated Reporting experience —

Yasu Kawasaki

About Konica Minolta's integrated reporting journey

Konica Minolta is a Tokyo-based Japanese listed company with approximately a \$9Bn revenue and 40,000 employees globally. In 2015, we transformed our annual report to an integrated report which included sustainability and corporate governance information. The Konica Minolta integrated report today is used as our primary stakeholder communication tool – particularly for discussions with investors.

Japan's securities report, the YuHo

Japan requires companies to file a securities report called the Yukashoken-Houkokusho report (YuHo). The YuHo is similar to the 10-K required in the United States. The YuHo is the responsibility of Japan's Financial Services Agency (FSA) and all the Japanese listed companies, major Japanese unlisted companies, and Japanese Real Estate Investment Trusts (J-REITs) are required by Japanese law to submit audited YuHos to the FSA within 3 months of the end of the fiscal year.

Expanding the YuHo to include non-financial information

The FSA has responded to the global move to sustainability reporting standardisation by evolving the YuHo to include non-financial information and absorbing integrated reporting concepts. The YuHo, as a standardised and audited report requiring comprehensiveness and completeness, is quite different from the integrated report which focusses on the company's value creation story and each company's individual materiality. This difference is important. An integrated report is more flexible in its ability to apply principles whereas the YuHo requires the disclosure of standardised metrics for comparability. The timing of the issuing of the reports is also a factor as time is required to add value to the YuHo, providing more information across the various capitals and highlighting company areas of emphasis and future focus. I have been working with the FSA for the last three years on this endeavour.

Non-financial information as a competitive differentiator

At Konica Minolta, we have found that non-financial information, especially intangible assets, such as human assets, technologies, and customer assets, are important drivers for our business growth. We include in our integrated report, the 'voices' of our key stakeholders, including our customers, employees, and alliance partners over and above those of the board, Chief Executive Officer, Chief Financial Officer, and the heads of the various business lines. We do this to better express our value creation story and show the role and power of people in that story. Importantly, at Konica Minolta, we consider our integrated report as a competitive differentiator.

The uniqueness of each integrated report

Treating our integrated report as a competitive differentiator drives us to report on our unique story. It is challenging to describe the linkages between our non-financial information and financial information in a quantitative way, but we are developing our own logic to develop such clear relation and integration between this information. This linkage will again emphasise the uniqueness of our value creation story. Through the process of building our integrated report, we hold many stakeholder engagements, and many strategic discussions, to review and align our activities with our story. These engagements and discussions are important as we treat our integrated report as a working medium for such discussions to continually develop our company's unique strategy and value creation story. Konica Minolta's integrated report builds relationships with our stakeholders and aligns our management and employees, driving integrated thinking.

Understanding diversity, equity, and inclusion (DEI) in the integrated report

Our unique story involves a range of different types of people, including those from different functions, business units, positions, ages, genders and nationalities. We find strength in this diversity as we bring everyone together in our common story. It is possible to record this diversity as indices in a regulatory security report, such as the YuHo, but we have found that the integrated report shows the strength of this diversity for our company in a much more tangible, vivid, and visible manner. As we build our integrated report, we collaborate closely with our different business units, functions and people, and have found that this engagement process builds a corporate strength. Most of those with whom we engage, are not corporate reporting specialists, but can very readily understand the cross-functional and cross-business integrated thinking of our company's value creation story through our engagement with them. This engagement not only provides an opportunity to 'grow' the understanding our company's core purpose across the company, but it also promotes alignment with the company's value creation story. There are also 'rewards' for participation as their own 'stories' are disclosed in the company's report.

