

## **Integrated Reporting: A step towards evolution of corporate reporting practice**

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To improve the disclosure standards and help shareholders make informed decision, the market regulator Securities Exchange Board of India (“SEBI”) came up with its Circular<sup>1</sup> dated February 6, 2017 asking top 500 listed companies to voluntarily adopt integrated reporting framework from next financial year. Therefore, amidst the barrage of amendments brought in by the regulators, it will be very interesting to see how the companies adopt this reporting requirement. The present Article explains the genesis, concept of Integrated Reporting along with the requirements introduced by SEBI.

### **Genesis of Integrated Reporting**

To understand the need of the 21st century, in 2009, The Prince of Wales together with various UN representatives including The Prince's Accounting for Sustainability Project<sup>2</sup>, International Federation of Accountants (IFAC)<sup>3</sup>, and the Global Reporting Initiative (GRI)<sup>4</sup>, established the International Integrated Reporting Committee (IIRC). The role of IIRC was to oversee the creation of a globally accepted Integrated Reporting framework. Thereafter, in November 2011, the Committee was renamed the International Integrated Reporting Council<sup>5</sup>.

Thereafter, on March 1, 2010 the Johannesburg Stock Exchange adopted the King III principles (Code of Corporate Governance Principles for South Africa) as part of its listing requirements, which requires listed companies to apply King III or explain which recommendations have not been applied and publicly provide reasons therefore. Because of this, for most companies in South Africa, the integrated report has become their primary report. Subsequently, various other countries started adopting the framework of integrated reporting.

### **Roadmap for Integrated Reporting in India**

Following the release of the International Integrated Reporting Framework (Framework) by IIRC on 9 December 2013, Mr. U K Sinha, the then Chairman of Securities and Exchange Board of India, invited Confederation of Indian Industry (“CII”) to develop a roadmap on integrated reporting for discussion with SEBI, on September 7, 2014 at the 9<sup>th</sup> Sustainable

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<sup>1</sup> [http://www.sebi.gov.in/cms/sebi\\_data/attachdocs/1486375066836.pdf](http://www.sebi.gov.in/cms/sebi_data/attachdocs/1486375066836.pdf)

<sup>2</sup> The Prince of Wales established his Accounting for Sustainability Project ([A4S](#)) to help the business community and public sector recognise the benefits of considering the environment and wider society as part of their mainstream day-to-day business decisions.

<sup>3</sup> [IFAC](#) is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies.

<sup>4</sup> [GRI](#) is an international independent organization that helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others.

<sup>5</sup> <http://integratedreporting.org/>

and Inclusive Solutions Summit organized by the CII-ITC Centre of Excellence for Sustainable Development.

Thereafter, SEBI vide Circular<sup>6</sup> dated February 6, 2017 had asked top 500 listed companies to voluntarily adopt integrated reporting framework from next financial year.

## **Highlights of the Integrated Reporting Framework ('the Framework):**

### ***Rising need of the investors for more information***

The reporting requirement for the companies has evolved drastically if we compare the same to past decade. The main crux of improving the reporting requirement is to satisfy the investors' demand for more information about the organization. Notwithstanding this evolution, the fact remains that there are still shortfalls in providing complete information about the organization to the investors, especially those relating to the reporting of strategy, risks and future performance of the organization.

The current era no more only depends or analyses the financial information of the company rather, the non-financial information even plays great role for the purpose of investment for the investors. However, the non-financial information is often disclosed in different ways and at times not disclosed at all, which makes it not easily comparable between organizations. Therefore, the need for more information related to the environmental and social governance has become much in demand these days as compared to earlier.

### ***Definition of Integrated Report***

An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.

### ***Purpose of the Framework***

The purpose of this Framework is to establish Guiding Principles and Content Elements that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them.

