An Evolving Corporate Reporting Landscape

A BRIEFING ON SUSTAINABILITY REPORTING, INTEGRATED REPORTING AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING

Alan Willis • Pamela Campagnoni • Wesley Gee

CANADIAN PERFORMANCE REPORTING BOARD

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Preface

With growing demands from investors and other stakeholders for more information from companies, the corporate reporting landscape is changing. Consequently, the Canadian Performance Reporting Board (CPRB) of the Chartered Professional Accountants of Canada (CPA Canada) commissioned this publication *An Evolving Corporate Reporting Landscape: A Briefing on Sustainability Reporting, Integrated Reporting, and Environmental, Social and Governance (ESG) Reporting* to assist public companies in understanding these types of voluntary reporting and three current sets of guidance related to them: the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, the International Integrated Reporting Council (IIRC) Integrated Reporting Framework and the Sustainability Accounting Standards Board (SASB) Standards.

This Briefing provides an overview of each set of voluntary reporting guidance by explaining the purpose, scope and source of the guidance, outlining what the guidance consists of and how it was developed, and explaining how widely the guidance is used. It also indicates how the guidance relates to the principles and disclosure framework in CPA Canada's publication *Management Discussion and Analysis — Guidance on preparation and disclosure.* This Briefing is a good starting point to help preparers and reporting teams, boards of directors, audit committees, investor relations officers, legal counsel, practitioners and investor analysts gain a broad view of sustainability reporting, integrated reporting and ESG reporting.

The CPRB is responsible for providing vision and leadership to the work of CPA Canada in advancing the measurement and reporting of organizational performance, focusing on publicly-traded entities. In fulfilling its mandate, the CPRB publishes non-authoritative guidance documents and awareness-raising reports.

The CPRB thanks the authors, Alan Willis, Pamela Campagnoni and Wesley Gee. As part of the development process for this publication, the CPRB as well as the Small Company Advisory Group provided input and reviews at various stages of the project.

We welcome comments on this publication. These comments should be sent to the CPA Canada contact noted below.

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CPA Canada is the national organization representing the Chartered Professional Accountant (CPA) profession in Canada. The mission of the CPA Canada is to enhance the influence, relevance and value of the Canadian CPA profession by acting in the public interest, supporting our members and contributing to economic and social development. In support of this mission, CPA Canada's Canadian Performance Reporting Board (CPRB) advances the relevance and quality of business reporting for Canadian entities. The views expressed in this publication are non-authoritative and have not been endorsed by CPA Canada.

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Introduction

The corporate reporting landscape is becoming more complex than ever for reporting companies in Canada and across the globe, and for those who seek information that is relevant to their interests.

Companies are dealing with ever-increasing regulatory disclosure requirements and the continuing emergence of new voluntary reporting guidance on matters that are often inadequately addressed, if at all, in financial reporting.

There is also a growing push for more relevant information about intangible factors and sustainability (i.e., economic, environmental, social) commitments, impacts and performance that affect a company's value today and its ability to create value in the future — information that is largely unavailable or required under today's financial reporting requirements and practices.

Three noteworthy examples of voluntary guidance for reporting such information are those for (i) sustainability reporting[1] (the Global Reporting Initiative's [GRI] Sustainability Reporting Guidelines), (ii) integrated reporting (the International Integrated Reporting Council's [IIRC] Integrated Reporting [IR] Framework) and (iii) environmental, social and governance (ESG) disclosures (the Sustainability Accounting Standards Board's [SASB] Standards) in U.S. filings.[2]

These types of voluntary guidance typically emerge in response to demands from investors and other stakeholders for disclosures that are relevant to their respective decisions and interests, but which largely have not been required by law or regulation.

1 Also sometimes known as Corporate Social Responsibility (CSR) reporting or by similar terms.

2 The Sustainability Accounting Standards Board's (SASB) Standards recommend ESG disclosures to be provided in the U.S. Securities and Exchange Commission (SEC) filings, particularly in the MD&A section of Forms 10-K and 20-F. The SASB Standards have not been endorsed by the SEC, and their use is voluntary in both Canada and the U.S.

Corporate sustainability reporting in various forms has already been occurring for decades, but integrated reporting is a far more recent reporting approach — still in its earliest days of evolution — and the uptake and application of the newly developed SASB Standards have yet to be seen.

What is the purpose of this publication?

CPA Canada has developed this publication to provide a brief overview of these three sets of voluntary reporting guidance, to summarize what they are (and are not) and how they were developed, what subject matter they cover, who might use them, how widely accepted they are (or aim to be), and how they compare to each other and to Management's Disclosure and Analysis (MD&A) disclosures, in particular to the principles and disclosure framework in CPA Canada's MD&A Guidance. This publication provides a high-level overview of the reporting and guidelines in question and does not provide advice on adoption of or views on any particular type of voluntary reporting or related guidance. Organizations seeking further guidance should seek the advice of external experts such as Chartered Professional Accountants (CPAs), IT specialists, sustainability consultants and legal counsel.

Who may find this publication useful?

This publication is primarily targeted at corporate reporting practitioners, including CPAs, in Canadian publicly listed companies[3] who lead and participate in a company's external reporting to capital markets, including investor relations officers and legal counsel.

In addition, this publication is intended to be useful to those practitioners who are responsible for communications and relations with stakeholders whose interests and influence are important to the company.

3 "Canadian publicly listed companies" refers to reporting issuers listed on the Toronto Stock Exchange and the TSX Venture Exchange and those registered with the SEC.

