Report on Investors’ Roundtable and Engagement Session with Public Listed Companies by the Integrated Reporting Steering Committee,
5 & 6 August 2015
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INTRODUCTION

About Investors’ Roundtable and Engagement Session with Public Listed Companies

The Integrated Reporting Steering Committee (IRSC) held an Investors’ Roundtable and an Engagement Session with Public Listed Companies (PLCs) on 5 and 6 August 2015 respectively.

The purpose of the Investors’ Roundtable is to explain to local investors on the value creation of Integrated Reporting (<IR>) and understand their demand for <IR>. On the other hand, the IRSC aims to create awareness on <IR> for potential adopters and to assist on implementation of <IR> for early adopters during the Engagement Session with PLCs.

The events were kick-started with welcome remarks by Datuk Johan Idris, Chairman of the IRSC. Included in the programme were presentations by representatives from the International Integrated Reporting Council (IIRC) i.e. Jonathan Labrey, Chief Strategy Officer and Michael Nugent, Technical Director. The IRSC also invited Pru Bennett, Director of the BlackRock, Mikkel Larsen, Managing Director of the DBS Group Holdings Ltd and Suresh Gooneratne, Chief Financial Officer of the Diesel & Motor Engineering PLC to join as panellists of the panel discussions.

The roundtable and engagement session attracted a total of 130 participants.
About the IRSC

The IRSC was established within the Malaysian Institute of Accountants (MIA) on 18 December 2014 upon the recommendation of the Securities Commission Malaysia. The Committee focuses on creating the awareness on and promoting the <IR> in Malaysia.

The objectives of the Committee are:
• To perform research and shape thinking on <IR>;
• To educate stakeholders and organisations and to promote the adoption of <IR> in Malaysia;
• To provide support to organisations who have adopted <IR>;
• To engage stakeholders and organisations in shaping the continued development of <IR>; and
• To give recognition to adopters and promote excellence in <IR>.

During 2015, IRSC carried out various activities in promoting <IR> which included collaboration with Association of Chartered Certified Accountants (ACCA) on <IR> Survey, participation in <IR> Business Network under IIRC, conducting focus group dialogue with selected PLCs, publication of <IR> articles in Accountants Today and others.
Message from the Chairman of IRSC

<IR> is about how organisations create value over the short, medium and long term. The IIRC is calling for better information flows and encouraging various stakeholders to recognise the interconnection of capitals, so is the IRSC. It is hoped that this route will put an end to the existing corporate reporting which focuses on short-term thinking and decision making, instead encourage better dialogue between investors and businesses for improved strategy, resource allocation and value creation over the short, medium and long term.

<IR> is no longer new at the international level. In fact, it has already been adopted in many countries such as the United Kingdom, Japan, South Africa, Singapore, etc. The King Code of Governance Principles for South Africa even made it a mandatory requirement for Johannesburg Securities Exchange-listed companies on an “apply and explain” basis.

On the contrary, <IR> is not well known in the Malaysia market and the IRSC is taking the lead to create awareness and promote <IR>, hoping that local businesses see the real benefits in it and adopt accordingly.

This report summarises the key notes of the Investors’ Roundtable and Engagement Session with PLCs on <IR>. Lastly, I would like to take this opportunity to thank the MIA, IRSC committee members, IIRC, speakers, staff and participants at both events for their unwavering commitment, enduring support and keen participation.

Datuk Johan Idris, Chairman of the IRSC

<IR> has been hailed as a game changer for corporate reporting. The objective of <IR> is to adopt an integrated thinking mindset as a way of breaking down an organisation’s internal silos.
INVESTORS’ ROUNDTABLE: Why is Integrated Reporting Relevant to Investors?

“Changes are necessary in the regulatory environment, and there should be more disclosures overall.”
Session 1:
The Big Picture

Jonathan Labrey, Chief Strategy Officer of the IIRC, kicked off the recent <IR> event in Malaysia with a presentation on The Big Picture. Praising Malaysia for being among “a handful of countries where the Prime Minister and the Government have expressed support for <IR>,” Labrey said that his presentation was meant to provide policy context, and a big picture of the drivers of <IR> globally.

“The IIRC’s vision is to align capital allocation and corporate behaviour to wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking,” Labrey explained. He stressed that <IR> is a market-led initiative by business and for business.

In order to achieve this, the <IR> framework had been developed in response to the needs of the market. “The framework helps the market identify the value creation of the system,” he explained. “We can expect it to bring about better, higher quality dialogue between stakeholders and organisations. Changes are necessary in the regulatory environment, and there should be more disclosures overall. The IIRC works with government regulators globally to promote more inclusiveness.” The main thrust of the IIRC is to move from a financial capital market system to an inclusive capital market system, and from short-term capital markets to sustainable capital markets. This will necessitate a move from the current ‘silo’ reporting to <IR>.

Is the shift to <IR> absolutely necessary? The IIRC believes that <IR> helps to promote equitable and sustainable economic growth. There is a growing body of evidence that seems to indicate that inequality is increasing and economic efficiency is decreasing, said Labrey. “This is harming economic growth. Currently, there is an over-reliance on financial reporting but too much focus on finance can distort the distribution of income, and this further undermines growth. Technological advances have also affected the balance of decision making, and with new systems come new ways of understanding, to make sense of the changing environment. Right now, disclosures don’t take into account the known risks. These are not being factored into the ecosystem. If we ignore it now, we will pay a heavy price later.”