An integrated report explains how an organization creates value over time. It must be noted that value is not created by or within an organization alone rather it is directly or indirectly dependent on various factors which are influenced by the followings:

- the external environment
- relationships with stakeholders
- various resources

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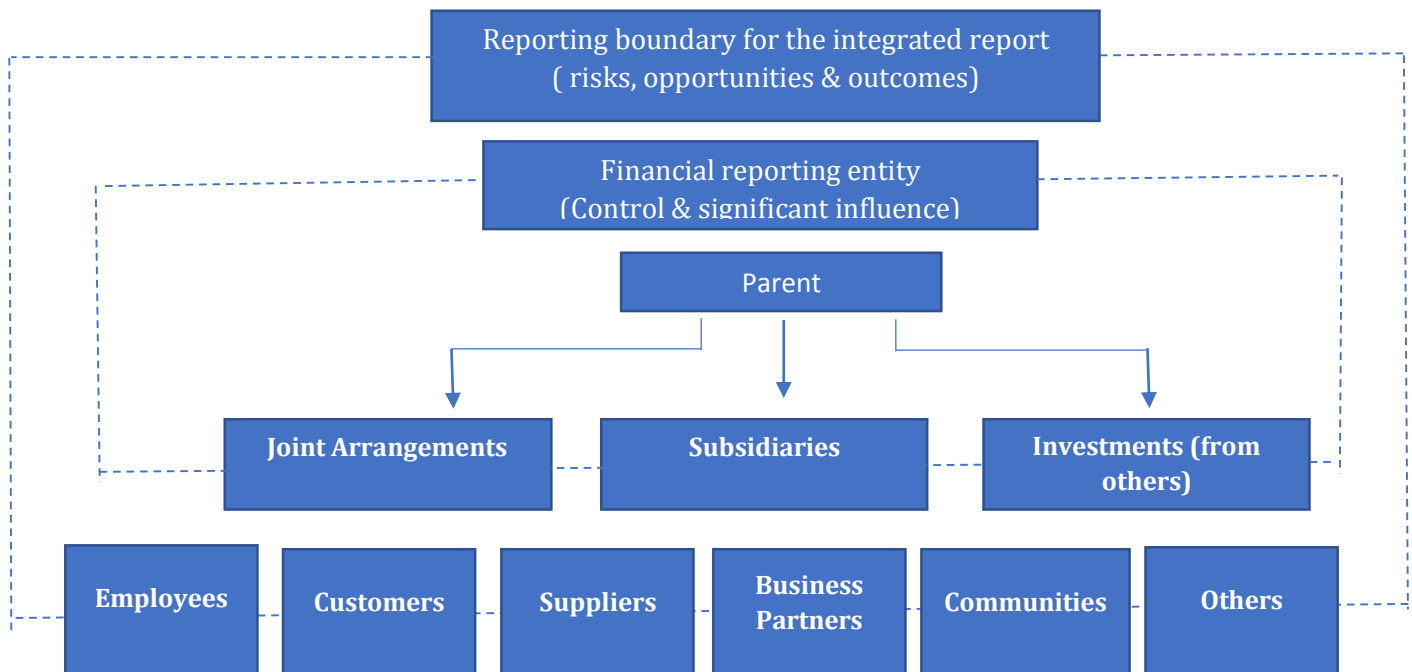
<sup>6</sup> [http://www.sebi.gov.in/cms/sebi\\_data/attachdocs/1486375066836.pdf](http://www.sebi.gov.in/cms/sebi_data/attachdocs/1486375066836.pdf)

## Reporting Boundary

The boundary for an integrated report should be based on the following two pillars:

- The financial reporting entity: The financial reporting entity is determined according to the applicable financial reporting standards which revolve around the concepts of control or significant influence.
- Risks, opportunities and outcomes: components associated with other entities/stakeholders beyond the financial reporting entity that have a significant effect on the ability of the financial reporting entity to create value.

The purpose of looking beyond the financial reporting boundary is to identify risks, opportunities and outcomes that materially affect the organization's ability to create value. The same is illustrated below:



Entities/ stakeholders considered in determining the reporting boundary (source: IIRC Framework)

## Principles prescribed in the framework:

The IIRC has prescribed the following seven guiding Principles which underpin the preparation of an integrated report:

Strategic focus and future orientation

- An integrated report should provide insight into the organization's strategy and how it relates to the organization's ability to create value in the short, medium and long term, and to its use of and effects on capital.

Connectivity of information

- An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time.

Stakeholder relationships

- An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.

Materiality

- An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term.

Conciseness

- An integrated report should be concise.

Reliability and completeness

- An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.