Individuals from both of these audiences may find it helpful to better understand how these voluntary types of reporting and related guidance align with a company's annual regulatory and financial reporting.

Boards of directors and audit committee members may also find this publication helpful in carrying out their oversight of corporate reporting, given the levels of diligence they are expected to exercise and the potential liability of directors and officers arising from misleading or incomplete information in secondary market disclosures to investors. It is key that companies ensure that publicly released secondary information is accurate.

Accounting firms that provide accounting, reporting and assurance services to Canadian publicly listed companies and other types of enterprise, as well as consultants advising companies on reporting and communication matters, may find this publication useful.

Reporting teams at organizations that are preparing or considering the business case for developing sustainability reports or integrated reports are also likely to find this publication useful.

What is covered in this publication?

The publication summarizes three types of voluntary reporting and the recognized reporting frameworks and guidance related to such reporting:

1. Sustainability reporting — GRI Guidelines
2. Integrated reporting — the IIRC's IR Framework
3. ESG disclosures in SEC filings — SASB Standards

These guidelines and frameworks are compared at a high level in the following table:

Key Distinguishing Attributes	Sustainability Reporting (GRI Guidelines)	Integrated Reporting (IR Framework)	ESG Disclosures in SEC Filings (SASB Standards)
Offers a reporting framework	Yes	Yes	No — not a framework
Recommends disclosure of indicators or KPIs	Yes, specifies general and specific indicators for disclosure	Yes, but does not specify indicators to be disclosed	Yes, specifies recommended KPIs in many industry sectors
Comparability to MD&A Content Requirements: Elements of Disclosure Framework in CPA Canada's MD&A Guidance[4]	Very limited comparability	Considerable comparability	No comparability
Comparability to MD&A General Disclosure Principles[5]	Compares well	Compares well	No
Global applicability	Yes, organizations of all types and sizes	Yes, organizations of all types and sizes	No, designed for use by U.S. SEC registrants
Intended audience for reporting/disclosure	All stakeholders	Primarily "providers of financial capital"; other stakeholders may find reports beneficial	Investors who use SEC filings (e.g., Form 10-K MD&As, etc.), seeking material disclosures
Required disclosure in Canada	Voluntary	Voluntary	Voluntary[6]

In presenting details about these three forms of voluntary reporting and the related sources of guidance, CPA Canada is neither advocating their use nor evaluating their respective merits. The purpose of this publication is to provide useful, factual information in a concise and meaningful way.

4 Refer to CPA Canada's publication *Management's Discussion and Analysis — Guidance on Preparation and Disclosure* (2014) for further details on the content disclosure framework.

5 General disclosure principles from CPA Canada's publication *Management's Discussion and Analysis — Guidance on Preparation and Disclosure* (2014):
- Through the Eyes of Management
- Integration with the Financial Statements
- Completeness and Materiality
- Forward-looking Orientation
- Strategic Perspective
- Usefulness

6 Note that SASB ESG disclosure is voluntary both for Canadian reporting issuers and for SEC-registered companies.

Sustainability Reporting and the GRI Guidelines

1. What is sustainability reporting?

Sustainability[7] reporting refers to a variety of approaches that organizations can take to communicate their environmental, social and economic[8] priorities, policies, programs and performance. Sustainability reporting has been practised by some organizations for decades, and global guidelines have been developed since 2000 (i.e., GRI Guidelines) to encourage a credible and consistent approach to reporting ESG risks and performance.

While there are no legislative requirements in Canada for corporate sustainability reporting as such, there are Canadian Securities Administrators (CSA) regulatory requirements with respect to corporate governance practices, to Annual Information Form (AIF) disclosures about environmental and social policies, and to MD&A disclosures about known trends, demands and uncertainties that may affect a company's business and operations.

Conformance to sustainability guidelines must be met as a condition of membership in certain industry associations (e.g., "Towards Sustainable Mining" guidelines of the Mining Association of Canada). In the absence of legislation, Canadian companies can generally choose the sustainability reporting methodology that best suits their business goals.

7 "Sustainability" refers to sustainable development that "meets the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland, 1987).

8 "Economic" refers to impacts on the economic conditions of stakeholders, not to financial condition and returns to investors as communicated in financial statements.

Many of Canada's largest publicly traded companies disclose their sustainability performance. Sustainability reporting by Canada's largest 100 companies grew by 5% between 2011 and 2013, with 83% of them reporting on sustainability in 2013.[9] Globally, in 2013, 95% of the Fortune Global 250 (multinational) companies provided information relating to their sustainability policies and performance.[10]

Sustainability reporting is becoming mandatory in some countries and regions. In April 2014, the European Parliament adopted a new Directive mandating disclosure of non-financial and diversity information by certain large companies (i.e., public-interest entities with 500 or more employees and a balance sheet of 20M+ Euro, or a net turnover of 40M+ Euro). The new disclosure Directive entered into force in December 2014, with EU member countries expected to incorporate the Directive into national laws by 2016 and the requirements becoming applicable by 2017.[11]

2. Who are the intended users of sustainability reporting?

Reports about a company's social, economic and environmental performance are relevant to a diverse group of stakeholders:

- Consumers review sustainability reports to help choose preferred product and service providers.
- Businesses use sustainability reports to assess potential customers, partners and suppliers.
- Board members and executives review sustainability reports for more information about their own organizational priorities and practices, and to compare themselves with clients, peers and competitors.
- Employees look at sustainability reports because they want to be informed about, and engaged by, their company's sustainability activities.
- Students read sustainability reports to evaluate prospective employers.
- Regulators review sustainability reports to learn more about sustainability issues and performance, both at a specific company and within a particular sector.