<IR> is intended to bring about a more inclusive capitalist system, and in doing so, assist in plugging the gaps in funding infrastructural development, among other benefits. Developing economies still need about US$500 billion annually to address these shortfalls but investors have to have confidence in the information being provided in order to continue their funding activities. “What <IR> enhances is the quality of dialogue between investors and Boards,” clarified Labrey further.
“Recent research involving 1,066 companies shows that those who moved to <IR> received more attention from investors. <IR> can lead to lower cost of capital, and this in turn can lead to real changes in capital market performance and improved share price performance.”

In line with all this, the IIRC is calling for better information flows, and encouraging governments, central banks, stock exchanges and regulators to recognise the interconnection of capitals. It is hoped that this route will put an end to the current regime of quarterly reporting which focuses on short-term thinking and decision making, and instead encourage better dialogue between investors and businesses for improved strategy, resource allocation and the creation of value over the short, medium and long term. Labrey stressed that it is not the intention of <IR> to increase the burden of reporting, which is already onerous enough, but to end the practice of ‘silo’ reporting—another factor which perpetuates short-term thinking—in favour of more inclusive reporting.

“<IR> is more than just financials,” he concluded. “Many chief executive officers (CEOs) will forego long-term benefits if these will affect their short-term profitability. They are trapped by immediate needs, and the necessity of showing healthy quarterly profits. What <IR> does is embed social capitals alongside financial capital; doing so will help to align benefits for the future.”

Session 2: Key Features of Integrated Reporting

There are numerous factors that must be addressed if <IR> is to be adopted successfully and effectively communicate an organisation’s value creation and future orientation. The <IR> framework attempts to guide organisations on effective implementation that is fit for their purpose.

Michael Nugent, Technical Director of the IIRC said during his presentation on The Key Features of <IR> that the <IR> framework was published in 2013 after two consultations and 500 responses to these consultations. “The framework was being tested as it was put into practice,” Nugent confirmed, adding that because <IR> is about value creation over the long term, it has to be done collaboratively; it is not possible to do it in isolation. “Value is always co-created,” he said. “No single company can sustainably create value on its own. This has to be done in collaboration with others. Whenever you create value, you are creating value with, and for, others.”

Stating that there are many factors which control a company’s ability to create value in the long term, he stressed that it is not exclusively financial capital being created, but a case of developing affordability and availability of other capitals as well. Financial, manufactured, intellectual, human, social and relationship, and natural capitals are processed by organisations to produce value, together with other factors like governance. Because business environments are more complicated today than they have ever been, reports have become a complex exercise. “Reports need to be concise,” Nugent advised. “<IR> should show a holistic picture. There is a need for integrated thinking. Start with integrated thinking when you start <IR>. Applying one improves the other.”

Besides conciseness, <IR> needs to have strategic focus and show the future orientation of the company. It should also exhibit elements of connectivity. “There are many aspects to an organisation,” Nugent said. “Join the dots and bring your information into one picture
that tells a story.” This aspect of connectedness should reflect stakeholder relationships; the information contained should be reliable, complete and consistent, to allow for comparability. “An integrated report should exhibit the interrelatedness and dependencies between the factors that affect the company’s value-creating capabilities over time,” he continued. “The contents should cover an organisational overview and the company’s external environment, as well as its governance, business model, risks and opportunities.”

Stressing that <IR> enabled a company to tell its own unique story, he cautioned however, that financial reporting is not going to go away. “We don’t want it to go away. But it has to be brought together with other reports, other extracts so that the information can be elevated and presented in one format.” So the organisation’s strategy and resource allocation, its performance and short/long term outlook will remain. One area of concern for many preparers with the implementation of <IR> is the possibility of even heftier reports being presented, but Nugent assuaged fears with a few examples of <IR> that fulfilled all requirements without increasing the number of pages. On the list of must-haves, however, is the need for information with high levels of integrity.

It is hoped that one of the main features of <IR> will be the improved quality of information. While financial reporting and sustainability reporting are fine on their own, they actually address different sets of stakeholders. The inclusiveness of <IR>, however, allows its information to be used by stakeholders across the board. Financial reporting tends to focus exclusively on a company’s financial performance and position, while sustainability reporting looks at the economic, environmental and social impacts of the business. With <IR>, these elements are brought together, and viewed within the context of being able to create value over the short, medium and long term. This integrated approach will help decision making with more relevant information, and result in higher quality stakeholder engagement which will ultimately benefit the larger society.

“Report is all about conciseness and connectivity. Join the dots and bring your information into one picture that tells a story.”
– Michael Nugent, Technical Director of IIRC
Session 3: Is Integrated Reporting Relevant to Investors?

Pru Bennett, Director of the BlackRock, spoke on why investors should sit up and take note of <IR> during her presentation entitled Why Is <IR> Relevant to Investors? at MIA’s recent Investors’ Roundtable. “BlackRock surveys have found that the current state of disclosure is largely inadequate,” Bennett stated. “One of the main issues is that the information is produced by the company itself, and in many cases, is ‘boilerplate’ disclosure. It’s tied to regulatory requirements and focuses on selected, traditional capitals while ignoring all the rest. Most of the time, it’s decoupled from social aspects and future prospects, so how can investors benefit? It should be focused on value creation.”

Remarking that most corporate reporting currently focuses on financial and manufactured capital, she said implementing <IR> is a way of telling stakeholders that the company they are investing in is actually taking a holistic view of their interests by offering clean, concise reporting and relevant information. It should provide greater clarity around the value creation story of a company, and be the link between sustainability and long-term performance. Besides this, it should also clarify the links between the organisation’s strategy, corporate governance, performance, risks and opportunities. While information on other capitals can be derived from other reports like CSR reports, what links these two disparate areas is often tenuous, sometimes even non-existent.

