INTEGRATED REPORTING: The Integrated Scoreboard (IS-FESG) and its XBRL Taxonomy

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Integrated Reporting: The New Corporate Reporting Model Paradigm

Experience in sustainability projects

Since 2006, The Spanish Accounting and Business Administration Association – Asociación Española de Contabilidad y Administración de empresas (AECA) – has been developing and applying research in the standardization of non-financial information, especially in the areas of environmental, social and corporate governance, promoting the latest technologies in the reporting process as these are crucial for the correct management of this information if it is considered valuable by companies and stakeholders.

- The availability of corporate social responsibility information has increased.
- It is impossible to compare these reports across time and organizations.
- There is no perceived clear return on the investment required to measure and report these indicators.

- AECA is the first global professional institution to promote the use of the XBRL standard (eXtensible Business Reporting Language) for the production and submission of corporate social responsibility information by the Internet.
- From the AECA experience, it is understood that change is needed: non-financial information has to be considered in the same terms as financial information.

For more information see: www.aecareporting.com
Reaching the stakeholders

“Corporate reporting plays an increasingly important role for the stakeholders and entities to sustain its relation in the long run.”
State of the art and future perspectives

The present landscape of corporate information is composed of compulsory and voluntary information in diverse areas with different approaches and final goals. In most cases, the emphasis is primarily on complying with legal and marketing requirements without any consideration of how this information could be useful and important to companies in terms of strategy and decision making despite the time and cost expended to create these reporting models.

- Effective communication through Web 2.0 and the social media environment.
- Participation in public collaborative analysis of Integrated Reports.

- **Integrated Reporting** represents future perspectives, where relevant, comparable, accessible and interconnected information from different areas is present in the day-to-day business of the companies, organizations and stakeholders.
What is Integrated Reporting?

Following the IIRC definitions published in the Discussion Paper of 2011:

Integrated Reporting:
- provides relevant information (materiality) about strategy, Corporate Governance, behaviour and the prospects of the company and its connection with the economic, social and environmental context in which it operates;
- provides a clear and concise representation of how an organization manages and creates value, both now and in the future;
- reflects what might be termed integrated thinking, that is consideration of different resources/capital classes and their interrelations – financial capital, productive capital, human capital, intellectual capital, natural capital and social capital;
- consistently combines the most relevant elements of corporate information which are currently reported separately (financial, corporate governance, management and sustainability reports), and shows the interconnections between them, explaining the way in which this affects the company’s ability to create value in the short, medium and long term.

CREATION OF VALUE IN THE SHORT, MEDIUM AND LONG TERM

RELEVANT INFORMATION
- Strategy and Governance
- Behaviour: Financial, Social and Environmental

INTEGRATED REPORT
- Strategic Information
- Governance / Compensation Information
- Financial Information
- Sustainability / CSR Information

CONCEPTUAL FRAMEWORK

Principles + Contents
- Descriptive Information
- Quantitative Information (KPIs)
Integrated Reporting and XBRL-enabled technology

Integrated reporting must encourage the development of applications for the generation, publication and analysis of integrated information, considering the advantages of relevant, quantitative, clear, concise and comparable financial and non-financial information.

What is XBRL?

XBRL is a business language, interpretable by software applications. It is a free, open technology prepared with a view to standardizing business reporting.

- It provides major benefits in the preparation, analysis and communication of business information.

- It is an open standard, free of royalties, with major acceptance by European and global regulators. That is why XBRL plays an interesting role when promoting and implementing new standards, such as the IFRS.

XBRL LANDSCAPE
The introduction of XBRL enables automated processing of business information by computer software, cutting out the laborious and costly processes involved in manual re-entry and comparison.

More information:
http://www.xbrl.org

IR TOWARDS XBRL
There is a need to use understandable language when reporting to provide reports accessible to all kinds of stakeholder.

XBRL STANDARD BY REGULATORS
It is widely used for financial reporting in Spain where it is mandated by the Bank of Spain, in the United States where it is mandated by the Securities and Exchange Commission (SEC), and also in the UK and other regulators all over the world.
Why is the technology suitable for Integrated Reporting?

XBRL has the capacity to assume the complete business model representation that Integrated Reporting needs.