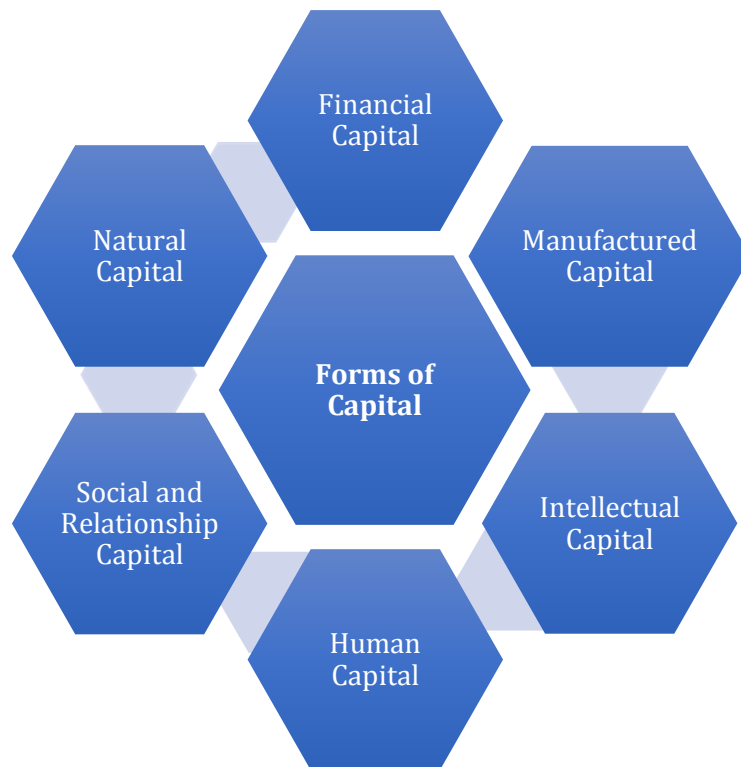
Consistency and comparability

- The information in an integrated report should be presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time.

### ***Organisation's dependency on various forms of capital:***

The Framework has emphasized the organizations dependency on various forms of capital for their success. Therefore, it is important that all such forms of capital are disclosed to stakeholders to enable informed investment decision making by them. However, it must be noted that not all capitals are equally relevant or applicable to all organizations. Because there may be instances where organizations interact with most of the capitals but for some capitals the interactions are relatively too minimal to be included in the integrated report.

IIRC has categorized the following forms of capital:



### **Separate Reporting Requirement**

SEBI has specifically mentioned in the Circular that the information related to Integrated Reporting may be provided to the public in the following way:

- in the annual report separately;
- by incorporating in Management Discussion & Analysis;
- by preparing a separate report (annual report prepared as per IR framework).

Further, if the company has already provided the relevant information in any other report prepared in accordance with national/international requirement / framework, then it may provide appropriate reference to the same in its Integrated Report to avoid duplication of information.

Also, as a green initiative, the companies may host the Integrated Report on their website and provide appropriate reference to the same in their Annual Report.

## Business Responsibility Report versus Integrated Report

Business Responsibility Report (BRR) acts as a tool to help companies understand the principles and core elements of responsible business practices and to start implementing improvements which reflect their adoption in the manner the company undertakes its business.

Whereas, integrated reporting is **one step further** - instead of reporting on financial performance and sustainability performance separately, or even within the same annual report, integrated reporting intends to show how the company manages and integrates environmental, social and financial thinking into its business.

The same has been illustrated in the following diagram:



## Conclusion

SEBI's continuous effort has been to protect the interest of the shareholders and to safeguard their rights. With the aim of providing a concise communication about how an organisation's strategy, governance, performance and prospects creates value over time and to provide both financial and non-financial information about an organisation to the shareholders, SEBI had asked top 500 listed entities to voluntarily adopt the integrated reporting framework from financial year 2018-19.

Further, the concept of integrated reporting is being discussed at various international forums since 2009. Therefore, it is high time for us to also adopt such reporting framework in order to secure competitive edge globally.

SEBI vide it's Circular, had provided one year's time to the top 500 listed entities to understand and implement such reporting framework (though voluntarily), it will be interesting to see how and when the companies adopt and implement such reporting framework.