Improved stakeholder relations resulting from integrated reporting

Initially Konica Minolta published an annual report for communications purposes. This was an English report, based on the YuHo. The primary target audience for this report was our investors. Over time, we evolved this report to the integrated report we have today, and this report remains important for our investors. With the changes brought about by publication of the Japanese corporate governance stewardship code in 2017, our integrated report has been used extensively by those responsible for voting on company resolutions. Recently, in preparation for our company's annual general meeting, the Chief Executive Officer and I met with some of our significant shareholders, one being the largest asset manager in Asia. At this meeting, we received feedback on our integrated report, which they had reviewed. It was a very positive meeting as while they had highly rated our report, they also provided areas for improvement. This is an extremely positive response for us as it noted the importance and value that our integrated report was providing to our key stakeholders, beyond the compliance reports which we are required to publish.

Continual improvement driven by stakeholder engagement

The improvements suggested by our key stakeholders included the setting of quantitative targets related to specific non-financial/sustainability areas. Following the annual general meeting this year, we will engage further with our stakeholders to explore such improvements and understand how we can best meet their requirements. It will not be an easy task to identify those specific people with whom we should engage as sustainability is not yet generally a well-defined corporate practice. In some organizations, non-financial information is the responsibility of the Head of Stewardship, in others it is the Head of ESG. There are a lot of different titles and positions. Our integrated report has not only been read by these key stakeholders. We are aware that it has also been read by our employees, those looking to join the company, as well as our customers. We specifically provide our large enterprise customers with our integrated reports, as we know that it has assisted them to understand from whom they are going to purchase products and services. We publish our integrated report contents via other media such as a company profile leaflet and internal communication booklet. Importantly the message I want to leave here is that today, in Japan, integrated reporting has become an important corporate trigger to promote stakeholder engagement and strengthen stakeholder relations.

The most important benefit of integrated reporting is in the process

The unique corporate story, the strength from diversity, equity and inclusion, and the deepening of stakeholder relations are all important benefits from integrated reporting. The most important, from my perspective looking over our integrated reporting journey, has been in the process itself — the process to develop and build the integrated report. The process:

- Promotes integrated thinking;
- Connects our internal stakeholders with our external stakeholders; and
- Builds alignment across these stakeholders and develops trust in our efforts towards transparency and accountability.

Japanese companies have the highest uptake of integrated reporting in the world and the reasons for this lie in the benefits integrated reporting brings to our companies.

Continual improvement

The integrated report building process involves gathering inputs, the integrated report itself as the process output and importantly, the outcome of the integrated report being those impacts realised from the use of the integrated report to engage stakeholders. The outcomes themselves, as I have shown, should then be used as input for the next revision of the integrated report. In this way, we can ensure a continually improving integrated report and focussed growth in corporate value.

IOSCO's steps towards the connection between financial and non-financial information — Kris Nathanail-Brighton

Availability of adequate, quality sustainability information

I am struck by how far we have come since the creation of the Task Force on Climate-related Financial Disclosures ([TCFD](#)) in 2015. Although at the time the topic was not high on regulatory agendas, it was understood that, in the same way that financial markets have a central role to play in the transition to a more sustainable economic model, so too do regulators. It is understood that regulators need to ensure that adequate, quality information is available for investors and provided by the corporates themselves. [IOSCO](#) has been aware of the historical importance of these challenges and has treated them as a matter of priority for the past few years.

IOSCO supports sustainability reporting

From the start of 2018, IOSCO has sought to consider the spectrum of emerging sustainability risks. In 2021, IOSCO produced a report regarding the publication of sustainability information for corporate assurers and set out recommendations for fund managers as they seek to market ESG products to their investors. In addition, in this report, IOSCO delved into the trickier issue of ESG ratings and encouraged better governance and more transparency by ESG ratings providers, specifically in respect of their rating objectives and the methodologies they applied. Sustainability reporting and financial reporting are the foundations of capital markets and investment decision-making. In the case of sustainability reporting, it is the cornerstone of any successful transition towards a more sustainable economy. Information on sustainability underpins the valuation of financial instruments and allows investors to make better informed decisions in the same way as financial reporting information does.