- Able to define information from different fields: Financial, Environmental, Social and Corporate Governance.
- Capable of connecting existing frameworks:
  - Financial: USGAAP, IFRS, Spanish GAAP, etc.;
  - Risk: COREP (COmmon REPorting);
  - Environmental: Carbon Disclosure Project;
  - Corporate Social Responsibility: GRI, CCI, CGI;
  - Integrated Reporting: IS-FESG.
- Able to support multilingual definitions.
- Supports the definition of complex business rules and calculation constraints.
- Able to define details and legal references for each piece of information.
- Able to define how conceptual data are to be visually presented.
- Able to define a high level of data structures as multidimensional.

IR NEEDS XBRL
Integrated Reporting might move to an online environment and might be supported by online standards that effectively ensure its interoperability, not only in human-readable formats but also software-readable, such as XBRL.

XBRL: THE PIECES NECESSARY TO COMPLETE THE IR LANDSCAPE
Thanks to the XBRL frameworks available in both financial and non-financial areas and the most advanced XBRL tools, it has been possible to make a connection between the different information models, providing an advanced solution for reporting systems.
AECA and the Integrated Reporting Project


The working group comprises academics, auditors and representatives from the Bank of Spain, National Share Market Commissions, XBRL jurisdictions, IT companies and the five Spanish companies participating in the IIRC Pilot Programme: BBVA, ENAGAS, INDITEX, INDRA and TELEFONICA.

Results and road map

- **XBRL Taxonomy**: development of technological support in the reporting of integrated information based on XBRL-enabled technology, using the full potential of the standard and managing the process to obtain approval from XBRL International.
- **Real reports**: elaboration of the pilot programme companies’ cases of use according to the IS-FESG framework and generating reports in XBRL standard.
The measurement is oriented to be useful in internal management and external communications.

The Integrated Scoreboard: IS-FESG

The Integrated Scoreboard presents financial information, joined up with non-financial information in Environmental, Social and Corporate Governance matters (FESG), to represent business behaviour through a set of indicators.

The indicators are related to different levels in terms of strategic objectives and relevant risks.

Indicator fundamentals: KPIs and KRI s

These are based on accounting practices during the Renaissance when accounting and geometry were being brought together by Fra Luca Pacioli and Leonardo Da Vinci. In this context, their notions are reconsidered in a model that can represent the reality of business through a set of indicators.

An indicator is defined as a piece of information from which it is possible to determine if:

- it refers to flow or stock data;
- it is historical or prospective;
- it contains quantitative or qualitative data;
- it is reported by a company or about a company by any of its stakeholders.
Considering the pentagon, if the complexity is raised an additional dimensional level, and the figure obtained is projected onto a plane.

It is possible to divide KPIs by nature identified by the popular trio – profit, people and planet – to which a fourth could be added: pilots, to refer to Corporate Governance issues.

Based on the relationship between indicators of different natures: relative terms.

Based on the relationship between indicators of the same nature: relative terms.

Financial, Social, Environmental and Governmental values: absolute terms.
The evolution towards the integration concept

The double level of integration is achieved through:

- the levels of complexity indicators,
- and the connection with external financial, non-financial and risk frameworks.

**Complexity indicator levels**

Three levels of complexity are defined, based on the relationship between indicators of the same nature (same P) or different natures (different P).

- **Basic** will relate to the financial, social, environmental or corporate governance arenas;
- **Composed** will also relate to any of the four specific areas, but will be expressed in relative terms once divided by a reference to its area (i.e. revenue for financial indicators);
- **Complex** will put in relation drivers from different areas (i.e. financial vs. environmental).

**Connection with external financial and non-financial framework**

The financial information that composed the integrated scoreboard is connected to the financial frameworks: IFRS and Spanish GAAP.

The non-financial information is referenced to the most important sustainability frameworks: GRI and the United Nations Conference on Trade and Development, Intergovernmental Working Group of Experts on Standards and Reporting (ISAR).

The risk representation model is constructed through the extension of the existing solvency model Basel III.
### Financial indicators