A key benefit of <IR> is that it provides a one-stop reference point for qualitative and quantitative data from a range of sources. Bennett cautioned that investors always value reliable information. “Assumptions made are not always correct, so the information collected and disseminated must be accurate,” she said. “A lot of time and resources go into reports in Asia, but who is it all for? Integrity and accuracy of information is imperative. There also needs to be a balance between providing clear information and maintaining confidentiality.”

Improved reporting could also ultimately manifest into more favourable share prices. Companies are advised to take a long-term view and to report on diverse yet relevant issues to attract the right type of investment and manage share price volatility. “Long-term performance of a company is important if it wants long-term shareholders,” Bennett said. “This can affect the valuation of shares so managing risks is imperative; it has to accurately reflect the risks faced by the organisation.”

Conceding that current reporting was inadequate, she urged investors to look from the valuation perspective, and to be more involved in discussions about improvement. Opining that current reporting tends to focus on the past, she said that companies are not really encouraged to report on future prospects but shifting this focus may produce
hitherto unrecognised benefits. One of these positive impacts was the possible shift from viewing corporate reporting as a regulatory requirement, to considering it as a way of attracting long-term investors.

“<IR> can demonstrate to stakeholders the extent to which their investments are affected by externalities,” she said. “Besides clarifying the links between a company’s strategy, corporate governance, and its performance, risks and opportunities, the reporting allows for the integration of ESG (environment, social and governance) factors into investment activities—leading to better information from ESG providers.” She noted that there has been an increased interest in environmental matters, an indication that stakeholders are growing more socially conscious, and are beginning to view these as being related to businesses.

Touching on the main concerns regarding <IR>, she acknowledged its complexity, primarily due to the introduction of non-financial data into corporate reporting. “There are concerns about how much to declare, and the extent of liability in this matter,” she said. “Getting the balance right between providing assurance and transparency while maintaining confidentiality, is definitely a challenge.”

However, measures have been put in place to address these issues. Recognising the complexity of <IR>, the IIRC has made more concerted efforts at educating industry about its framework. There are also standards being implemented to bolster assurance, and the International Auditing and Assurance Standards Board (IAASB) itself is already actively pushing the case for <IR>.

**Session 4: Roundtable Discussion**

The Investors’ Roundtable culminated in a panel discussion guided by prepared questions to spur meaningful dialogue. Chaired by Datuk Johan Idris and supported by Jonathan Labrey, Pru Bennett and Michael Nugent, the roundtable discussion surfaced investors’ main concerns and suggested recommendations for action.

A key concern is that current corporate reporting is not fit-for-purpose. “Investors need information on future performance, but the backward-looking nature of current reporting is not providing this,” remarked Bennett. All panellists urged companies to “tell their story”, go beyond mere boilerplate reporting and diversify their reliance on historical financial information. “Sole reliance on anything is never a good idea. Companies need to consider other factors, and present the connectivity between all capitals,” advised Nugent.

Quizzed about the extent of <IR> adoption in other markets, Labrey noted that 122 companies in Japan have adopted it. Furthermore, these companies’ reports have tended to focus on the value creation of the respective companies. In the UK, about 30 companies are using <IR> with certain shortcomings. Despite aligning their reports with corporate requirements, these reports were not entirely connected to corporate strategy. However, Bennett cited energy company SASOL as an example of high quality <IR>. Nugent conceded that it is difficult to identify which companies have started on the <IR> journey as some use parts of the <IR> framework without conforming entirely to it, but acknowledged that this could be attributed to how the information is presented.

With regards to sector-specific reporting, banks are identified as being typically poor at making disclosures. Shareholders found it difficult to understand their information and regulators have to force banks to be more transparent.
As the kind of information being sought by investors, Labrey said that this is difficult to identify as different matters affected companies—and therefore shareholders’ interests—in different ways. Confidentiality is a major priority. Participants felt that too much information could be disclosed in attempts to be as transparent as possible. “This is a difficult area to manage,” Bennett acknowledged, “but Boards will have to find a balance.” Nugent cited the example of mining companies in Australia which have initially been wary of disclosure, but are now benefitting from it in the form of higher share prices. The integrity and credibility of the information is paramount. Datuk Johan urged companies taking the <IR> route to do so in a spirit of frankness and transparency, even if it meant admitting that they had not reached their objectives or had made wrong decisions. “Typically, when you go through <IR>, you may find yourself having to admit that you really did not achieve what you set out to do,” he said. “But be honest.” However, there are worries about the extent of the company’s liability, in the wake of negative disclosure.

Importantly, internal and external processes need to be integrated to facilitate integrated thinking in order to produce credible information and demonstrate its integrity. The Board is responsible for this, and shareholders have to review the Board’s capabilities to ensure that it can deliver.

The reporting process is also affected by the rapidly-changing corporate landscape in Malaysia, which has shifted from annual to quarterly reporting in compliance with regulatory requirements. To complicate matters, terms for CEOs have been shortened but management is still expected to deliver results swiftly; some companies are barely managing the pressures. On top of all this, the amount of information available tends to obscure rather than clarify issues, leading to businesses feeling that they are receiving mixed signals. A major worry is that even if there is complete disclosure, management will not be supported for telling the truth, especially if “the numbers don’t look nice.” It was also noted that more requests for information inevitably meant more reports; the challenge is to provide concise, connected information.
Acknowledging these concerns, Bennett stressed the importance of building trust between the CEO and shareholders. Australia has taken a continuous disclosure approach instead of the quarterly reporting route, said Bennett. She added that while the issue of short-term CEOs is relevant, it comes down to the implementation of strategy. What happens if companies are unable to produce results? Drawing parallels between CEOs and fund managers, she said (to a question about how investment fund managers operate and are incentivised), “They are constantly under pressure as asset management is all about short-term profitability. If you are managing funds and don’t show a profit, the funds are taken away from you.”

