

International Integrated Reporting Framework <IR> Revision IIRC Regional Focus Group Meeting

The leading names and experts from all over the World were brought together in the Regional Focus Group Meeting on the International Integrated Reporting Framework Revision, hosted by the Integrated Reporting Network Turkey, in collaboration with the International Integrated Reporting Council (IIRC), in June 16, 2020. IIRC Founder and Emeritus Chair of Prof. Judge Mervyn E. King, who is also doyen of corporate governance and integrated reporting, has taken a part as the keynote speaker of the Regional Focus Group Meeting hosted by the Integrated Reporting Network Turkey. We are pleased to share Prof. King's opening speech.



Prof. Judge Mervyn E. King *Opening Speech*

Thank you Güler for a very interesting talk.

It has been said about me that I have a knack for appointing the right people for a particular job. And there are two people present here today whom I was charged with the responsibility to appoint. First of all I'd like to talk about Paul Druckman. When I was appointed as the chairman of the IIRC, I was charged with the responsibility to appoint the person to lead the management team that was going to implement the concepts of integrated thinking and doing an integrated report. And I chose Paul and it was a right decision. Paul, thank you for your contribution for taking us in aerodynamic terms. And we started flying at exceptional altitudes. Then, we started forming national committees around the world. And one the important places was Turkey, because Turkey's stock exchange is one of the important stock exchanges in the world with its influence in the Gulf area. I had started working with several people in Turkey about IR. And eventually worked with Güler, and again I made the choice for Güler to be charge of integrated thinking and reporting in Turkey. And I hope you'll all agree with me that it's apparent that she was a great choice. Thank you Güler, for all the work you have done and the successes on IR which you have achieved in Turkey.

The IIRC is in its 10th anniversary. It was a time to have a relook at the IR framework. Did it need some revision?

Three topics went out for discussion globally. The first was the responsibility for the report, second was the business model itself and third was the path forward.

The responsibility for the report involves a global norm, and that is that the company itself is an artificial person who cannot speak.

And when words are reported as if they were the words of the company, the words are the collective voice of the board.

When the board speaks it is responsible for what it says and consequently from an accountability viewpoint, to whom does a company account.

Prof. Judge Mervyn E. King,

Mervyn King is a Senior Counsel and former Judge of the Supreme Court of South Africa. He is Professor Extraordinaire at the University of South Africa on Corporate Citizenship, Honorary Professor at the University of Pretoria and Visiting Professor at Rhodes University.

He has an honorary Doctor of Laws from the University of the Witwatersrand, is Chairman of the King Committee on Corporate Governance in South Africa, which produced King I, II and III, and is First Vice President of the Institute of Directors Southern Africa. He is Chair Emeritus of the International Integrated Reporting Council (IIRC), Chairman Emeritus of the Global Reporting Initiative (GRI) and a member of the Private Sector Advisory Group to the World Bank on Corporate Governance. He chaired the United Nations Committee on Governance and Oversight and was President of the Advertising Standards Authority for 15 years.

He has been a chairman, director and chief executive of several companies listed on the London, Luxembourg and Johannesburg Stock Exchanges. He has consulted, advised and spoken on legal, business, advertising, sustainability and corporate governance issues in 53 countries and has received many awards. He is the author of two books on governance and sustainability and sits as an arbitrator and mediator internationally.

The board directly has duties to the company. And if one has duties to the company, one should be reporting to the company and through the company to all its stakeholders. ***One of the early discussions in developing the IR framework was called “Who is the audience?”*** We came to the conclusion after much debate and thinking that it was the providers of capital but for the benefit of all the company’s stakeholders. That was not in sync with my own thinking that the board is accountable to the company and through the company to all its stakeholders. ***The actual audience is the company itself.***

In what context are we going through this revision process of the IR framework?

It is a context in which many economies were under stress before the coronavirus arrived. And the governments of these countries carried out the executive powers to make regulations to stem the contagion of Covid-19. These regulations exacerbated the pressure on the economies around the world. They have caused a drop of anything between 8-12% of economic growth over the next couple of years. So, the focus of the governing bodies of all organizations is going to be very short term in the 18-20 months ahead. There are two crises, one economic the other viral. I have coined the word “**Corononomics**” to describe this sea of crises in which organisations are swimming.

But leaders of organizations have to think, not only short term about survival but have to keep on thinking of the momentum gathering in a cloud called climate change. The hygiene of washing our hands for 20 seconds, social distancing and isolating etc. are remedies for the spread of the virus. But they will not be remedies for climate change. Boards in this coronanomic double crisis which economies and countries are facing now have to think short term about survival. Integrated thinking has become critical. So has collaboration. SDG 17 says one would need collaboration to achieve the outcomes of the other 16 SDGs. Governing bodies have to think on an integrated, collaborative, compromising basis. Organisations have to compromise with stakeholders and the latter with the organization. Hopefully, the companies will survive. And when the economies start thriving again -let’s say 2 years’ time the nucleus of the company is still there. We can build it up again but if it fails now and goes into liquidation the infrastructure would be sold at knock down prices and human capital will be dispersed. ***So, integration of thinking has become critical in this coronanomics crisis that we’re facing. The revolutionary immensity of the IR is not the report itself, it is in changing the mindset of governing bodies and to think on an integrated basis.*** You can’t have human capital separated from natural capital, for example. These resources work together on an integrated basis.

So, the revision is more a refresher of the framework. There are not going to be in my judgement, material changes. But what is going to be material is what I’m going to describe as underneath the integrated report. If you look underneath the integrated report to the financial cluster and the ESG cluster, environmental, social and governance.

We all know the difficulties of trying to have a convergence in the financial cluster with the US GAAP and FASB which is a creature of statute which has to report to the SEC. And to change that I believe that congress would have to be involved in the US. So, I think, if you look at the financial cluster, the IASB and FASB will not merge in the foreseeable future. But in the ESG cluster, there is a lot of movement. The IIRC started the IIRC Corporate Reporting Dialogue. Many of you were present 18 months ago when I spoke in London and I said that is a matter of social outrage that you have a framework provider dealing with matters of public interest and yet they see themselves as competitors and both contending to have the same public good outcome. I think there is more a realization that dealing with public interest issues we as preparers or users need convergence. I believe that SASB and the GRI are in talks to see if there can be a convergence of standards not sustainability reporting. And notwithstanding we will still have a lot of framework providers in that ESG cluster such as very importantly the TCFD. But if you have one standard of sustainability reporting it will be easier for boards to apply their collective minds, to take out that which is material, namely that which is having an impact on the three critical dimensions of sustainable development, namely the economy,

environment and society. So, this revision comes in a critical time when there is a convergence happening in the ESG cluster which I think is a very positive situation. I believe we do need integrated thinking and we do need guidance for the board on principal matters and content elements. Users can make more informed decisions from an informed board pointing out material issues, challenges and uncertainties facing the organization in clear, concise and understandable language.

Is the company going to have value creation, preservation or erosion?

In the longer term, in other words using the words of Prof Lynn Paine. ***The long term health of the company is the critical choice and not the short term health of the shareholder.*** Integrated thinking has become even more critical in this coronanomics crisis. And doing an integrated report even if there is convergence in the ESG cluster is important because the informed body of persons namely the governing body is able to extract the material matters and from an outlook point of view tell people what are the challenges and uncertainties that company will be facing to achieve its business model.

I think these discussions which are happening around the world for the revision are important and the input which the technical team at the IIRC will get is very important. Thank you very much for the Turkish IR body Thank you Güler for your leadership in Turkey.