9 The KPMG Survey of Corporate Responsibility Reporting 2013, www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/corporate-responsibility-reporting-survey-2013-v2.pdf

10 Thomson Reuters (2013) "Sustainability" online resource, http://sustainability.thomsonreuters.com/2013/04/11/executive-perspective-global-reporting-initiatives-chief-executive-ernst-ligteringen

11 Governance & Accountability Institute (2014) "New Corporate Sustainability Disclosure Mandate in the European Union", Fact Sheet for Corporate Leaders.

- Investors and financial analysts use sustainability reports to inform investment projections and decisions based on their assessment of an organization's future risks and opportunities.

3. What is the purpose of sustainability reporting?

Sustainability reporting aims to communicate an organization's sustainability priorities, policies, programs and performance to its stakeholders. Sustainability reporting can help to build trust if organizations can show their understanding of, and ability to address, critical issues such as climate change and human rights, which often extend beyond a traditional financial reporting scope.

Sustainability reporting is becoming an important strategic tool in strengthening key stakeholder relations as well as building and maintaining brand and reputation — i.e., an essential part of corporate communications. In part, this is because sustainability performance is increasingly recognized as a key factor influencing purchasing and business decisions. By the same token, being recognized for sustainability performance can provide organizations with a competitive advantage and, in some cases, a social licence to operate.

Proactively reporting on sustainability issues can enhance an organization's reputation, and the actual reporting process can help to shape and improve an organization's sustainability strategy and performance by making management more aware of risks and opportunities (through engagement) in areas not previously considered as high priority.[12]

4. What are the main reporting guidelines for sustainability reporting?

The Global Reporting Initiative (GRI) Guidelines are the most widely recognized global standard for sustainability reporting. They were developed to encourage a uniform approach for organizations — regardless of size, sector or region — to publicly report on their environmental, social and economic priorities, performance and impacts, including how these priorities are managed by an organization across its supply chains.

12 CPA Canada (2013) *A Starter's Guide to Sustainability Reporting,* Executive Summary (page iii).

The GRI Guidelines were introduced in 2000 and have been subsequently revised several times in order to reflect changing expectations with respect to sustainability performance measurement and disclosure. The GRI's fourth generation of sustainability reporting guidelines (G4 Guidelines) was released in May 2013. New reporters are expected to report using the G4 Guidelines and the GRI anticipates that organizations already following earlier versions of the Guidelines will transition to the G4 version by December 31, 2015.

A growing number of Canadian organizations (predominantly corporations) are reporting in accordance with the GRI Guidelines. In 2011, 72 Canadian organizations reported according to the GRI Guidelines; by 2013, that number increased to 101 organizations.[13] GRI reporting continues to grow globally as over 3,300 organizations worldwide reported to the GRI Guidelines in 2013, compared to 2,666 in 2011.[14]

5. What is the GRI?

The GRI was founded in Boston in 1997 and was established as an international not-for-profit institution based in Amsterdam in 2002.

The GRI offers globally recognized sustainability reporting guidelines and sector guidance to assist organizations in measuring, understanding and publicly communicating their sustainability priorities, impacts and performance. The GRI's mission is to improve organizational contributions towards sustainable development by creating a credible "sustainability reporting standard practice for all companies and organizations".[15]

With a secretariat based in Amsterdam and regional offices in Brazil, China, India, South Africa and the U.S., the GRI has a "network-based structure" that includes its Board of Directors, a Technical Advisory Committee, a Stakeholder Advisory Council and over 600 Organizational Stakeholders (organizations). The GRI's mission is: "to promote the use of sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development".[16]

13 GRI website (2014), Sustainability Disclosure Database, search for Canadian GRI reports, **http://database.globalreporting.org/search**

14 GRI website (2014), Sustainability Disclosure Database, search for global GRI reports, **http://database.globalreporting.org/search**

15 GRI website (2014), "What is GRI?" online resource, **www.globalreporting.org/information/about-gri/what-is-GRI/Pages/default.aspx**

16 GRI website (2014), "About GRI" online resource, **www.globalreporting.org/information/about-gri/Pages/default.aspx**

6. What are the structure and key features of the GRI Guidelines?

The GRI Guidelines comprise *Reporting Principles, 'In Accordance' Criteria* and *Standard Disclosures*, which apply to all reporting organizations, along with additional disclosures that are outlined in sector-specific supplements.

While G4 is similar to earlier versions of GRI (G3 and G3.1), it now requires increased disclosure in several areas, including supply chain integrity, governance and remuneration, and "materiality".

In the GRI Guidelines, "materiality" refers to topics and indicators that represent an organization's significant economic, environmental and social impacts; or that substantively influence the assessments and decisions of stakeholders.

It is important to note that the GRI prescribes a methodology for reporting companies to identify and validate priority issues/aspects. This methodology differs from the materiality concept applied in financial reporting by recommending a four-step process, which involves identifying, prioritizing, validating and reviewing issues.

To learn more about the GRI materiality methodology, visit **https://g4.globalreporting.org/how-you-should-report/how-to-define-what-is-material/Pages/default.aspx**[17]

The *Reporting Principles*, updated in the G4 Guidelines, assist organizations in the early stage of the reporting process, by helping them define their reporting content and helping to ensure the quality of information in their report.

