Integrated reporting: the new big picture

Consultative draft submitted for global feedback during the next 90 days

By LYNN KAN

INTEGRATED reporting, or corporate reporting that goes beyond compliance disclosures and financial numbers, has submitted its first consultative draft to the world’s scrutiny and feedback for the next 90 days.

The draft was yesterday launched in 15 locations, including Singapore, the first step towards its formal introduction in December.

The IR aims to provide a clearer, more concise means of communicating a company’s financial information as well as non-financial capitals, such as intellectual property and social relationships, to providers of financial capital and investors.

In the future, the IR could be what distinguishes “good companies”, the director of the International Integrated Report Council (IIRC), Jane Diplock, yesterday told BT.

“It’s much more likely that integrated reporting will become the norm for good companies and capital will flow to them at a lower price. It will be an indicator of good governance,” she said. Companies that do not adopt it “run the risk of getting marginal that is more expensive”.

About 100 businesses have signed up to be part of the pilot programme and another 50 institutional investors have adopted the IIRC’s pilot investor network.

How widespread the IR will be is unclear. For one thing, it will not be a mandated form of reporting because it is meant to be business-led and investor-led, explained Ms Diplock.

At the launch event at the SGM Centre auditorium yesterday, the benefits touted were many.

The IR could explain intangible assets of a company better than the standard balance sheet report can.

It could also increase the credibility of a company, encourage greater truth-telling and create greater value for shareholders when silos are broken down within the company to produce the IR.

However, smaller companies may not plunge into it right away.

“While there are significant advantages for companies to go onto the IR bandwagon, companies have to be mindful of the substantial increase in the cost of producing such a report,” said Cheung Pui Yuen, regional managing partner of assurance and advisory at Deloitte Singapore and South-east Asia.

The IR will most likely be embraced initially by large-cap companies with a global footprint, said Chen Voon Hoe, a partner at PricewaterhouseCoopers.

The tendency is reflected by the names on the IIRC’s business network list: Coca-Cola, HSBC, Hyundai, Tata Steel, Unilever and Petrobras.

“(Large companies) stand to benefit most from IR given the complexities of their businesses and stakeholders,” said Mr Chen. “The framework provides a clear and cohesive way of explaining the critical links and interdependencies that are essential for effective communication of current performance and future prospects.”

CPA Australia’s Singapore divisional president Themlin Suwardy thinks that corporates which already produce sustainability reports or corporate social responsibility reports would gravitate towards the IR.

“Integrated reporting would bring these separate reports on to the same platform than the more traditional financial reporting to shareholders,” said Prof Suwardy, who is also Associate Professor of Accounting Practice at the Singapore Management University.

DBS Bank is the only Singapore company in the IIRC’s pilot programme and it incorporated integrated reporting in its first annual report for FY2012. Mikkel Larsen, managing director of tax and accounting policy at DBS Bank, said the IR suited the bank, which has striven to communicate its nine strategic priorities.

With the IR still in an embryonic stage, there is also a need for assurance capabilities to develop alongside the IR, pointed out Mr Chen.

The system for auditing financial numbers is well-established, but when auditors have to look at new elements like future-oriented statements or KPIs (key performance indicators) that would allegedly feed into financial outcomes, that raises some challenges, he said.