IIRC Focus Group Spain

AECA. Madrid. April 21st, 2017

Abstract.- The aim of this document is to communicate the main results of the IIRC Focus Group that took place in Spain on 28th March. It was organized by the Spanish Accounting and Business Association (AECA, Asociación Española de Contabilidad y Administración de Empresas). It counted with the attendance and active participation of the main regulatory bodies in Spain (The Bank of Spain-Central Balance Sheet Data Office Division, The Spanish Institute of Accounting and Auditing, The Spanish Security Exchange Commission and The Business Registers) along with major listed corporations like BBVA, Inditex, Indra, Repsol and Telefonica. Representatives of other relevant stakeholders were also present like Spanish Institute of Internal Auditors, the prestigious law firm Garrigues, academics and independent certified public accountants. They all together analyzed the challenges of implementing the <IR> Framework in both the reporting and analysis stages and its interaction with forthcoming regulatory efforts in Europe.

Structure/design of the meeting.- The main goal was to produce a comfortable environment, to guarantee the anonymization of particular comments and to favour maximum communicative scenario. Both plenary tracks with parallel small working groups were organized, using design thinking techniques to promote consensus and to graphically analyze discrepancies around concepts. The sessions were developed in Spanish.

Some demographics.- 23 attendees, including Jyoti Banerjee, Director of the <IR> Technology Initiative, who introduced the session with José Luís Lizcano, managing director of AECA. Of these, 5 representatives from regulatory bodies, 2 internal auditors, 2 academics, 1 independent CPA, 1 representative of Garrigues in which premises took place the event. Corporate representatives were selected from both financial reporting specialists and those in charge of sustainability reporting.

Key ideas after the discussion.- In this section we provide the most relevant comments which a reasonable consensus achieved.

> #1: The implementation of the <IR> Framework has an impact on the organizational structure, as it reinforces collaboration between different departments, particularly when dealing with data consolidation tasks and with reporting based on a multi-framework and multistakeholder scenarios (i.e. CDP + GRI4 + IIRC…). However, it is unclear the impact on decision-makers. At the moment, it seems that the integrated reports or reports which follow the IR

principles are generating interest to concrete stakeholders to gather further information.

#2: With the effort of creating an integrated report, firms seems to be better prepared to face new regulations. Concretely, the management report was mentioned several times as the report that it is being used to incorporate IR principles.

#3: There is little evidence on how publishing and integrated report improves the behavior of relevant stakeholders like investors. In other words, it is unclear the final impact and changes caused on users of this information.

#4: The majority of the firms agree that the integrated principles represent a guidance to communicate better their story and value creation in the short, medium and long-term to a diverse multi-stakeholder group: customers, regulators, investors, employees and general society were mostly mentioned. Also, the idea of the integrated thinking to carry out the exercise of the integrated reporting help them to move from a scenario of individual silos inside the organization to a more collaborative and coordinated driven approach between departments. Some companies materialize the integrated principles for external reporting in:

(1) an integrated report
(2) an integrated report and the management report
(3) a unique management report used as an index to link more extensive and detailed reports.

#5: Build from the previous point, there is a strong feeling that the Framework can help to improve the current structure and content of the Management Report. This report is a relevant part of the compulsory reporting and, subsequently, is signed by the Management Board. Some firms identify the integrated report as their new way to prepare their management reports.

#6: Some firms highlight that the previous reporting were too specialized (i.e. financial reports to investors, social reports to current and potential employees, etc.) but with the Framework they feel that all types of stakeholders can benefit from data of every dimension.

#7: Regulators and some firms agree in the idea that the Framework should also take into account and evolve with those features of management reports, how these are prepared and the regulation that affects them.

#8: Regulatory bodies agree on the need to evolve the integrated information into structured, homogeneous and digital data to be comparable and easy to analyse. Find the balance between story-telling and value creation approach to comparable and analyzable information is fundamental to be further considered.

#9: Some reporting entities emphasised that it is sometimes hard to harmonize the Framework with the application of GRI guidelines or to evolve from GRI to IR. Moving from a management approach to capitals is a difficult step.

#10: When talking about subsidiaries and suppliers, these firms tend to use also relevant parts of the Framework in their reporting practices, under the influence of major listed corporations, but not to the extent that should allow them to declare these reports as *<IR>-compliant*. There is a big gap regarding how to define a report as compliant enough with respect to the Framework.

#11: There is a strong bias in favour of positive aspects. There is a strong pressure to avoid reporting negative impacts. This fact is found by the users as a weakness to consider this information reliable.