GRI Reporting Principles	
Content	Stakeholder inclusiveness
	Sustainability context
	Materiality
	Completeness

17 GRI website (2014), "How to Define What is Material" online resource.

GRI Reporting Principles	
Quality	Balance
	Comparability
	Accuracy
	Timeliness
	Clarity
	Reliability

Standard Disclosures guide organizations on disclosing their impacts and performance related to priority ("material") issues linked to strategy and governance and to environmental, social and economic aspects.

"General Standard Disclosures" comprise aspects (topics) that require mandatory disclosure from GRI reporting organizations (e.g., strategy, stakeholder engagement, governance, ethics); "Specific Standard Disclosures" cover aspects that only need to be disclosed if deemed "material" by the reporting organization. Examples of specific economic and environmental aspects and their related disclosures include:[18]

Categories	Aspect	Examples of Specific Standard Disclosures
Economic	Economic performance	Direct economic value generated and distributed
	Market presence	Proportion of senior management hired from the local community
	Procurement practices	Proportion of spending on local suppliers
Environmental	Materials	Materials used by weight or volume
	Energy	Energy consumption within the organization
	Water	Total water withdrawal by source
	Biodiversity	Habitats protected or restored
	Emissions	Direct greenhouse gas (GHG) emissions

18 GRI website (2014), "Specific standard disclosures" online resource, https://g4.globalreporting.org/specific-standard-disclosures/Pages/default.aspx

Categories	Aspect	Examples of Specific Standard Disclosures
Social	Labour practices and decent work	Number of new employee hires and turnover
	Human rights	Number of incidents of discrimination and corrective actions taken
	Society	Confirmed incidents of corruption and actions taken
	Product responsibility	Sale of banned or disputed products

Depending upon its chosen level of disclosure, a reporting organization would state that it is *'In Accordance'* with either the "Core" or "Comprehensive" criteria. The "Core" criteria option is less demanding as it only requires companies to disclose the essential elements of a sustainability report along with impact and performance information related to its "material" issues; whereas the "Comprehensive" criteria option requires a greater degree of disclosure to G4's General and Specific Standard Disclosures (i.e., reporting on all rather than some General Standard Disclosures).[19]

7. What are the industry sectors for which there is additional, specific reporting guidance?

While the GRI Guidelines are not targeted towards specific sectors, the GRI has released "sector supplements" to provide added context for reporting organizations in ten sectors:

- Airport operators
- Construction and real estate
- Electric utilities
- Event organizers
- Financial services
- Food processing
- Media
- Mining and metals
- NGOs
- Oil and gas[20]

19 GRI website (2014), "'In accordance' criteria" online resource, https://g4.globalreporting.org/how-you-should-report/in-accordance-criteria/Pages/default.aspx

20 GRI website (2014), "G4 sector disclosures" online resource, www.globalreporting.org/reporting/sector-guidance/sectorguidanceG4/Pages/default.aspx

8. How do the GRI Guidelines align with MD&A reporting and the CPA Canada MD&A Guidance?

In general, the GRI Guidelines have always been influenced by financial reporting principles and, as shown below, several GRI Reporting Principles are comparable to those found in the CPA Canada MD&A Guidance.[21]

a. Completeness and materiality — MD&As should be complete, fair and balanced, and provide information that is material to the decision-making needs of users.

The GRI calls for Completeness and Materiality. In this context, "completeness" requires that companies report on topics that reflect their significant economic, environmental and social impacts and enable stakeholders to adequately assess an organization's performance over a particular reporting period. In sustainability reporting, "materiality" refers to topics and indicators that represent an organization's significant economic, environmental and social impacts or that would substantively influence the assessments and decisions of stakeholders.

b. Strategic perspective — MD&As should focus on management's strategy for generating value for investors over time.

While the GRI principles are not focused on generating monetary value for investors, the principle of Sustainability Context urges companies to consider their strategies in terms of the wider context of sustainability, while also ensuring that sustainability priorities and performance are understood.

c. Usefulness — To be useful, MD&As should be understandable, relevant and comparable.

The GRI principles of Clarity, Reliability, Accuracy, Timeliness and Comparability are also intended to ensure that sustainability reports are understandable, relevant and comparable. To be "comparable", information must be reported consistently and presented in a manner that allows stakeholders to analyze changes in performance over time. GRI reporting by companies within the same sector should also be comparable in terms of levels of disclosure (i.e., similar aspects for similar companies).

21 CPA Canada (2014) *Management's Discussion and Analysis — Guidance on preparation and disclosure*, Part 2.

d. **Through the eyes of management** — An entity should disclose information in the MD&A that enables readers to review an organization and its performance as if they were looking through the eyes of management.

   There is no GRI principle that directly corresponds to the MD&A's "through the eyes of management" principle. However, applying each of the GRI principles — including those that are additional to the MD&A such as "stakeholder inclusiveness", "sustainability context" and "materiality" — will provide a comprehensive and strategic perspective on an organization.

9. How do the GRI Guidelines relate to the SASB Standards and the IIRC Integrated Reporting (IR) Framework?

There are important points of both similarity and difference. On a simple level, the GRI offers both a framework and guidance on standard (generic) disclosures and on topic-and sector-specific disclosures, which is similar to the structures and disclosure guidance provided by the SASB Standards and the IIRC IR Framework.

What primarily differentiates the GRI Guidelines from the SASB Standards and IR Framework is the GRI's focus on sustainability reporting to a broader group of stakeholders than investors and financial analysts, while the latter two initiatives focus on approaches to and aspects of an organization's reporting primarily of interest to investors and analysts.

SASB Standards aim to guide reporting organizations in determining which environmental, social and governance topics are likely to be material to users of their financial reporting filings and accordingly recommend quantitative and qualitative disclosures to be provided in SEC Forms 10-K and 20-F.