In closing, Labrey mentioned the setting up of the Corporate Reporting Lab, a collaboration of interested parties to find ways of avoiding unnecessary reporting or disclosure. “We want to cut back and simplify reporting,” he said. “It should be lean and meaningful.”
ENGAGEMENT SESSION WITH PUBLIC LISTED COMPANIES: Unlock Trust and Create Value

“Strategically relevant value needs strategically relevant information...”
Session 1: The Big Picture

Jonathan Labrey, Chief Strategy Officer of the IIRC, reiterated the key messages of his presentation on The Big Picture to an audience of preparers and corporates at an engagement session with PLCs.

Explaining that the current reporting system is aligned with short-term value creation, Labrey said that the IIRC is calling for three different yet complementary shifts to promote long-term value creation and sustainability. These are a shift from the ‘Financial Capital Market System to the Inclusive Capital Market System’, from ‘Silo Reporting to Integrated Reporting’, and ‘Short-term capital markets’ to ‘Sustainable capital markets’.

To effect these changes, the IIRC is calling for an end to quarterly financial reporting that perpetuates short-term thinking and decision making. The IIRC also welcomed the introduction by regulators of principles-based Stewardship Codes for institutional investors and praised Malaysia’s adoption of the Stewardship Code.

He sought to assure preparers’ fears that <IR> would increase the compliance burden for corporate disclosure. “<IR> does not seek to add another layer of reporting for businesses, and we do not advise that <IR> should be made mandatory or a part of regulation.” However, the IIRC is calling upon governments, regulators and standard setters to encourage innovation in corporate reporting and to remove regulatory barriers to <IR>. One means of doing this is by creating labs where users and regulators can collaborate on <IR>.

Labrey stressed that <IR> offers a more accurate measure of the values and capitals—such as intangible assets, innovation, and intellectual and human capitals—being created in today’s knowledge economies. “There is no longer a schism between developed and developing nations. The world in future will be segmented between innovation-rich and innovation-poor economies,” he said. Balance sheets represent only approximately 20% of a business’ value; today, financial value is embedded in factors such as people, industry trends and social cohesion. “Strategically relevant value needs strategically relevant information,” he added. Cautioning that the IIRC does not define value and that each entity must define its own values and capitals, he advised that “we have to look beyond financial statements to seek financial value.”

Ultimately, Labrey concluded that the structure of incentives and systems and reporting will have to change to increase long-term business investment. Quoting Mark Carney, Bank of England Governor and Chairman of the G20 Financial Stability Board, Labrey noted that business needs to incorporate social and intellectual capitals to run an economic marathon, and that the price paid for short sprints is economic decline in between.

Given that <IR> aims to make capital allocations more effective, Datuk Johan Idris, Chairman of the IRSC asked about the impact of <IR> on foreign direct investment (FDI) flows. In response, Labrey identified FDI as one of the key global drivers in <IR>. For example, Japan has a large number of innovation-rich companies but its stockmarket has historically underperformed due partly to low foreign participation. Recently, 180 Japanese companies have adopted <IR> in order to attract FDI. <IR> could also be a catalyst to bridge the infrastructure investment gap as identified by the World Bank.

Labrey was also asked about his thoughts on ending quarterly reporting, which has been singled out as a regulatory barrier impeding <IR>. Globally, momentum to phase out quarterly reporting has been building up. The U.K. government abolished the requirement to report quarterly in late 2014. The EU has enforced the new European

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Transparency Directive, which was published at the end of 2013, which ended quarterly reporting. Over in the US, presidential candidate Hillary Clinton has called for reforms of ‘quarterly capitalism’ and decried the ‘tyranny of quarterly earnings.’

“Ending quarterly reporting has to be done jurisdiction by jurisdiction. We encourage dialogue with the regulators, and we hope that the MIA’s IRSC can address and convene discussions around these issues,” concluded Labrey.

Session 2: The Emerging Evidence Base

A robust business case is emerging for <IR> adoption, according to the presentation by Jonathan Labrey during the session on The Emerging Evidence Base.

“Two years ago, we were talking about assertions and practices, but now in some jurisdictions there are four to five years of evidence and experience to draw on,” enthused Labrey. He added that the IIRC is seeing overwhelmingly positive results with consistent numbers and flow through all the reports.

Some key findings are that over 1,000 organisations are now doing <IR> and 750 are participating in <IR> networks worldwide, following the IIRC’s encouragement to create such networks. Research by CIMA (Chartered Institute of Management Accountant) with AICPA (American Institute of Certified Public Accountants) and Black Sun of over 500 global leaders found that over 50% of CEOs, chief financial officers (CFOs) and chief operating officers (COOs) are moving towards <IR>, taking real interest and signalling adoption, and over 35% say they will. “It is quite difficult to keep track because some are clearly doing <IR>, while others are adopting <IR> but not labelling it as <IR>,” said Labrey. Significantly, <IR> is gaining traction in the Japanese market, where over 182 businesses in Japan now do <IR> and this number is expected to exceed 400 in the next two reporting cycles.

Other findings also support the benefits of <IR>. 79% of South Africa non-executive directors believe that integrated thinking increases the quality of organisations’ dialogue with shareholders and other stakeholders. 92% of people surveyed by Black Sun see increased understanding of value creation. 87% of <IR> participants believe investors better understand their strategy, and 80% of investors believe the quality of reporting affects the professional perception of management quality.
Gravitation towards <IR> might also be promoting long-term mindsets as opposed to short-termism in capital markets and investment. Harvard Business School research of 1,066 US companies concluded that “more <IR> is associated with a more long-term investor base,” noted Labrey. “By doing <IR>, it attracts a more dedicated investor base and deters short-term investors.” Research conducted by KPMG with the National University of Singapore meanwhile showed a positive correlation between <IR> and the lower cost of capital as well as higher share prices, which benefits both businesses and capital markets.