Independent standard setting is required

Capital market authorities have typically looked to private independent bodies such as the [IFRS](#) Foundation, International Auditing and Assurance Standards Board ([IAASB](#)) and the Financial Accounting Standards Board ([FASB](#)) to develop sound technical standards for corporate reporting, audit and assurance. This philosophy has led IOSCO to call for the creation of the International Sustainability Standards Board ([ISSB](#)) within the structure of the IFRS Foundation with the aim of establishing a global sustainability reporting framework. IOSCO was pleased when less than a year ago that call for action was heard and the ISSB was announced. We have also been encouraged by how quickly the ISSB has gone from concept to the delivery of the exposure drafts. The exposure drafts, and later the standards themselves, will create a clear path for corporates to accelerate progress to disclosing complete, consistent, and comparable information on sustainability matters. This ushers in a new era for corporate reporting and sets the foundation for a comprehensive global corporate reporting system that connects both financial and sustainability-related reporting.

IOSCO's criteria for the ISSB standards

The publication of the ISSB exposure drafts is a leap in the right direction but, as the international standards setter for securities regulators, IOSCO needs to ensure a few objectives are met by the drafts. IOSCO wants to ensure that the standards:

1. Can serve as an effective global baseline for investor-focussed standards;
2. Are sufficiently inter-operable with other frameworks;
3. Can act as building blocks for national or jurisdiction-related additions without losing comparability;
4. Are fit for purpose and help markets to assess both risks and opportunities stemming from sustainability factors; and
5. Form the basis for the development of robust and sound audit and assurance frameworks.

Practical considerations for the ISSB standards

This means that various practical aspects need to be considered including:

- Completeness, consistency, and comparability of sustainability-related information;
- Creating a common, comprehensive, and structured global framework for sustainability-linked reporting, building on existing principles, frameworks, and standards to do so;
- Creating a common taxonomy;
- Clarifying of both scope and materiality. For example, in the case of climate, it should cover both the company's resilience to climate risks as well as the impact of the company's activities on climate to the extent that this affects value creation (IOSCO is a supporter of the financial price value approach in this context);
- Providing guidance on science-based metrics that enable accurate assessments of ESG risks and opportunities;
- Ensuring a level of consistent narrative on the company's strategy, risk and financial processes, metrics, and targets relating to sustainability issues and how these impact the company's financial results and enterprise value creation, building on the work of the TCFD to do so; and
- Ensuring that these standards are able to integrate with the financial reporting standards.

IOSCO has set up the structures necessary to review the draft standards and effectively and rapidly consider their alignment with these principles and criteria.

Connecting financial and non-financial information

The connection between financial and non-financial information is important to bring about the necessary consistency as well as the utility of the standards. Corporates recognise this need. A [2021 PWC report](#) on the management of non-financial information indicated that 87% of senior executives across 50 countries were paying closer attention to non-financial factors and using non-financial information in management decisions. Almost all of those surveyed said that "integrating financial and non-financial information improves insights into the process of creating long-term business value and leads to better management decisions". This is only possible when there is connectivity between financial reporting and sustainability reporting.

Considering different perspectives

There is, however, a perspective that financial reporting shares little in common with sustainability reporting. This view is based on the premises that connecting financial and sustainability reporting detracts from the importance of considering impacts and that the aims of both sets of reporting should be different. One can consider that the IFRS International Accounting standards (IASB) already require companies to consider climate and other ESG risks, and to make judgements about providing disclosures on these issues in their financial statements. The IFRS standards are based on the concept of materiality and this concept requires that preparers should focus on information which, if omitted, could influence the decisions of investors. Of course, this does not explicitly refer to climate or other ESG risks but, with evolving investor demands, it was only a matter of time before specific sustainability reporting was needed. IOSCO disagrees with the perspective that financial and sustainability reporting have little in common. IOSCO supports the connecting of financial and sustainability reporting while recognising that there are challenges in doing so. The strong belief in the need for connectivity is one of the reasons why IOSCO supported sustainability reporting under the IFRS Foundation. IOSCO felt this positioning would help better guide the reconciliation between sustainability-related disclosures and financial statements.