The IR Framework aims to guide organizations in concisely communicating all relevant aspects of how they create value in the short, medium and long term. It is ***not*** a new framework for sustainability reporting or MD&A disclosures.

10. What assurance is required for sustainability reporting?

Although assurance for sustainability reports is voluntary, reporting organizations may seek independent assurance for all or specific portions of their sustainability reports, to increase the reliability of the information being disclosed and to respond to the interests of key stakeholders.

Assurance is primarily provided by third party organizations that either provide data and process-based assurance (i.e., CPAs, sustainability consultants, IT specialists) and/or those that provide technical or issue-specific expertise and commentary (i.e., engineering firms, expert panels).[22]

The GRI encourages organizations to seek assurance on their sustainability reporting. To emphasize its importance, assurance is the topic of one of the General Standard Disclosures in the G4 Guidelines.

22 CPA Canada (2013) *A Starter's Guide to Sustainability Reporting*, Chapter 3—Getting Your House in Order, pages 25-26.

Integrated Reporting and the IIRC Integrated Reporting Framework

1. What is integrated reporting (IR)?

While IR has been evolving over the last decade, the IR Framework itself was launched by the International Integrated Reporting Council (IIRC) in December 2013. IR is an approach to corporate reporting that aims to concisely communicate all relevant aspects of how a company creates (or diminishes) value over time, primarily to inform equity and debt investors as well as society in general.

IR is not a new form of, or replacement for, sustainability or corporate social responsibility (CSR) reporting. It draws upon such reporting, as well as financial reporting (i.e., financial statements, MD&A) and governance disclosures, to communicate to investors and other stakeholders in a more holistic way how a company is performing and is planning to create value over time for itself and others.

IR is not mandatory in any jurisdiction except South Africa (where preparation of an integrated report is a requirement[23] for companies listed on the Johannesburg Stock Exchange [JSE]). Note that integrated reporting, as first codified in South Africa,[24] differs from the IR Framework of the IIRC. The authorities in some jurisdictions, such as the U.K., Brazil and Singapore, indicate that they recognize the potential of IR and the

23 The JSE does not prescribe use of the IIRC's IR Framework for the preparation of listed companies' integrated reports.

24 The IR Framework used in South Africa is set out in the IRC of South Africa Discussion Paper.

IR Framework to help publicly accountable organizations to comply with mandatory reporting requirements for disclosures about matters such as strategy, risk, governance, non-financial performance and relevant stakeholder issues that are required to accompany financial statements in companies' annual reporting cycles.

IIRC Definitions:

"IR is a process founded on integrated thinking* that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation."[25]

"An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term."[26]

*Integrated thinking is an expression used by the IIRC to convey the notion that in the design of its business model and development of strategy, an organization actively considers the connectivity and interdependencies between the range of factors that affect an organization's ability to create value over time (e.g., resources/capital, stakeholder relationships, business model, risk management).

2. What is the purpose of an integrated report?

An integrated report aims to communicate concisely how an organization creates value now and in the future by connecting key aspects of what it is currently reporting in separate channels, such as financial statements, MD&A, governance disclosures and sustainability reports.

Combining financial reporting with sustainability reporting and governance disclosures in a single report does not achieve the purpose of integrated reporting.

25 IIRC (2014) online resource, www.theiirc.org

26 IIRC (2014) online resource, www.theiirc.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf

IR encourages companies to communicate how their business model creates financial value, while being dependent on financial, human, social, intellectual, manufactured and natural capital — which in turn may be impacted by the company's operations and by any trade-offs between "capitals". Restrictions on availability of or access to such capitals, or their undue diminution, are sooner or later likely to affect a company's business strategy and ability to create value over time.

It is expected by the IIRC and supporters of IR that integrated reporting will eventually become the corporate reporting norm worldwide. Until then, an integrated report is intended to be a company's primary over-arching report about value creation, supplemented by other traditional and web-enabled communications about its strategy, priorities, activities, performance and impacts. Financial and sustainability reporting are likely to continue for some time in the form we see today.

3. What is the intended audience for an integrated report?

An integrated report is intended primarily to explain to current and potential future providers of financial capital (i.e., equity and debt investors, including asset or fund managers, lenders and other creditors) how a company creates value over time. The IIRC expects that other stakeholders will also find integrated reports useful, including analysts, industry peers, clients, associations, governments and academia.

4. What is the IIRC?

The International Integrated Reporting Council (IIRC) has established itself as the global authority on IR. The IIRC is a global coalition of regulators, standards setters, companies, institutional investors, NGOs, accounting bodies and accounting firms, set up in 2010 as a collaboration between the Prince of Wales' Accounting for Sustainability (A4S) project and the Global Reporting Initiative (GRI).

The International Federation of Accountants (IFAC), the International Accounting Standards Board (IASB) and the International Organization of Securities Commissions (IOSCO) and major accounting firms have been participants in the IIRC since its creation.

The IIRC's governance structure can be viewed on its website, www.theiirc.org.

CPA Canada, and previously the CICA, has supported the work of the IIRC in various ways since it was established.

5. What is the IIRC's IR Framework?

The IIRC's IR Framework released in December 2013 is widely acknowledged as the leading international source of guidance on integrated reporting. The IR Framework provides Guiding Principles and Content Elements to assist companies (and other organizations) in the preparation and presentation of integrated reports; it also explains the fundamental concepts underpinning IR and the Principles and Elements in the Framework.