Labrey enumerated the benefits of <IR> to business which include: breakthroughs in understanding value creation; improving what is measured; improving management information and decision making and directing towards long-term decision making; gaining a new approach to stakeholder relations; and abolishing silos by connecting departments and broadening perspectives.

Investors benefited from <IR> in the following manner: gaining access to wider information on capitals for relevant investment decisions; assuring greater confidence in the management of companies; and achieving improved dialogue and engagement between investors and management.

Through the implementation of integrated reporting and thinking, markets and society will benefit from the alignment of capital allocation and corporate behaviour to the wider goals of financial stability and sustainable development, said Labrey.

To further entrench <IR>, he encouraged preparers and users to check out the Integrated Reporting Examples Database which shares real examples of leading practice in <IR> to help organisations on their <IR> journey. Other resources include the International <IR> Framework which provides the principles and concepts for organisations adopting <IR>, and the <IR> Network which brings together organisations worldwide to enhance the way they think, plan and report.

Panel Discussion 1: Unlock Trust and Create Value

“Stop being peacocks” and “cut through the clutter” to provide meaningful corporate disclosure, advised early adopters of <IR> at the panel discussion on Unlock Trust and Create Value.

“Lots of annual reports today suffer the peacock effect,” said Suresh Gooneratne, Chief Financial Officer of the Diesel & Motor Engineering PLC, Sri Lanka. Drawing a parallel between peacocks and preparers, Gooneratne said that peacocks developed longer and more beautiful feathers as they evolved to attract peahens. “But what originally evolved as a means for perpetuation of the species has become a problem. Companies have started to disclose more and more in their annual reports and this has become counter-productive.”

Agreeing that annual reports have become cumbersome, Mikkel Larsen, Managing Director of the DBS Group Holdings Ltd, Singapore explained that DBS used <IR> and the concept of materiality to slim down its annual reports and financial statements. As a result, DBS’s business units and stakeholders are taking much more interest in the reduced annual report.

Pru Bennett, Director of the Blackrock, took issue with “the boilerplate approach which is very regulatory-driven and doesn’t convey the thinking of the board and management to shareholders. A 500-page annual report also makes it very difficult to find out what the Board is thinking and the future direction of the company.”

<IR> for All

Moderator Datuk Johan Idris enquired whether <IR> is suitable for organisations of all sizes. Jonathan Labrey, Chief Strategy Officer, IIRC, responded that the <IR> framework was written with all organisations in mind, but it should be easier for small and medium size organisations to adopt <IR> because they had fewer silos to begin with. However, small and medium enterprises (SMEs) might be constrained by smaller resources
and infrastructure; this is where the principle-based system and materiality would come into play in determining the structure and content of their reports.

Interestingly, the IIRC found that medium-sized businesses are evincing interest in IR because they want access to finance. “The framework is very relevant to SMEs wanting to access capital from banks and investors,” said Labrey.

**Some Concerns**

Since it has just taken off, there will be implementation challenges. Mindset change is key. “If you don’t see the value of <IR>, don’t do it,” said Larsen bluntly. “Roadblocks do exist. Although the concepts of materiality, values, and stakeholder engagement are not hard to grasp, the problem is getting boards to understand the <IR> concepts.” Other obstacles include cost; however, Larsen noted that <IR> is information which is already being reported internally and only needs to be repackaged. He also stressed the need to find the balance between transparency and confidentiality.

A key concern related to benefits versus costs. “Sometimes companies ignore the costs of corporate reporting and the potential risks created by not adopting <IR>,” said Labrey. “There will be initial upfront commitment such as getting buy-in.” Larsen concurred, saying that “there is an initial cost, but it is not ongoing. Strategy is a long-term thing. Once this is articulated well, you just need to show that you are following the strategy. If you are consistent, shareholders can see that.” “Getting information and validating it will require more resources,” added Gooneratne. “But the costs of not doing <IR> will be very, very high.”

**Filling the Gaps**

Panellists were also asked how <IR> fills in the prevailing gaps in corporate reporting, and surpasses current reporting. “One fundamental concept of <IR> is value creation activities. <IR> compels you to focus on the supply chain and look at each and every element within,” explained Gooneratne. <IR> also enables companies to “tell a complete story concerning capitals with value creation activities rather than just talking about the monetised story of the organisation.”

“<IR> lets you lose the clutter for better key performance indicators (KPIs),” said Larsen. He stressed that <IR> doesn’t create value by itself but helps organisations to articulate value. “It forces you to try and think harder to move away from the boilerplate.”

Meanwhile, Bennett supports <IR> because it focuses on the disclosure of long-term strategy. She assured organisations that this will not backfire against them. “If there is transparency and trust, analysts will be receptive. We will work with the company if there is transparency and trust and explanations are made.” However, she warned against letting information “come as a surprise.”

Labrey emphasised <IR>’s ability to fill in the gaps with regards to an entity’s future direction, which is what investors want. “Investors want
tomorrow’s reasons for investing today. Put your business model and strategy at the centre of corporate statements. If past performance builds trust, strategy gives future orientation.”

Understanding that organisations fear confidentiality breaches, Labrey said that disclosures on future prospects does not mean detailed financial forecasts. “What we mean is insight into trends impacting the industry, and trends which the board is taking aboard and how the organisation is preparing to meet these trends. It’s not confidential information but what is in the public domain. Leading indicators are very important.”

