

Integrated reporting: Corporate perspective in India

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Bombay Chamber
of Commerce & Industry

www.bombaychamber.com





Background

Globally and in India corporate reporting has evolved significantly over the last decade to be more transparent, relevant and comprehensive in providing information to key users and stakeholders. The Companies Act 2013, Corporate Social Responsibility Legislation, SEBI Listing Requirements, Business Responsibility Reporting, etc., are some of the key regulatory developments in India that are focused on improving the quality of disclosures and increasing business accountability towards societal issues.

The SEBI circular of February 2017¹ takes this evolution a step further by encouraging the top 500 companies to adopt the <IR> framework. The circular delivers on the IOSCO Principle 16 that states 'there should be full, accurate and timely disclosure of financial results, risks and other information that is material to investors' decisions'. SEBI recommends that Integrated Reporting <IR> may be adopted on a voluntary basis from the financial year 2017-18 by the top 500 companies, which are required to prepare Business Responsibility Report (BRR). The information related to <IR> may be provided in the annual report separately or by incorporating in Management Discussion & Analysis or by preparing a separate report (annual report prepared according to <IR> framework). Subsequently in 2017, SEBI formed the Kotak committee to help improve corporate governance in listed companies.

It's not only the regulators but also corporates who have started realising the need to have a fundamental change in reporting wherein the focus is not on the financial capital but on demonstrating the value created by the entity while operating within its economic, social and environmental system. The intended change requires in-depth understanding of all the building blocks of the value creation process of business, to enable corporates to develop a reporting model, which gives an insightful picture of its performance and is considered sufficient to assess the quality and sustainability of their performance.

In India, information on emissions management, water conservation, energy reduction, human rights and similar topics are included in the annual report or published in a separate Sustainability Report (SR). The transition from CSR to SR focused on moving from philanthropic social impact to stating the impact on natural and human capital. Moving to <IR> broadens the report to be inclusive of all materially relevant capitals, connecting them to business risks, decisions and outcomes in the short, medium and long term.



1. Securities and Exchange Board of India, Integrated Reporting by listed companies, February 6th 2017: https://www.sebi.gov.in/sebi_data/attachdocs/1486375066836.pdf



Integrated Reporting <IR>

<IR>² is a framework that applies principles and concepts focused on bringing improved cohesion and efficiency to the reporting process. <IR> allows a business to tell its value creation story in a cohesive and holistic manner and ultimately enables efficient and productive allocation of capital.

<IR> advocates disclosures of materially relevant aspects that affect the value created by an organisation. This includes key financial and non-financial indicators, governance and risk management, strategic outlook and the actions taken by the company towards it.

The framework builds on core principles of transparency and proactive disclosures that improve the efficacy of investor decisions, while also allowing for flexibility in content and style of reporting. It connects past performance with current strategic actions as well as future plans and takes into account interdependencies of the six capitals that will help companies achieve these plans.

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, accounting professionals and NGOs. The IIRC is responsible for leading development and adoption of the Integrated Reporting <IR> framework across the globe.

For further details, please visit integratedreporting.org

“An integrated report is a concise communication about how an organisation’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.”

Summary of the <IR> Framework’s Fundamental Concepts, Guiding Principles and Content Elements

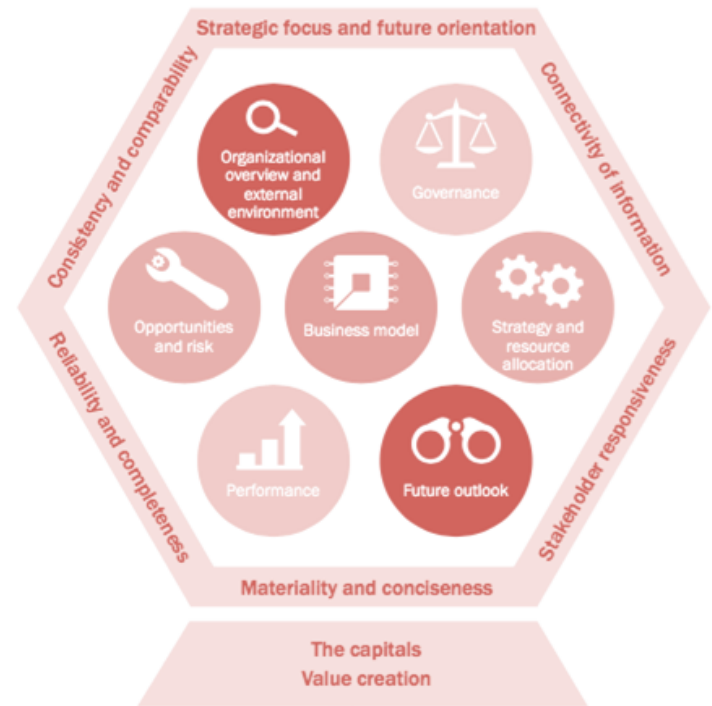


Fig. 1. Summary of the <IR> Framework³

Table 1: Traditional reporting vs Integrated Reporting⁴

| | Current model | Integrated Reporting |
|--------------|-------------------|---|
| Focus | Past, financial | Future, connected, strategic |
| Timeframe | Short term | Short, medium and long term |
| Detail | Long and complex | Concise and focus on material issues |
| Compliance | Rule bound | Responsive to circumstances |
| Presentation | Paper based | Technology based |
| Thinking | Silos | Integrated |
| Stewardship | Financial capital | All capitals (human, intellectual, social, natural and similar) |

2. International Integrated Reporting Council, The international <IR> framework, Dec 2013: <https://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf>

3. IIRC Consultation Paper, September 2011

4. www.integratedreporting.org



Reporting overload?