IOSCO endorsement of the ISSB standards

If the final ISSB standards meet IOSCO's expectations, including with regard to appropriate interconnections/connectivity, then the IOSCO board would consider endorsing the ISSB standards as it did with the IASB standards. The impact of such an endorsement should not be underestimated — the globalization of the financial markets was largely as a result of about 140 jurisdictions embracing the IASB standards. In respect of sustainability reporting, currently very few jurisdictions have requirements in place. The 2021 [Deloitte review](#) of FTSE 350 company annual reports showed that although some disclosures were made on key social and environmental issues, they were wither partial, failed to include key information on specific Key Performance Indicators, or they failed to include information on specific business changes or activities. Similarly, a [2021 TCFD status report](#) showed that although the disclosure of information in line with the TCFD recommendations had increased, significant differences were found in both the quantity and quality of disclosures across the recommended disclosures. It also indicated that only about 20% of the TCFD adopters disclosed impacts on financial performance and only about 14% disclosed impacts on financial position, again signalling the importance of the ISSB's work.

A holistic support environment is urgently needed

Action remains urgent which is why IOSCO is working in tandem with the ISSB to finalise its endorsement process shortly after the ISSB standards are finalised. This is also why some regulators have already indicated that they would look to the ISSB standards if adequate. Beyond the IOSCO role, and that of other regulators, the work of institutions, such as the Good Governance Academy, is essential for a successful transition. A holistic environment is needed to help entities in the ecosystem, like preparers and assurers and others, build their capabilities such that the promise of connected reporting can be realised.

ESG Exchange – a global convener for sustainability guidance

Good Governance Academy commitment to Sustainability Reporting

ESG Exchange and our collective drive to demystify financial and non-financial sustainability reporting is an initiative of the Good Governance Academy. The founder and patron is Professor Mervyn King SC. Prof King is Chair emeritus of the Global Reporting Initiative and the International Integrated Reporting Council. ESG Exchange's founding sponsor is Archer, an enterprise risk management solutions provider, guiding the digital convergence of ESG and Integrated Risk Management.

Preparing for the changing corporate reporting demands

As illustrated in this Colloquium, company reports will soon need to include both financial and non-financial (sustainability) information. Practically, this data is not readily available and the experience to report on this data is scarce. In most cases, the development of new systems, business procedures and company capabilities are necessary. This is new territory for most reporting officers, and most are not prepared. Most reporting officers, including governing bodies and their assurance providers, are bewildered by the task ahead.

Barriers to adoption and transformational challenges

There are several barriers that stand in the way of companies effectively reporting non-financial information and connecting these with financial reports. The barriers include:

- **Expertise** — the expertise to provide the right corporate environment are both scarce and expensive;
- **Post-pandemic pressures** — most companies are resource limited and the resources required for corporate reporting will be competing with resources required for business revitalisation;
- **Assurance and compliance overheads** — such corporate reports will need to be assurable and, in many cases, comply with regulation and legislation, placing additional burdens on already stretched internal assurance and compliance resources.
- **Capacity** — sustainability reporting, unlike traditional compliance reporting, will require a whole-company approach as reported targets are promised and plans scrutinised. This company-wide transformation requires the building of bridges between the business silos and the institutionalisation of integrated thinking.

Over and above these barriers are transformation challenges such as the lack of a standard or best-practices for an effective sustainability reporting system, and reduced timelines. Social demands are such that the time it took financial reporting systems to develop and mature will not be available for sustainability reporting.

A global call to action

“Sustainable development through effective corporate reporting is an imperative for people, planet, and prosperity.

The world needs organizations that are equipped and publishing value-adding sustainability reports; developing and thinking in an integrated manner; accessing the best available expertise; and delivering valuable business impacts.”