**Just Do It**

At the end of the day, companies should just get on board the <IR> train. “<IR> is not about seeking perfection or creating the perfect report. It is your story and it is your journey. The important thing is to get on the journey to drive better behaviour,” said Labrey.

“<IR> is not so obvious,” explained Larsen. “We are trying to articulate how we use some capitals to use other capitals and how to show viability, but we haven’t found the Holy Grail.” Even if initial efforts at <IR> are frustrating, Gooneratne said that corporate reporting as it is doesn’t meet requirements. “The spirit of <IR> is important. As your <IR> matures, it becomes easier to articulate your business model.”

Concurring, Bennett said that in Asia, <IR> is a journey. She advised companies to engage investors to make sure the latter gets the right information, and added that Blackrock is putting pressure on its sell-side analysts to look at issues other than finance.

**Questions and Answers**

In concluding, the panellists attracted several questions from the floor. Questioned about the feasibility of slimming down the financial statements, Larsen replied that “DBS looked long
and hard at this. We took the materiality override and went to analysts to see which line (in the financial statements) they needed. We put the information in notes and tweaked the notes. We slimmed the balance sheets which couldn’t have been done if we followed IASB (International Accounting Standards Board) strictly. We went straight to the nature of the business and worked with our auditors who were quite good in accommodating us.”

The preparers were also asked about the factors triggering their decision to adopt <IR>. Gooneratne’s organisation took the plunge after being exposed to IIRC and the <IR> framework, releasing their first <IR> in 2011. DBS’s conversion to <IR> was supported by management and tone from the top. “You need strong buy-in from management and someone who is passionate about <IR>. You need a driver and senior management leadership.”

Asked about the sustainability of <IR>, Labrey replied that he believed that <IR> would stand the test of time. “We hope to build momentum around the concept of <IR>. We are looking at a 10 to 20 year vision and hope that corporate reporting would eventually be based on fundamental concepts of <IR>, such as integrated thinking as good standard practice. We are not selling a product but creating a vision of corporate reporting.” On the upside, said Labrey, out of a thousand organisations who have adopted <IR>, not a single one has reversed gears and turned back to conventional corporate reporting.

<IR> is definitely a journey and a long-term process. Larsen and Gooneratne both replied honestly that there is no evidence that investors are rewarding their companies as a result of adopting <IR>. “We have started to invest in doing <IR> correctly but don’t expect returns today. Our <IR> is still at the infant stage, but we are benefiting from the clarity and conciseness of <IR>,” said Gooneratne. Larsen said that perhaps new investors, on top of existing investors, are beginning to give their attention to DBS.

Lastly, the panel was asked about ensuring the credibility and reliability of <IR>. Larsen said that DBS practices consistent reporting on KPIs. “We spent a lot of time deciding on the KPIs and now we have 5 years of KPIs.” Like Bennett who earlier voiced her mistrust of reports embellished with pictures of “men in hard hats”, Larsen warned against PR grandstanding. “If a company puts up glossy cases (in reporting) I would be suspicious. Singapore companies have toned down on this.” He called for fewer illustrations of “cute babies” and more KPIs.

Bennett summed it up nicely when she linked credibility and reliability to transparency and trust. “Disclose information in a cogent way for credibility. It also helps if you can see buy-in at board level. It’s about transparency and having trust in the company.”
Panel Discussion 2: Journey to Integrated Reporting

How did early adopters embark on their journey to <IR>? And what were the key drivers and challenges? These were among the issues addressed at the panel discussion entitled Journey to <IR> at the Engagement Session with PLCs.

Tone from the top was the key driver at Sime Darby Berhad (Sime Darby). Mustamir Mohamad, Head of the Group Finance of Sime Darby Berhad explained that the Group CFO and the Group Communications Head had been instrumental in adopting <IR> to improve communications. “The critical part was support from the senior management team in driving change. With their commitment it was easier to drive change at the working level teams and to embrace <IR>.” Interestingly, Sime Darby engaged a consultant to help with adoption, and advised other preparers to consider hiring third parties if change is tough to drive internally.

DBS’s conversion arose from the frustration of not being able to articulate its business and value creation. “<IR> seemed like a solution so we proposed it to the CEO who could see the value,” explained Mikkel Larsen.

Meanwhile, Diesel & Motor Engineering PLC has endured a long journey to <IR>, starting off with environmental reporting in 2000 and sustainability reporting in 2004. “When we embarked on <IR>, we wanted the whole organisation to focus on value creation activities. We still need buy-in,” said Suresh Gooneratne. He also wants business units to own their data instead of merely responding to requests for data from those responsible for preparing <IR>.

Moderating the panel discussion, Pauline Ho, Member of the IRSC pointed out that the finance and communications teams are usually responsible for <IR>. This situation has to change, said Larsen, who related that in the first year, DBS had challenges getting cooperation from the different owners of the various reports e.g. risk, and governance. “The first year wasn’t very good; the second year was better and this year, people are coming more voluntarily to the table. Now we have an avenue for articulation. It has to be a long process but it’s improving every year.”

Breaking the silos between units and emphasising connectivity is critical for effective <IR>, “Connectivity and inter-linkages between sections is what is lacking. Now at least, some have a holistic idea of the company when they write (for <IR>), but it is a tough journey,” said Mustamir. This year, Sime Darby has identified project managers to bring together people at the working level to do <IR>. Gooneratne said that this time around, his organisation is trying to establish linkages between each business unit and supply chain and value creation activities. In DBS’s experience, “If we focus too much on integrated thinking, people will be afraid to go there. We struggle to become integrated because there isn’t one single KPI that captures everything.”