The IR Framework is principles based, i.e., it does not prescribe key performance indicators or metrics, and does not set benchmarks for performance levels, governance or other aspects of strategy. It expects that other generally accepted measurement and disclosure guidelines (e.g., MD&A, GRI) would be used in presenting the financial and other types of information it calls for.

The IR Framework is intended to be flexible and applicable in all jurisdictions, while respecting local compliance requirements.

It calls for those charged with an organization's governance (e.g., Board of Directors) to include a statement in the integrated report regarding their responsibility for the integrity of the report and whether it is presented in accordance with the IR Framework.

The IR Framework was developed and approved by the IIRC, assisted by an IIRC-appointed Working Group representative of companies, investors, the accountancy profession and NGOs, which were consulted on several drafts and addressed public comments over a three-year period up to its release in December 2013.

6. What are the main components of the IR Framework?

The IR Framework comprises three main sections: Content Elements, Guiding Principles and Fundamental Concepts. These are preceded by an Executive Summary and provisions (i.e., elements and principles) for “Using the Framework”.

Content Elements Guiding the IR Content
Organizational overview and external environment
Governance
Business model
Risks and opportunities
Strategy and resource allocation
Performance
Outlook
Basis of preparation and presentation

Guiding Principles Underpinning IR Preparation and Presentation
Strategic focus and future orientation
Connectivity of information
Stakeholder relationships
Materiality
Conciseness
Reliability and completeness
Consistency and comparability

The Content Elements and Guiding Principles are based on three fundamental concepts described at the front of the IR Framework:

- Value creation for the organization and for others
- The capitals
- The value creation process

Materiality in the IR Framework is expressed by the principle that: "An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term"[27]. This differs from both the GRI and SASB definitions of materiality, and is not the same as the materiality concept applied in financial reporting.

7. How does the IR Framework align with MD&A reporting and the CPA Canada MD&A Guidance?

There is a high degree of correlation and similarity between the seven IR Guiding Principles (see above) and the six MD&A Principles set out in the CPA Canada MD&A Guidance (2014 edition). For example, the CPA Canada Guidance calls for the MD&A to have a *strategic focus* and *forward-looking orientation,* to *provide information material to its users,* and to be *complete and comparable*—all features that are contained in the IR Framework's Guiding Principles.

There is also considerable correlation and similarity between the eight IR Content Elements (see above) and the five main parts of the Disclosure Framework in the CPA Canada publication *Management's Discussion and Analysis—Guidance on Preparation and Disclosure* (2014 edition). The most significant difference is that the Content Element "Governance" is not included as part of the CPA Canada Guidance. For example, the Disclosure Framework in the CPA Canada Guidance calls for the MD&A to provide information about the company's *core businesses and strategy for value creation, external factors that affect the business, risks and opportunities, resources and relationships needed to execute strategy, performance results,* and *outlook*—all features of the IR Framework's Content Elements.

8. Who should use the IR Framework and why?

It is expected that, in Canada, publicly listed companies are likely to be the primary initial users of the IR Framework. Responsibility for the development of an IR is likely to include those (often CPAs) who are typically leading a company's financial reporting (the MD&A as well as the financial statements) and those involved with other corporate

27 IIRC (2013) *The International <IR> Framework,* Executive Summary, page 6.

reporting obligations (such as governance disclosures), as well as broader corporate communications functions (including investor relations and stakeholder relations). The company's disclosure policy should specify who is responsible for IR and the extent to which it should be subject to the support process that underpins CEO and CFO certifications.[28]

9. What is the extent of IR worldwide? In Canada?

Worldwide, it is estimated that the IR Framework has shaped the reporting of more than 150 companies across 25 countries. In Canada, three companies (Vancity, Teck Resources and Port Metro Vancouver) have been participants in the IIRC's Pilot Programme.[29] Other companies are issuing their own version of an IR and are considering how they may incorporate aspects of the IR Framework in their future reporting but are not necessarily asserting that their IR follows the IR Framework in part or in total.[30] Overall, the exact worldwide extent of integrated reporting in 2014 is not known, but is not nearly as widespread as sustainability reporting. It should also be noted that some companies are preparing and issuing "self-declared" integrated reports that do not necessarily conform to the IIRC IR Framework.

10. How does the IR Framework relate to the GRI Sustainability Reporting Guidelines and the SASB Standards?

The IR Framework does not call for specific disclosures about the Framework's various Content Elements in the same detail and specificity as those set out in the GRI Guidelines or those called for by the SASB Standards. The Framework provides the main headings for disclosures that an IR would include under each of the Content Elements.

It is likely, therefore, that IR practitioners will look to the GRI Guidelines (G4) Specific Standard Disclosures and the SASB Standards for suggestions and guidance about material ESG disclosures for quantitative and qualitative performance measures, including key performance

28 CPA Canada (2014) *Guidance for Directors: Disclosure and Certification—What's at Stake*? online resource, www.cica.ca/focus-on-practice-areas/governance-strategy-and-risk/directors-series/director-briefings/item79457.pdf

29 IIRC Pilot Programme participating companies are from South Africa (7), U.K. (7), U.S. (8), Canada (3), Europe, including Russia (43), Asia, Australia and NZ (18), South America (13).

30 A useful summary of recent research reports on the extent of <IR> and related types of reporting can be found in the Executive Summary of "Integrated Financial and Sustainability Reporting in the US" (IRRC Institute, 2013) at http://irrcinstitute.org/projects.php?project=63

indicators that can help to address the IR Content Element relating to "Performance". As noted in item 6 above, the IR Framework's concept of materiality differs from the GRI and SASB definitions.