#### Economic efficiency

<table>
<thead>
<tr>
<th>KPI_F1</th>
<th>Revenues</th>
<th>€</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI_F2</td>
<td>Suppliers expenses</td>
<td>€</td>
</tr>
<tr>
<td>KPI_F3</td>
<td>Added value</td>
<td>€</td>
</tr>
<tr>
<td>KPI_F4</td>
<td>Employee benefits</td>
<td>€</td>
</tr>
<tr>
<td>KPI_F5</td>
<td>EBITDA</td>
<td>€</td>
</tr>
<tr>
<td>KPI_F6</td>
<td>Financial expenses</td>
<td>€</td>
</tr>
<tr>
<td>KPI_F7</td>
<td>Owners retribution</td>
<td>€</td>
</tr>
<tr>
<td>KPI_F8</td>
<td>Income taxes</td>
<td>€</td>
</tr>
<tr>
<td>KPI_F9</td>
<td>Economic contribution to the community</td>
<td>€</td>
</tr>
<tr>
<td>KPI_F10</td>
<td>Public Administration expenses</td>
<td>€</td>
</tr>
<tr>
<td>KPI_F11</td>
<td>I+D+I Investment</td>
<td>€</td>
</tr>
<tr>
<td>KPI_F12</td>
<td>Total Investment</td>
<td>€</td>
</tr>
<tr>
<td>KPI_F13</td>
<td>Profitability</td>
<td>%</td>
</tr>
<tr>
<td>KPI_F14</td>
<td>Level of debt</td>
<td>%</td>
</tr>
<tr>
<td>KPI_F15</td>
<td>Treasury shares</td>
<td>%</td>
</tr>
</tbody>
</table>

### Environmental indicators

#### Energy efficiency and emissions

<table>
<thead>
<tr>
<th>KPI_E1</th>
<th>Energy consumption</th>
<th>GJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI_E2</td>
<td>Water consumption</td>
<td>m³</td>
</tr>
<tr>
<td>KPI_E3</td>
<td>Polluting emissions</td>
<td>GEI</td>
</tr>
</tbody>
</table>

#### Waste management efficiency

<table>
<thead>
<tr>
<th>KPI_E4</th>
<th>Waste generation</th>
<th>t</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI_E5</td>
<td>Waste processed</td>
<td>t</td>
</tr>
<tr>
<td>KPI_E6</td>
<td>Recovered waste</td>
<td>t</td>
</tr>
</tbody>
</table>

### Social indicators

#### Human capital

<table>
<thead>
<tr>
<th>KPI_S1</th>
<th>Employees</th>
<th>num</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI_S2</td>
<td>Gender diversity of employees</td>
<td>num</td>
</tr>
<tr>
<td>KPI_S3</td>
<td>Top management positions</td>
<td>num</td>
</tr>
<tr>
<td>KPI_S4</td>
<td>Gender diversity of top employees</td>
<td>num</td>
</tr>
<tr>
<td>KPI_S5</td>
<td>Job stability</td>
<td>num</td>
</tr>
<tr>
<td>KPI_S6</td>
<td>Absentee</td>
<td>num</td>
</tr>
<tr>
<td>KPI_S7</td>
<td>Employee turnover</td>
<td>num</td>
</tr>
<tr>
<td>KPI_S8</td>
<td>Net employment</td>
<td>num</td>
</tr>
<tr>
<td>KPI_S9</td>
<td>Seniority</td>
<td>num</td>
</tr>
<tr>
<td>KPI_S10</td>
<td>Employee training</td>
<td>num</td>
</tr>
</tbody>
</table>

#### Social capital

<table>
<thead>
<tr>
<th>KPI_S11</th>
<th>Legal regulation concerning customers</th>
<th>num</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI_S12</td>
<td>Payments to suppliers</td>
<td>num</td>
</tr>
</tbody>
</table>

### Corporate Governance indicators

#### Fair corporate governance

<table>
<thead>
<tr>
<th>KPI_CG1</th>
<th>Board members</th>
<th>num</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI_CG2</td>
<td>Independent board members</td>
<td>num</td>
</tr>
<tr>
<td>KPI_CG3</td>
<td>CSR board members</td>
<td>num</td>
</tr>
<tr>
<td>KPI_CG4</td>
<td>Executive Committee</td>
<td>num</td>
</tr>
<tr>
<td>KPI_CG5</td>
<td>Audit Committee</td>
<td>num</td>
</tr>
<tr>
<td>KPI_CG6</td>
<td>Nominations Committee</td>
<td>num</td>
</tr>
<tr>
<td>KPI_CG7</td>
<td>Meetings of the Board</td>
<td>num</td>
</tr>
<tr>
<td>KPI_CG8</td>
<td>Total remuneration of the Board</td>
<td>€</td>
</tr>
<tr>
<td>KPI_CG9</td>
<td>Gender diversity on Management Board</td>
<td>num</td>
</tr>
</tbody>
</table>
Key risk indicators are proposed, covering internal management and related to strategic objectives in connection with public communication, making the future verification process easier.