A huge grievance driving the transformation of corporate reporting is the size of current annual reports; are <IR> reports manageable? Might preparers be comfortable producing condensed or abridged versions of the annual report or a summary report similar to the UK? “The biggest change has been in thinking. What <IR> does is make you focus on three fundamental concepts: connectivity, conciseness and capitals,” said Gooneratne. “What is not relevant has gone away.”

Sime Darby’s latest report is 400 pages long, including 300 pages of financial statements. “It’s grown because of requests from investors and notes to the accounts,” said Mustamir. Meanwhile, DBS reduced the number of notes to the accounts by focusing on materiality, said Larsen. Responding to Ho’s comment that compliance statements contribute to a large number of pages, Larsen said that “the right way to do this is to place such disclosures on the website. Personally, I’m not sure that we are willing to do a condensed report which is separate from the annual report.”
Duplication of statutory requirements is definitely a challenge to good reporting, and was a grievance raised by all panellists. They called for dialogues with the regulators, and for the regulators to get together and make uniform reporting requirements “to make life easier,” remarked Gooneratne. “There is also a need to hear from investors regarding what information they find useful,” said Larsen.

Pru Bennett reiterated the need to avoid boilerplate reporting and cut-and-paste statements to provide information of value. “In this region, there are a lot of family-controlled companies so we are looking for them to explain their business models, risks and value creation.”

Asked whether <IR> should be mandated to increase adoption, Larsen said that he used to think it should be market-driven, but now thinks it should probably be government-led. Mustamir said it should be market-led but regulators need to be very involved in educating players. Perhaps heavyweight companies might exert peer pressure to make <IR> competitive and push the agenda. Gooneratne commented that this approach might prove inspirational for other companies.

Regarding the need to balance transparency and confidentiality, the panellists said that <IR> does not need to divulge sensitive information. “The information needed is how well-positioned you are to create value,” said Gooneratne. What is required is information on strategy, risks, future performance and outlook, among others. “Basically, we are repackaging information,” clarified Mustamir. “We are not telling anything new that our competitors don’t already know.” “Do what you’re comfortable with,” said Larsen.

On the cost and manpower issue, Larsen said “DBS worked a couple of hours extra for a period of time.” Gooneratne said his organisation recorded no
additional cost. “The only difference is a change in thinking and in how we’re reporting.” Sime Darby’s costs included external consulting fees and this year, design fees.

Asked about examples and tools for improving <IR>, Gooneratne said that “the first thing is to articulate corporate strategy and the last is to look at guidelines. It is materiality that decides what goes into the report.” Larsen advised preparers not to refer to other reports until “you think about what you have to avoid the risk of copy-pasting.” Prepared guidance—such as that from the Big 4—can be a double-edged sword because there is a risk that it might be plagiarised and become a boilerplate.

The session ended with a question from the floor regarding <IR> as a winning factor for the NACRA (National Annual Corporate Report Awards). Ho replied that the MIA’s IRSC will be engaging with the NACRA committee to address the inclusion of <IR>. In her concluding remarks, she said that as panel members had shared, <IR> is a journey and the process must be further refined and tweaked.

Session 3: Communication Tips

Michael Nugent, Technical Director of the IIRC stressed that it is necessary for preparers to set the correct expectations when adopting <IR> in order to avert frustration and disappointment.

Setting the tone during his presentation on Communication Tips, he cautioned PLCs that <IR> is a journey which will take more than one reporting cycle. Importantly, don’t try to do it all at once. <IR> should not be seen as just additional reporting. Instead, the organisation should embed integrated thinking. It is critical that organisations understand their own businesses and needs. “Don’t think of the Framework as a list of requirements. Tell your own unique value creation story,” said Nugent. Finally, he told preparers that they were probably doing some or a lot of <IR> already, albeit unknowingly. “Build on what you’ve got.”

He shared a timeline for award-winning reporter Stockland when they adopted <IR>. “Although this is not the way to go for everybody, these are the steps they followed,” Nugent explained. Year 1 was the period of working it out internally, focusing on internal engagement and testing the platform. Year 2 was devoted to determining materiality and strategy refinement and setting the parameters of the operating and finance review (OFR). “This (the OFR) would be similar to the strategy report in the UK.” “In Year 3, you would start to get rid of things in the report according to the materiality principles and streamline reporting and align disclosure,” he continued. Year 4 would be platform improvement and consolidation. Throughout this, the organisation should be continually focused on opportunities to implement integrated thinking.

He encouraged preparers to keep the end in mind when doing <IR>. Traditional reporting reports mainly on business as usual, with limited disclosure of strategy and governance and forecasts/plans. <IR> focuses on value creation, and emphasises strategy and governance, outlook and prospects and also discloses past performance.
Nugent highlighted the importance of tone from the top and appointing a senior executive who is accountable for the report and will provide strong leadership and be a champion, as being among the first steps. Also establish a committee or working group to engage with stakeholders, work out key messages and report regularly to the board, among other tasks.

Touching on trust and credibility, Nugent said that there may be times when internal systems and controls might be less mature or non-existent. Controls will need to catch up to disclosure. “In the interim, be transparent. Explain that there is data which is not so robust.” The Board should also be able to satisfy itself on the integrity of the report, and tell how it did so in the report, which will go down well with users and provide some assurance.

Nugent also covered assurance costs and benefits. Direct financial costs which might be incurred include assurance practitioner’s fees and perhaps investment in better financial controls, which lead to benefits such as reduced cost of capital and improved share price. Other costs include time expended by employees in dealing with assurance practitioner’s requests, which in turn result in better decisions, and improved reputation for transparency.

