



Spotlight on Integrated Reporting

COMMUNICATING VALUE CREATION TO CAPITAL MARKETS

The Spotlight series highlights important developments shaping the future of corporate reporting and how companies can take advantage of them.

Integrated Reporting: Explaining how your company's business model, strategy, governance and risk management lead to value creation over time

Is your company communicating effectively all the relevant information investors need to evaluate its prospects and understand how it creates value? Is it possible to present this information in a more complete, concise and connected way?

The Issue — Fragmented Reporting

The many mandatory and voluntary disclosures companies make today have evolved piecemeal over the years without the benefit of an overall framework to connect them. The result is a mosaic of information from which it can be difficult to discern the full scope of factors that drive and explain a company's performance and illuminate its future prospects for value creation.

The Questions — Some Questions to Be Answered by Corporate Reporting

Understanding how a company creates value is a central consideration in the decision-making of reasonable investors, especially institutional investors with long-term investment horizons.

Forward-looking C-suite executives and boards of directors regularly address and rethink critical questions such as the following:¹

1. What does our company do? What business are we in?
2. What is our business model for creating value now and over the longer term?
How dependent are we on supply chains, brand value and innovation?

¹ The following questions are based on the "10 Elements of a Long-term Strategy" set out in *Integrated Reporting for a Long-term Strategy* by Michael Krzus, March 2017, see <http://integratedreporting.org/resource/michael-p-krzus-integrated-reporting-for-a-long-term-strategy>

3. What are the key drivers, resources and relationships on which we depend to execute our business model and create value now and in the future? How do our operations and outputs impact those resources and relationships?
4. What is the external landscape in which we operate (e.g., megatrends, markets, competitors, regulations, etc.) and what assumptions have been made about the future? What future scenarios have we considered?
5. What unique or distinctive competitive advantages do we have (e.g., innovation, technology, talent, access to resources, etc.)? How are we deploying these?
6. What are the principal risks and uncertainties we face and how are we addressing them to minimize their potential impact on future value creation?
7. What environmental or social issues, if any, represent risks or opportunities that could materially impact future value creation? How are we addressing these?
8. What are our short- and longer-term strategic objectives for value creation and what are our multi-year plans for achieving them? What resources have we allocated to achieve these objectives?
9. What performance indicators and metrics do we use to track progress toward longer-term strategic objectives and key performance targets? What do they reveal about progress we have achieved in the latest reporting period?
10. Have we established executive compensation and governance structures and processes conducive to achieving our longer-term strategic goals and value creation?

Does your external reporting address these questions in a timely, comprehensive and connected manner genuinely resonant with and useful to investors?

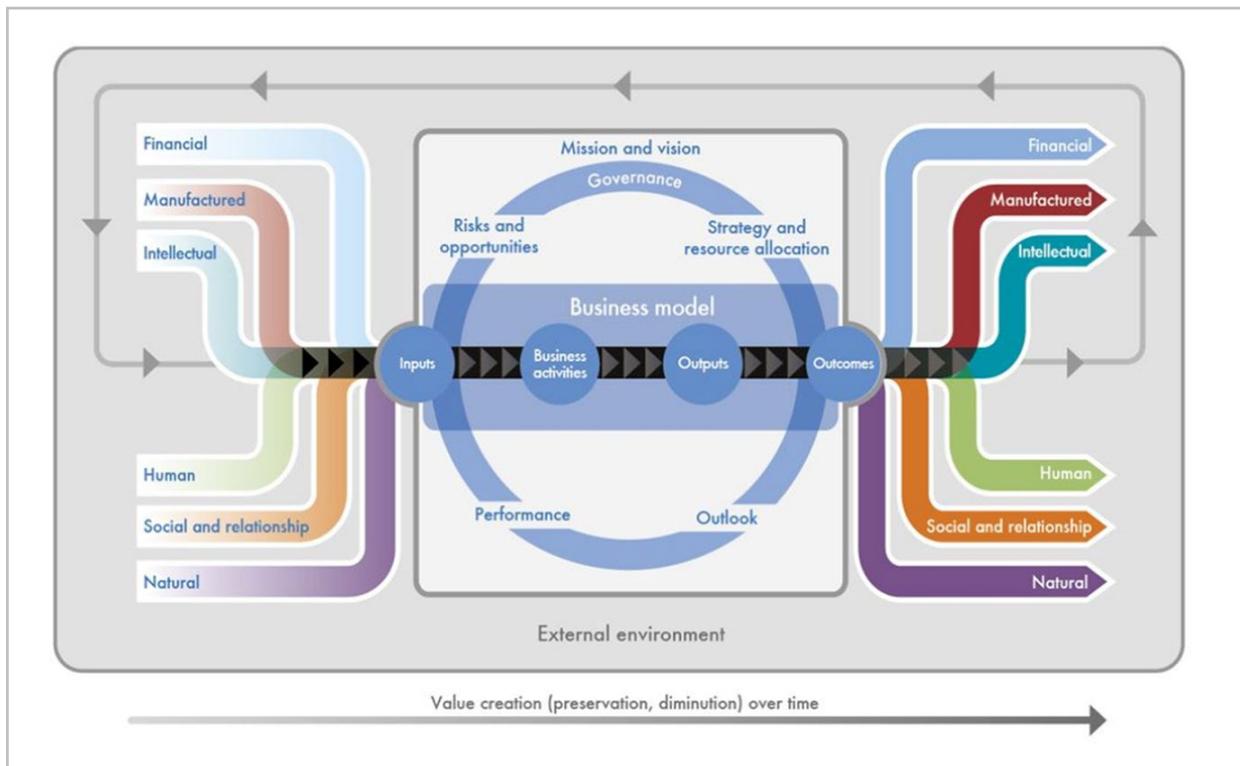
The Opportunity—Toward a More Cohesive Reporting Package

