

Finance Transformation

Quarterly
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For further details, please see KPMG International's Better Business Reporting portal with links to:

- Commonly asked questions
- Case Studies
- Ideas and innovation on designing and implementing better business reporting
- The latest developments in Integrated Reporting

www.kpmg.com/betterbusinessreporting

www.kpmg.com/cn/Quarterly-Business-Update

Better Business Reporting

The Global Financial Crisis (GFC) has had a major impact on all parts of the global economy and has called into question some of the fundamentals of our economic system. We are still learning the lessons from a financial crisis that has raised so many questions. A key focus area has, and will continue to be, the quality of Business Reporting (BR), the role it plays in restoring trust in the markets and how it will evolve as a result of lessons learnt.

A key focus area has, and will continue to be, the quality of Business Reporting.

The debate on what needs to change is broad and has resulted in much global discussion. However, two things are clear: 1. BR needs to evolve; and 2. The gap between investors' needs for a more complete picture of value versus what information is currently reported needs to diminish.

The International Integrated Reporting Council (IIRC) in particular has taken a proactive stance by outlining a number of key steps in pushing the global evolution of BR.

Business Reporting today

The challenges and shortcomings of BR have been discussed at length by preparers, investors, regulators and standard setters, and they frequently reference some of the following observations:

- A need for better connection of the dots between the various reports issued by companies, i.e., financial statements, management discussion and analysis, ESG reporting
- More clear and concise conveying of information, with a focus on what is important for the user of the information, in particular investors

- Reports are often retrospective and overly complex
- Language can be boiler plate and reports seek to tick the compliance box in terms of what needs to be reported rather than telling the story of the organisation
- No clear analysis outlining the opportunities and risks within an organisation and how they are responding to these
- A heavy focus on financial information with limited information on other areas such as social or environmental considerations.

What Integrated Reporting is trying to achieve

The IIRC is moving forward with its global proposal for an evolution of reporting to investors; this has continued to gain traction following the release of a consultation on the International Integrated Reporting <IR> Framework in Q2 of 2013 by the IIRC.

In brief

- There is a gap between the information currently being reported by companies and the information investors require in order to assess business prospects and value
- Integrated Reporting (IR) seeks to fill this gap by providing a basis for companies to explain their value creation and use of different types of capital (e.g., natural capital, stakeholder relations) more effectively to the capital markets
- IR wants to help readers look beyond companies' short-term results to form clearer views on long-term value
- IR can be applied by any company to improve the focus of their Annual Report.

In principle, this means that IR will draw upon financial, ESG and other reporting that showcases:

- Relevant information regarding an organisation's strategy, business model and the context in which an organisation operates
- Historic performance analysis with a more holistic focus rather than pure financial measures
- Information that allow users to better understand organisational opportunities, the challenges in meeting future objectives, and the short-term and long-term sustainability of the business.

What will an Integrated Report look like?

There is no standard format for IR and no defined disclosure requirements. Rather than being prescriptive, the IIRC provides five 'Guiding Principles' and six 'Content Elements':

Guiding Principles
Strategic Focus
Future Orientation
Connectivity of Information
Responsiveness and Stakeholder Inclusiveness
Conciseness, Reliability and Materiality

Content Elements
Organisational overview and business model
Operating context, including risks and opportunities
Strategic objectives
Governance and remuneration
Performance
Future outlook

In summary, IR combines financial and non-financial information with a forward-looking perspective that is designed to help readers understand all the components of business value, and how they may be affected by future opportunities and exposures. Collectively, these features mean that IR can provide a more comprehensive, holistic perspective on business performance and value to investors. It complements other efforts to communicate with stakeholders about business issues.

Current key developments and upcoming milestones for the IIRC

- On 15 July 2013, the IIRC closed the Consultation Draft Period where stakeholders could provide their feedback, opinions and thoughts on the International <IR> Framework
- Throughout 2013, the IIRC will also continue running a pilot program with a number of businesses, institutional investors and other stakeholders to test and provide input on the design of the framework
- By the end of 2013, the IIRC intends to release the International <IR> Framework.

KPMG - Supporting Finance Change

As part of our commitment to helping businesses define a new role for Finance, we will be providing the 'Finance Transformation Quarterly Business Update'. If you would like continue to receive these updates or have any questions regarding the information provided, please contact:

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What are organisations doing now?

While the International <IR> Framework and discussion on reporting developments is ongoing, many organisations have already introduced steps to change their current reporting procedures in an effort to address the challenges outlined above.

Here are some key questions for you to consider:

- Does your current reporting clearly explain business value drivers?
- Have you outlined the assets that provide your business with a competitive advantage?
- Does your reporting showcase both short and long-term perspectives?
- Is there a linkage or story between the various sections or components of your report?
- Is all the information in your reporting necessary and relevant?
- Do you explain your business model and operating context in a way that allows readers to understand how you will achieve your business objectives?
- Do you use standard or generic language that could be made more specific to your business?
- Do you show how you are addressing risks rather than just listing them?

- Do you cover more than just traditional financial performance?
- Does your reporting cover material sustainability and environmental factors and explain how these are linked to business success?

Here are some additional questions to help you identify actions that you can implement today:

- Do the questions above pinpoint quick win changes that you can implement in your next reporting cycle?
- Are there any other incremental changes you can make in the short-term that will help you move towards better business reporting in the long run?
- Are there opportunities for obtaining better analytics from your systems and more reporting automation?
- Can you engage with your stakeholders to obtain feedback on your reporting?
- Have you performed peer analysis on your reporting to see how your story or key messages compare?

Every organisation should ask these questions in order to enhance their dialogue with shareholders beyond short-term measures of performance and towards long-term better Business Reporting.