The quick succession of regulatory changes and global mandates has created a sense of reporting fatigue and confusion on reporting formats. Information overload can impact both the reporter and the user— hence, addressing issues of relevance, redundancy and conciseness of corporate reporting is critical. <IR> supports addressing some of these issues through:

- Adoption of a principles-based approach that allows companies the flexibility to provide content based on sectoral, regulatory and user requirements rather than a pre-fixed list of wide ranging indicators.
- Materiality and connectivity are two critical facets of <IR>, which enable companies to understand and communicate effectively on issues, indicators and narratives that affect its ability to create value for stakeholders. Connectivity across strategies, business models, capitals and performance ensure a consistent storyline in the report.

Furthermore, the SEBI circular allows for mapping common aspects across various reports to allow for conciseness and reduce redundancy errors. For example, natural capital information can be mapped to environmental indicators used in sustainability reports and BRR using common indicators and page number references.





Corporate perspective

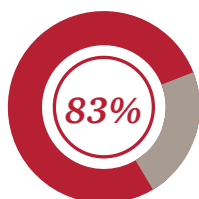
Recently the Bombay Chamber of Commerce and Industry and PwC jointly conducted a survey to better understand corporate India's approach and outlook towards <IR>. Respondents representing top Indian companies across functions such as

finance, corporate communications, investor relations and sustainability participated in the survey. Key findings of the survey are discussed below:

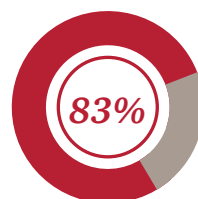
Better understanding



90% of the participants believed that <IR> will improve boards' understanding of how companies create value.



83% of the participants said that <IR> will help them to better understand and depict business risks and opportunities.



83% of the participants said that through adoption of <IR>, investors and providers of financial capital will better understand the organisation's business strategy and will help in better decision making for responsible investment.

Relationships



90% of the participants believed that through the value creation process of <IR>, they will be able to build better relations with external stakeholders.

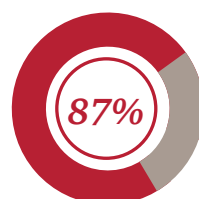


83% of the participants believe that by adopting <IR> they will be able to better collaborate internally.

Benefits

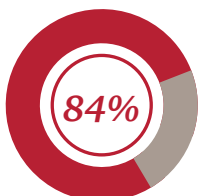


80% of the participants believe that <IR> helps inculcate the sustainability culture within the organisation.



87% of the participants believe that <IR> is a tool which will help to integrate various forms of financial and non-financial reports.

Willingness to adopt <IR>



84% of the participants said their organization had either already adopted <IR>, initiated the process or were eager to adopt in near future.

Opportunities

Most of the participants believed that <IR> adoption in India could be accelerated by

1. gaining clarity on investor interests
2. leveraging technology and information systems
3. more guidance on <IR> requirements

Overall, companies agreed that <IR> will be a valuable framework to take care of the above issues and improve communications with key stakeholders. Furthermore, across different sectors, companies are willing to take lead in adopting the <IR> framework and pioneer efforts in increased transparency and disclosures.

Companies believe that regulatory influence, investor interest in long-term value creation, climate change mandates and increased societal awareness have been instrumental in making companies look beyond the short term, that is towards creating value for itself and the society as a whole; and <IR> is a great tool for delivering on that shared value.



Looking ahead

*As companies are getting started with <IR>, they are likely to need to embed the approach of **integrated thinking** throughout their decision-making process, to identify how the organisation uses and affects its important capitals, as well as trade-offs between capitals, in its value creation process. The following steps are suggested for corporates to start their <IR> journey:*

- *Understand their existing practices and undertake an as-is analysis of their reporting based on requirements of <IR>*
- *Benchmarking against what peers/industry leaders are doing*
- *Create awareness on <IR> amongst the management/different functional leaders*
- *Brainstorm and create a two to three-year roadmap for implementing <IR>*
- *Create and publish an <IR>*

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About Bombay Chamber of Commerce and Industry

An Institution of 182 years...

Established in 1836, The Bombay chamber of Commerce and Industry, has achieved the distinction of being India's oldest Chamber of Commerce to serve its members without a break for 182 years. The Chamber provides a forum for interaction of its members and formation of considered industry opinions and viewpoints.

Bombay Chamber comprises the cream of Indian industry ...

The Chamber can boast not only of its longevity but also of its impeccable lineage. With more than 3500 prime companies as its members, the Chamber represents the cream of Indian Industry, Commerce and Services.

It has a presence beyond Mumbai...

While the name 'Bombay Chamber' conjures up images of an organization representing exclusively a city-based membership, in reality it represents a wide spectrum of highly reputed and professionally run companies which are based in the city of Mumbai, but whose manufacturing facilities and commercial influence are spread all over India and internationally.

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