### Financial indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>KRI_F1</td>
<td>Economic efficiency</td>
<td>Number of events, Total loss amount, Maximum single loss</td>
</tr>
</tbody>
</table>

### Environmental indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>KRI_E1</td>
<td>Energy efficiency and emissions</td>
<td>Number of events, Total loss amount, Maximum single loss</td>
</tr>
</tbody>
</table>

### Social indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>KRI_S1</td>
<td>Human Capital</td>
<td>Number of events, Total loss amount, Maximum single loss</td>
</tr>
<tr>
<td>KRI_Si</td>
<td>Social Capital</td>
<td>Number of events, Total loss amount, Maximum single loss</td>
</tr>
</tbody>
</table>

### Corporate governance indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>KRI_GS1</td>
<td>Fair corporate governance</td>
<td>Number of events, Total loss amount, Maximum single loss</td>
</tr>
</tbody>
</table>

As in Basel III in terms of operational risk, they represent the relevant driver to measure risk level through the losses registered by the company related to several factors. Represents warnings for corporations. Allows the nurturing of several analytical and statistics systems with scenarios for the company so they can make provision about such risks.
The XBRL taxonomy: IS-FESG

This taxonomy uses the latest tools offered by the XBRL standard, positioning itself as one of the most advanced taxonomies in the world.

What is gained through the Integrated Reporting framework (IS-FESG) and the XBRL Taxonomy?

- **Real representation**
  - Financial, environmental, social and governance

- **Double level of integration**
  - The units (m3, ton, etc.). *XBRL 2.1 Specification*
  - Multidimensional structures. *Dimensions and Data Point Modeling (DPM) practice*
  - Business rules validation. *Formulae specification*

- **Risk representation**
  - Element complexity: basic, composed and complex. *Formulae specification*
  - Connection with financial regulations: IFRS and Spanish GAAP. *Formulae specification*

- **Architecture prepared for extensibility**
  - Through the existing XBRL international solvency framework, *COREP (Common REPorting) based on Basel III*
  - Including new outstanding indicators
  - New business rules validation
  - New level of integration with external XBRL taxonomies: for example, environmental indicators connected with *Carbon Disclosure Project (CDP) elements*.
The architecture of the XBRL Taxonomy offers a reporting toolkit

For a double purpose:

- From the issuer’s perspective: there is an interesting possibility to extend the taxonomy by adding new columns (dimensions) or validation rules (formulae) in order to increase the complexity of publishable reports and to adapt to the behaviours that both stakeholders and entity managers will be required to monitor.

- From the analyst’s perspective: it is possible to use additional dimensional relationships and/or formulae to perform specific treatments on entity data at the taxonomy layer without the need for software reprogramming.

XBRL provides an integrated reporting toolkit for both listed companies and SMEs, based on:

- the availability of International Financial Reporting Standards, together with national equivalent XBRL taxonomies for financial data;

- the existence of an internationally-acknowledged framework of Corporate Social Responsibility for both listed companies and SMEs proposed by AECA and acknowledged by XBRL International;

- the advantages of XBRL and open source applications in promoting integrated reporting and efficient validation, reutilization, rendering, sharing and analysis of corporate data.
Early adopters

AECA proposes the use of the Integrated Scoreboard - Financial, Environmental, Social and Corporate Governance (IS-FESG) and the XBRL Taxonomy. The group of Spanish listed companies participating in the pilot programme of the IIRC in 2012, decided to apply it, to establish its feasibility and technical/conceptual applicability.

The second largest bank in Spain: operates in 40 countries, with a strong presence in southern European countries, especially Portugal and Italy, and has expanded into Latin America, United States and Asia.

The largest Spanish broadband and communications provider: operates in Europe, the United States and Latin America and is the fifth largest mobile provider in the world.

The largest natural gas transport company in Spain.

One of the world’s largest fashion distribution groups: operates in 77 countries in Europe, America, Asia and Africa.
Final considerations: what has been done and how?

- The **IR scenarios** are becoming a **reality**, first for listed companies and SMEs, which have a major stake in generating welfare and employment as there is considerable concern in Europe in terms of ensuring they are competitive.

- To provide a realistic first step in the proposed direction and contribute a scenario in which SMEs can gradually acquire the skills that will be needed in the new framework, the aim of AECA is to undertake an international XBRL project that will provide an integrated reporting toolkit for both listed companies and SMEs.

**Future directions**

This proposal is expected to be tested by major Spanish and international companies during 2012 and 2013.

It is necessary in the future to develop the way in which an Integrated Report will work in every industry — **sector extensions procedure**.

Ways for Integrated Reporting to become required by regulators will be defined — **procedures in main regions and dialogue with standard setters**.
Asociación Española de Contabilidad y Administración de Empresas

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