All information provided in a company's IR is expected to be consistent with information provided in its other disclosures (e.g., MD&A, sustainability report), and to responses to surveys (e.g., CDP — the Carbon Disclosure Project).

11. What assurance is expected to be provided regarding IR?

In July 2014, the IIRC published two discussion papers on assurance in relation to IR, but the IR Framework makes no mention of assurance expectations. At this time, assurance on IR is voluntary. However, some of the information provided in a company's IR may already have been subject to some form of assurance in cases where data originates from other reports (e.g., audited financial statements, GRI disclosures).

Environmental, Social and Governance (ESG) Disclosures in SEC Filings and SASB Standards

1. What are Sustainability Accounting Standards Board (SASB) Standards?

SASB Standards recommend specific qualitative and quantitative disclosures about environmental, social and governance topics ("sustainability topics") deemed by the SASB to be material to investors and therefore appropriate for inclusion in an SEC-registered company's mandatory SEC filings (i.e., Forms 10-K and 20-F).

SASB Standards in themselves do not represent a framework for development of a new report of any kind. They simply propose a set of ESG disclosures that SEC registrants should consider when deciding what ESG factors are material to their company and its investors, and should therefore be disclosed in the Form 10-K (or, for foreign registrants, Form 20-F).

The Standards are being developed and released between July 2013 and April 2016, and propose the "sustainability topics" and related "accounting metrics" (quantitative and qualitative disclosures) for over 80 industries within 10 broad sectors.

While the Standards offer guidance on materiality, the SASB expects that individual companies will make the final determination as to which "sustainability topics" are material to their operations and are to be considered for appropriate public disclosures. The SASB uses a U.S.

Supreme Court definition of materiality adopted by U.S. Securities law and regulation, a definition more familiar to the accounting profession than materiality definitions provided by the GRI or IIRC.

SASB Standards have not been endorsed by the SEC. As a result, a publicly traded company's filings with the SEC do not need to be submitted in accordance with SASB Standards.

2. What is the purpose of SASB Standards?

Through the Standards, SASB's aim is to increase the usefulness of information available to investors outside of a company's financial statements relating to the environmental, social and governance factors most likely to impact its value and its creation of value over time. It is SASB's intention that financial and sustainability fundamentals relevant to investors can be evaluated side by side for a more complete view of a company's performance and prospects.

3. Who are the intended users of disclosures recommended by SASB Standards?

The SASB intends that the primary beneficiaries of disclosures made in accordance with its Standards will be investors (i.e., fund managers and analysts) in publicly listed companies. Such investors normally fall within the concept of the "reasonable investor", i.e., one who invests primarily for economic reasons with a variety of investment horizons and strategies.

Within SEC-registered Canadian companies ("inter-listed issuers"), it will be primarily the CFO (as a certifying officer) and the financial reporting team along with those who deal with sustainability metrics, governance disclosures and 10-K compliance who will wish to consider the usefulness and applicability of SASB Standards and the materiality determinations for their company.

4. What is the SASB?

The SASB is an independent U.S. non-profit organization established in 2011. The SASB is different from and wholly independent of the Financial Accounting Standards Board (FASB), and does not set accounting standards. The SASB is governed by a Board of Directors and SASB Standards are developed by its staff and Industry Working Groups under the oversight of an independent Standards Council. The SASB also has an Advisory Council consisting of industry, sustainability and financial professionals, who informally advise, support and promote the work of the SASB.[31]

5. What are the structure and key features of SASB Standards?

At the core of each Standard for any given industry are descriptions of the "sustainability topics" that are deemed by the SASB to be material for companies in that industry, and the qualitative and quantitative "accounting metrics" prescribed by the SASB to be disclosed for each topic that is deemed to be material by a reporting company.

Examples of material sustainability topics include greenhouse gas emissions, air quality, water management, biodiversity impacts, community relations, labour relations, workforce health, safety and well-being, business ethics, and payments transparency. Detailed metrics are prescribed for each topic.

Each Standard also includes application guidance to companies about practical matters such as where in the Form 10-K or 20-F disclosures may be needed, reporting format, timing, etc.

SASB's standards development process is designed to ensure that the accounting metrics for each sustainability topic meet the following Principles, namely to be:

- Relevant
- Useful
- Applicable
- Cost-effective
- Comparable
- Complete
- Directional
- Auditable

31 SASB (2014), SASB Advisory Council online resource, www.sasb.org/sasb/advisory-council

6. What are the industry sectors for which the SASB is issuing Standards?

The ten sectors are:

- **Released 2013–2014**
  Healthcare, financials, technology & communications, non-renewable resources, transportation, and services (covering 45 industries)

- **To be released 2015–2016**
  Resource transformation, consumption (two sectors), renewable resources & alternative energy, and infrastructure (covering 35 industries)

7. How do SASB Standards relate to MD&A reporting and the CPA Canada MD&A Guidance?

SASB Standards are expressly designed to encourage companies to provide disclosure about their material sustainability and governance topics (i.e., in addition to financial and performance topics) in the MD&A section of their Form 10-K, among other public disclosures. The very existence of SASB Standards is based on the premise that existing SEC regulations for MD&A reporting can be interpreted as calling for the disclosures recommended in each SASB Standard, which would be expected by a reasonable investor.

The SASB principles indicated in item five above, such as the need for disclosures to be relevant, useful, comparable, complete and directional, show that there is a reasonable degree of alignment and similarity between the SASB's Principles and those in the CPA Canada publication, *Management's Discussion and Analysis — Guidance on Preparation and Disclosure* (2014 edition).