Some companies may see an opportunity to move to a more cohesive, meaningful reporting package by voluntarily adopting aspects of the International Integrated Reporting (<IR>) Framework developed by the International Integrated Reporting Council (IIRC), a coalition of global accounting, business and investor organizations.

The International <IR> Framework provides a structure for the preparation of a concise external report that answers the 10 questions above. Such a report would provide insights into how a company creates value, how it has done so recently, and how it expects to continue doing so over the longer term.

The International <IR> Framework introduces and builds on three fundamental concepts:

1. Value is created over time by and for the company (which enables returns to providers of financial capital) and for other stakeholders whose interests are affected by the company.
2. Value creation depends on various resources and relationships, which the International <IR> Framework categorizes as “capitals” (i.e., financial, manufactured, intellectual, human, social and relationship, and natural).

INTEGRATED REPORTING – THE SIX CAPITALS²

3. Understanding a company's value creation process requires an understanding of its:
 - business model and how it draws upon and impacts the full range of financial and other resources or capitals on which it depends, including the connectivity and trade-offs among them
 - external environment
 - governance structure, systems and processes that ensure the company remains focused on objectives for long-term value creation and adapts as needed to change, risk and opportunities.

Accordingly, without prescribing specific formats or metrics, the International <IR> Framework calls for an integrated report to be structured around eight main Content Elements:

1. Organizational overview and external environment
2. Governance
3. Business model
4. Risk and opportunities
5. Strategy and resource allocation
6. Performance
7. Outlook
8. Basis of preparation and presentation

² Image used with the permission of the IIRC and sourced from the International <IR> Framework at <http://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf>

These headings should be easily recognizable for many corporate reporters, especially those familiar with CPA Canada's publication *Management's Discussion and Analysis: Guidance on Preparation and Disclosure* ([CPA Canada MD&A Guidance](#)).³ Like this publication, the International <IR> Framework drives a holistic depiction of how a company creates value for itself and others over time, as well as the underlying conditions, systems and assumptions necessary for this to occur.

DID YOU KNOW?

A handful of Canadian companies are experimenting with Integrated Reporting and have adopted various aspects of the International <IR> Framework in their reporting. These include The Co-operators Group Limited, Potash Corporation, and Vancouver City Savings Credit Union (commonly referred to as "Vancity").

Other companies may see an opportunity to move closer to the goals of Integrated Reporting by optimizing existing MD&A and AIF⁴ reporting and by adopting elements of CPA Canada's MD&A Guidance and select features of the International <IR> Framework. This could be a practical, middle-ground approach appealing to those who prefer to align with Canada's regulatory system, and still realize the internal management benefits associated with Integrated Reporting.

The Action

Examining the opportunity to adopt a more integrated and value-oriented approach to reporting could benefit companies as they gain fresh insights into their business model, dependencies and impacts, while encouraging C-suites and boards to take longer-term views of strategy, risks and opportunities.

CPA Canada encourages companies to continue to experiment with best-in-class external reporting. To this end, CPA Canada will continue to issue guidance to help preparers steadily improve their corporate reporting.

For more information on Integrated Reporting, go to:

www.theiirc.org

http://integratedreporting.org/wp-content/uploads/2017/07/IIRC_IR2016_IntegratedReport.pdf

www.ifac.org/publications-resources/creating-value-smes-through-integrated-thinking

³ www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/mdanda-and-other-financial-reporting/publications/guidance-for-mda-preparation-and-disclosure

⁴ Form 51-102F2 *Annual Information Form*

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