#12: At the moment, the most common format to access the integrated information is PDF. There is a clear consensus among regulatory bodies, analysts and some companies that this format is not adequate for analysis when there are many reports to analyse. About this, the regulatory bodies emphasised that till 1994 they were in the same situation with the annual reports. Reason why they recommend to IIRC to explore and follow some of the steps learnt in regulatory reporting during more than 20 years, exploring initiative that wants to structure, harmonize and facilitate the exchange and analysis of information, such as XBRL.

#13: The IFRS and other frameworks clearly detail their conceptualization of value. The Framework does not provide enough clarification on this, despite the fact that value creation is a central idea.

#14: A revision of the Frameworks should incorporate common quantitative and qualitative common information, defined time frames and more concreteness on what the `value´ means, etc. Otherwise, usefulness and comparability are simply not possible.

#15: The key driver for this new type of reporting are the Responsible Investors. Non-financial information is becoming in a question of identifying new risks and creating new market opportunities.

#16: Sustainability metrics can create business opportunities like better engagement with key suppliers in a responsible supply chain, reinforce internationalization by promoting respect and acceptance by local communities, etc.

#17: Qualitative information lacks appropriate standardised technologies to process it. The great hope for that are the recent developments of Data Science under this Big Data Scenario. More collaboration with academics is encouraged.

#18: A good way to reach shorter, more concise report is to refine the process around materiality, not only in terms of agreements with stakeholders, but also, as it happens in the financial reporting, setting relative importance regarding size, impact, etc.

#19: The main challenge to guarantee connectivity between data from different dimensions (i.e. sales/GHG emissions) is to combine data of discordant reliability. Connectivity should be considered later, once some auditing standard is applied, similar to those applied to the financial data. Consolidation of data is also a key aspect that makes datasets less comparable or suitable for combinations like ratios.

#20: Quarterly reporting is also required for non-financial reporting.

#21: An interesting emerging practice is highlighted: half year non-financial reporting by means of management reports, inspired by the guidelines provided by both AECA and the Spanish Stock Exchange Commission (https://goo.gl/k3Iy1P)

#22: A strong debate took place regarding the role of capitals in the Framework and in the integrated reports, with several relevant conclusions: (a) the most influential capital is the Financial one; (b) Human and Social Capital are better understood together; (c) there is not a clear connection in the Framework between value creation and changes in capital as both concepts are too fuzzy (d) firms do not tend to consider as capital those factors whose appropriation schema is not clear; (e) In general, the concept of the different capitals is difficult to understand by the users of the integrated information, this is in part because capitals are initially understood as assets.

#23: The Framework seems to be too focused on industrial firms and there is not a clear connection to the services which are the essence of modern economies.

#24: The forthcoming EU Directive on non-financial reporting and the subsequent EU guidelines on the same topic, when focusing on too big firms, are actually discouraging other (smaller) corporations to evolve in their non-financial reporting and, in parallel, this can be an obstacle for the popularization of the Framework.

#25: The Framework still lacks the required level of concreteness to play a relevant role in initiatives like the UN 2030 sustainable development goals. The Frameworks should evolve till the level of proposing KPIs to fill this gap.

Some final considerations.- All members have a positive opinion about the efforts of the IIRC in promoting a better reporting scenario. The majority agree that Integrated Reporting is guiding the right direction of the future corporate reporting. However, several pending challenges are identified:

- With respect to gaps detected in the reporting process in order to fully apply the Framework:
    - departmentalization: internal obstacles to capture high-quality data and to balance positive and negative impact
    - lack of commitment from the management board unless linking integrated report to compulsory management report
    - Lack of legal form of these non-financial standards
    - To boost a major adoption of the integrated information with more consideration by firms and their management board, it is very important, in this initial stage: (1) to better integrate this framework in coming regulations, such as the European Directive for non-financial reporting, as well as, (2) activate the investor demand for this kind of information.
- With respect to gaps detected in the current form of the Framework to facilitate the utilization of the information:
    - a strong need for more detailed definitions around the concepts of value and capitals
    - the need for a common quantitative and qualitative information, preferably by sector, in addition to story-telling and value creation.
    - the need for more risk and opportunities information and goals.
    - the lack of a compliance checklist that allows firms to clearly assess how far they are of having a complete integrated report
    - a more intense collaboration between the IIRC, IT initiatives and major alignment with reporting strategies, technologies and formats adopted in current and coming regulatory reporting.
    - The lack of IT infrastructure to treat heterogeneous data (Big Data challenge)