8. Who should use SASB Standards and why?

SASB Standards are intended primarily for use by companies that offer securities registered under the U.S. Securities Act, 1933 and the Securities Exchange Act, 1934 in their annual and quarterly filings such as Forms 10-K and 10-Q (Form 20-F for foreign issuers). As a result, Canadian companies that are inter-listed on both the SEC and TSX may be interested in the Standards.

Periodically the SEC has issued instructions and interpretive guidance to issuers regarding the meaning and intent of Form 10-K disclosure requirements, particularly those for the MD&A and the term "materiality". But the SEC has not endorsed SASB Standards and does not require that registered issuers disclose in accordance with the Standards.

9. What is the extent of application of SASB Standards in the U.S.? Elsewhere?

As of late 2014, no evidence has been found of companies in the U.S. or elsewhere that have committed to following the available (i.e., released in time for use) SASB Standards in their Form 10-K, or foreign issuers in their Form 20-F filing.

10. How do SASB Standards relate to the GRI Sustainability Reporting Guidelines and the IIRC Integrated Reporting Framework?

Several of the material "sustainability topics" and "accounting metrics" of SASB Standards are similar to the aspects and indicators of the GRI Sustainability Reporting Guidelines (G4 version).

SASB Standards may be helpful for companies to decide on the KPIs and other disclosures that they may wish to report under the Content Elements of the IIRC IR Framework, including elements relating to "Performance" and "Governance".

> As previously noted, the SASB definition of materiality outlined in U.S. Securities law and regulation is not the same as the definitions included in the GRI Guidelines or the IIRC IR Framework. The SASB has adopted the U.S. Supreme Court definition of material information, namely information presenting "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the "total mix" of information made available".

11. What assurance is expected to be provided for SASB Standards disclosures?

The SASB encourages companies to obtain the same level of independent assurance on SASB Standard disclosures as is done on information included in SEC 10-K filings (other than financial statements).

Final Thoughts

Significant developments are occurring worldwide in the evolution of the corporate reporting landscape. They are driven by a global agenda calling for business enterprises to provide a broader set of information about their value, performance, prospects and impacts.

This growing push for more information has emerged in response to demands from investors and other stakeholders. This publication has been developed to provide a brief overview of three sets of voluntary reporting guidance; namely, sustainability reporting (GRI Guidelines), integrated reporting (IR Framework) and environmental, social and governance (ESG) disclosures (SASB Standards).

CPA Canada will continue to monitor these developments and pronouncements, and issue appropriate alerts and other guidance.

Acronym List

CPA	Chartered Professional Accountant
CSA	Canadian Securities Administrators
CDP	Carbon Disclosure Project
CSR	Corporate Social Responsibility
ESG	Environmental, Social and Governance
GRI	Global Reporting Initiative
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IIRC	International Integrated Reporting Council
IOSCO	International Organization of Securities Commissions
IR	Integrated Reporting
JSE	Johannesburg Stock Exchange
MD&A	Management's discussion and analysis
NGO	Non-governmental organization
SASB	Sustainability Accounting Standards Board
SEC	U.S. Securities and Exchange Commission

Resource Index

The following reports and resources can provide additional information so that your company can evaluate the features and expected requirements of sustainability reporting, integrated reporting and environmental, social and governance disclosures:

Compliance Week: *Balancing the New Demands on Sustainability Reporting*
www.complianceweek.com/thought-leadership/ebook/e-book-balancing-the-new-demands-on-sustainability-reporting#.VB-tSV796bM

CPA Canada: *A Starter's Guide to Sustainability Reporting*
www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/sustainability-environmental-and-social-reporting/publications/a-starters-guide-to-sustainability-reporting

CPA Canada: *Guidance for Directors: Disclosure and Certification — What's at Stake?*
www.cica.ca/focus-on-practice-areas/governance-strategy-and-risk/directors-series/director-briefings/item79457.pdf

CPA Canada: *Management's Discussion and Analysis — Guidance on Preparation and Disclosure*
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

Eccles and Krzus: *The Integrated Reporting Movement*
http://ca.wiley.com/WileyCDA/WileyTitle/productCd-1118646983.html

GRI: G4 Online — G4 Sustainability Reporting Guidelines
https://g4.globalreporting.org/Pages/default.aspx

GRI: *G4 Reporting Principles and Standard Disclosures*
www.globalreporting.org/reporting/g4/Pages/default.aspx

GRI: *G4 Implementation Manual*
www.globalreporting.org/reporting/g4/Pages/default.aspx

GRI: *G4 Sector Disclosures*
www.globalreporting.org/reporting/sector-guidance/sectorguidanceG4/Pages/default.aspx

GRI: *Making Headway in Europe—Linking GRI's G4 Guidelines and the European Directive on Non-financial and Diversity Disclosure*
www.globalreporting.org/resourcelibrary/GRI_G4_EU%20Directive_Linkage.pdf

GRI: Sustainability Disclosure Database
http://database.globalreporting.org

IIRC: International Integrated Reporting Council website
www.theiirc.org

IIRC: Emerging Integrated Reporting Database
http://examples.theiirc.org/home

IIRC: International <IR> Framework
www.theiirc.org/international-ir-framework

SASB: Sustainability Accounting Standards Board website
www.sasb.org

SASB: SASB Conceptual Framework
www.sasb.org/approach/conceptual-framework

SASB: Industry Briefs
www.sasb.org/approach/our-process/industry-briefs

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