Winding up, Nugent talked about possible correlations between <IR> adoptions and lower costs of capital, and referred participants to available resources, such as Deloitte’s Directors’ Guide to Integrated Reporting. He also steered newbies in the direction of the examples, not templates, available on the <IR> database.

Session 4: Break-Up Discussion

Plenty of useful feedback and insights emerged from the Break-Up Discussion and Debrief Session held at the end of the <IR> Engagement Session with PLCs. Event delegates were divided into five groups facilitated by Chiew Chun Wee, Kasturi Nathan, Ong Chee Wai, and Pauline Ho, all of whom are Members of the MIA’s IRSC, and Michael Nugent.

The discussion kicked off by airing the challenges to <IR> adoption in the Malaysian landscape. Information and regulatory overload was overwhelmingly cited as a major obstacle. Current reporting regulations, including quarterly reporting, are an impediment to the implementation of <IR>.

This problem is especially acute in highly regulated industries which are governed by the likes of the Securities Commission Malaysia, Bank Negara Malaysia and Bursa Malaysia. “Can all these regulators sit down together and tell us exactly what they want, so that we can come out with exactly what you want?” said Ong, relaying the collective message from his group. Ong noted the frustration with duplication of information in corporate and statutory reporting, with some reports exceeding 1500 pages.

Delegates also displayed scepticism over claims that there won’t be much additional work or costs. It was recommended that IRSC and IIRC study other markets such as South Africa to ascertain if other reporting requirements were reduced or dismantled in order to encourage <IR> adoption.

Size was also cited as a challenge. Compared to small organisations, large organisations would have more resources to form a dedicated team for <IR>, who would then have the capacity to see the connectivity between capitals and strategy.

Participants also debated the issue of <IR> relevance and impact on different classes of investors. A specific question asked was: “If global institutional investors don’t have the money to
invest in Malaysia, will <IR> adoption attract investment dollars? Another question was: why prepare <IR> if investors aren’t demanding it? In response, Chiew noted that if analysts and investors are not requesting <IR>, it might be worthwhile to determine the impetus for them to do so. Conversely, doing <IR> might attract long-term and stable investment or the “right investor”.

Shifts in mindset and securing buy-in are also top challenges. It will be difficult to effect changes in mindset to overcome lack of connectivity in reporting, which reflects silos and similar disconnect across organisations. Buy-in from top management is a challenge typical of a voluntary reporting regime. Commitment from the board is absolutely crucial and it will be vital to identify champions from senior management. “How committed are boards at the moment? And how exposed are they to <IR>? How can commitment be increased to the holistic form of reporting that must be undertaken?” were some of the remarks originating from Kasturi’s group.

Short-termism might also be blocking <IR> adoption. Typically, management is looking at the short-term versus the long-term to meet the expectations of shareholders who want consistent returns today and not five years down the road.

Achieving concise reporting through <IR> is definitely a key challenge. Currently, organisations are overwhelmed by statutory reporting requirements in the annual reporting regime. It will be tough to determine the relevancy of materials and there are also issues of ownership of information and reporting.

Where entrepreneurs and owners are concerned, cost of adoption is a top priority, as is confidentiality. “The immediate remark has always been ‘show me the money!’ From the owner’s perspective, there is also concern over disseminating information and possibly trade secrets,” related Ong.

**Recommendations**

Despite being pressed for time, the break-up groups came up with some suggestions for overcoming the challenges to <IR> within the Malaysian environment.

To get buy-in, try convincing board members of the value of <IR>. “Instead of selling what is required to do this, sell the value of doing <IR>,” suggested Chiew.

To reduce workload and costs, companies might consider turning summary reports into integrated reports. Instead of aiming for full-fledged <IR>, take baby steps and see how thinking and reporting can be fully integrated eventually. Prepare the processes and systems necessary to support measurable KPIs. Delegates also requested for clear-cut guidance on costs to pre-empt overruns as well as the quantification of costs-benefits. It was also suggested that tax incentives might be made available for those adopting <IR>. As <IR> progresses, there will be a need to provide granularity on information and assurance on <IR> to improve credibility.

To increase stakeholder awareness of <IR>, MIA might consider refining the NACRA to incorporate <IR> or introduce a new <IR> category.

At the grassroots level, the education system might have to be revamped to ensure that people are literate on the impacts of financial and non-financial capitals. Middle management requires training on <IR> so that key division heads and heads of business units understand their ownership and obligations.

Delegates also requested more sector-specific examples of <IR> to help provide guidance on implementation, as well as templates on materiality and conciseness. Materiality was singled out as being extremely important. According to the majority, it will be a challenge to determine materiality and to articulate business models and linkages to strategy precisely and concisely.
Surprisingly, entrepreneurs and owners were in favour of mandating <IR> to ensure compliance, although this has been vetoed by the IIRC.

**Conclusion**

Jonathan Labrey concluded the break-up and debriefing sessions by listing key areas for further action. He singled out regulatory engagement as an area which needs to be taken forward. As was pointed out earlier, there is a pressing need to arrange dialogues and consultations with regulators to address duplication.

While the IIRC doesn’t advocate mandating <IR> which is market-driven and business-led, the lack of market leadership in Malaysia means that government and regulators have to step up to play a driving role.

In conclusion, he reiterated the IIRC’s continued commitment to Malaysia and underlined his and Nugent’s personal commitment as well. The IIRC hopes to share all resources with this market through the efforts of the IRSC and MIA.
PHOTO GALLERY

INVESTORS’ ROUNDTABLE

5 August 2015
PHOTO GALLERY

ENGAGEMENT SESSION WITH PLCs

6 August 2015
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