Professor Mervyn King SC

ESG Exchange

The Good Governance Academy (GGA) has embraced this call to action and responded using its purpose of facilitating quality education (SDG 4) through collaboration (SDG 17). The GGA is convening standard setters, regulators, professional bodies, and educators in a global collaboration to assist boards, corporate leaders, and operational managers, from diverse professions and economic sectors, and provide:

- **Guided implementation**

A Sustainability How-To Playbook, of five modules, which results in the implementation of company-wide reporting proficiencies:

Operational capabilities

- Data and technology
- Operational processes
- Business analytics
- Finance and assurance work plans
- Report production

Organizational competencies

- Data
- Transition & Transformation
- Resiliency
- Reporting
- Performance over the longer term

- **Giving time back**

The best available sustainability reporting know-how in one place

- Current, curated content
- Trusted templates and tools
- Masterclasses and learning management

- **Recognising time spent**

Recognition of investments in capacity and resources

- Certified time investments (CPD certificates)
- International certification and benchmarking
- Leader boards and level-based rewards

- **Support network**

Online discussion forums; facilitated conversations; and opportunities to engage with a network of local, national, and international peers making this a powerful place to be.

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Closing remarks — Professor Mervyn King

Evolving the Integrated Reporting Framework

Mardi McBrien used the words ‘essential cog’ when describing the Integrated Reporting Framework’s role in joining together financial and non-financial reporting. I believe this — I have seen this in practice over the last 12 years. The question I raise is in respect of the evolution of the Integrated Reporting Framework which can only happen if it moves from the IFRS Foundation to a collaborative ‘ownership’ by both the IFRS Foundation’s standards bodies — the IASB and the ISSB.

Connecting and Integrating

Veronica’s presentation provided a brilliant overview on the need for connectivity across the company including functions, strategy, and operations. She showed how beneficial their integration was for organizations, how, using the etymology of the word integrated being a *system*, the company should be thought of as in terms of a system. This is different from the word connecting, the etymology of which is *linking*. From today’s discussions, we can see that companies will need both the linking and the integrating – linking from a tactical perspective, connecting information, and integrating from a strategic perspective, that is approaching the organization as a system. Alan explained IFAC’s support for the development and continual improvement of integrated reporting and integrated thinking and the essential need for integrated reporting going forward. The presentations by Suresh and Yasu, showed how these organizations introduced integrated reporting and the benefits which have resulted, which have been enormous.

Considering both **inside-out** and **outside-in**

GRI’s original perspectives, Eelco described, considering the ‘inside-out’, the impacts of an organization on Brundtland’s three critical dimensions of sustainable development – People, Planet and Prosperity. It was the impacts resulting from significant events, such as the Global Financial Crisis in 2008 and the collapse of Lehman Brothers, that showed that ‘outside-in’ impacts should also be considered, that is the impacts of People, Planet and Prosperity on the organization. This led to the development of standards for the reporting on these aspects, such as SASB. The inside-out and outside-in perspectives are two sides of the same coin, sustainability. Building a global corporate reporting baseline needs collaboration and alignment between standards representing both perspectives. Eelco described the developments in this regard – GRI’s involvement in the ESRS, MOU with the ISSB, and the use of its standards in the United States. The work of the GRI is very important and its work is continuing.

Integrated Reporting for stakeholder engagement

The presentations by the practitioners from Konica Minolta and Dimo, showed how Integrated Reporting was beneficial for stakeholder engagement — from employees and management to

customers and investors. It is important that these reports are short, concise, and understandable for exactly this reason. The Integrated Report provides an integrated, system, perspective of the organization and it is from this perspective that additional details can be sought, such financial and sustainability information according to, for example, the IASB and ISSB.

Global comprehensive corporate report system

The IFRS Foundation has an opportunity to become the “home” of a global comprehensive corporate reporting system. However, importantly, even if the IFRS Foundation creates such a system, it cannot mandate the use of the standards. Each jurisdiction mandates its reporting system of choice, for example the SEC establishes such mandates in the United States. So, we must expect that globally comparable corporate reports demonstrating corporate accountability for sustainable development will take some time to establish even after this system is in place.



Professor Mervyn King

Patron

3 June 2022



Carolynn Chalmers

Chief Executive Officer

3 June 2022

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