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The International Integrated Reporting Council: A story of failure

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ABSTRACT

This paper traces the history of the International Integrated Reporting Council (IIRC) over the four years since its formation in 2010. The paper demonstrates that, on its foundation, the IIRC's principal objective was the promotion of sustainability accounting. The IIRC's current approach to sustainability is analyzed on the basis of the Framework which it issued in December 2013. The paper argues that, in the Framework, the IIRC has abandoned sustainability accounting. It bases this conclusion on two considerations: that the IIRC's concept of value is 'value for investors' and not 'value for society'; and that the IIRC places no obligation on firms to report harm inflicted on entities outside the firm (such as the environment) where there is no subsequent impact on the firm. The paper also concludes that the IIRC's proposals will have little impact on corporate reporting practice, because of their lack of force. The paper attributes the IIRC's abandoning of sustainability accounting to the composition of the IIRC's governing council, which is dominated by the accountancy profession and multinational enterprises, which are determined to control an initiative that threatened their established position. In effect, the IIRC has been the victim of 'regulatory capture'.

In this paper I set out the history of an important initiative that initially promised to revolutionize the practice of financial reporting – the project to develop a new form of reporting (integrated reporting) through the International Integrated Reporting Council (IIRC). As the paper's title makes clear, I judge that this initiative has failed.

1. The IIRC's origins

The IIRC was founded at the initiative of two leading organizations in the field of accounting for sustainability: the Prince's Accounting for Sustainability Project (A4S)[1] and the Global Reporting Initiative (GRI). A4S's commitment to sustainability is obvious from its title: GRI claims on its web-site to be '*a leading organization in the sustainability field*' that '*promotes the use of sustainability accounting*'.[2] According to the A4S web-site, the IIRC's foundation is to be traced to a speech made by the Prince of Wales in December 2009 in which he called for the establishment of this body. In his speech, he mentioned the GRI and,

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[1] The 'Prince' in the title is the Prince of Wales, the heir to the British throne.
[2] www.globalreporting.org [accessed 15.10.13].

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when the IIRC was formally set up in August 2010, A4S and the GRI issued a joint press release, which set out the rationale for the creation of the IIRC in the following terms:

> *The world has never faced greater challenges: over-consumption of finite natural resources, climate change, and the need to provide clean water, food and a better standard of living for a growing global population. Decisions taken in tackling these issues need to be based on clear and comprehensive information; but, as the Prince of Wales has said, we are at present "battling to meet 21st century challenges with, at best, 20th century decision making and reporting systems". The IIRC's remit is to create a globally accepted framework for accounting for sustainability... The intention is to help with the development of more comprehensive and comprehensible information about an organization's total performance, prospective as well as retrospective, to meet the needs of the emerging, more sustainable, global economic model".*[3]

This press release bears unmistakable signs of the Prince's idealism: accounting is to be given the task of saving the planet!

The IIRC was formally incorporated in August 2010. The IIRC's most remarkable feature at its incorporation was the extraordinarily high-powered character of its governing body, its Council. Among its 40 members were the heads of the IASB,[4] FASB,[5] IFAC[6] and IOSCO,[7] the CEOs of the 'Big Four',[8] the heads of the major British professional accountancy bodies, and the CFOs of major multi-internationals, such as Nestlé, Tata and HSBC. The Council was dominated by the accountancy profession, preparers and regulators, who made up more than half its members.[9] They outnumbered by far the few representatives of organizations that promoted social and environmental accounting.[10] The strong representation of conventional accountants[11] sent an ambiguous message: either they were genuinely interested in reforming financial reporting or they were determined to control a new initiative that threatened their established position. Over time it has become clear which interpretation is correct.

2. The IIRC's 2011 Discussion Paper

The IIRC's first action of any note was the publication of a Discussion Paper (IIRC, 2011) in which it set out in broad terms what it proposed to do. The discussion paper gives the following answer to the question: '*What is integrated reporting?*':

> *'Integrated reporting brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value'* (IIRC, 2011, p. 2).

It further states that *'the main output of Integrated Reporting is an Integrated Report: a single report that the IIRC anticipates will become an organization's primary report, replacing rather than adding to existing requirements'* (IIRC, 2011, p. 6).

The IIRC justifies the need for a new reporting model with reference to how corporate reporting has developed in recent years. It argues:

> *'As business has become more complex and gaps in traditional reporting have become prominent, new reporting requirements have been added through a patchwork of laws, regulations, standards, codes, guidance and stock exchange listing requirements. This has led to an increase in the information provided through:*
>
> - *Longer and more complex financial reports and management commentaries*
> - *Increased reporting on governance and remuneration*
> - *Standalone sustainability reporting*
>
> *Many currently perceive a reporting landscape of confusion, clutter and fragmentation. Much of the information now provided is disconnected and key disclosure gaps remain'* (IIRC, 2011, p. 4).

[3] See Press Release 'Formation of the International Integrated Accounting Committee 'available of the IIRC's web-site at www.theiirc.org/22010/08/02 [accessed 20.07.13].

[4] The International Accounting Standards Board, the world's leading standard-setting body.

[5] The Financial Accounting Standards Board, the USA's standard-setting body.

[6] The International Federation of Accountants represents the accountancy profession at the global level.

[7] The International Organization of Securities Commissions represents the regulators of securities markets at the global level.

[8] The 'Big Four' are the four largest private accountancy firms: Deloitte, Ernst & Young, KPMG and PWC.

[9] Of the Council's initial 40 members, 10 represented the accountancy profession (institutes and firms), 10 represented preparers (companies and pension funds) and 8 represented regulators and other public bodies.

[10] The only council members who were truly independent of the accountancy profession and big business were, apart from the representatives of A4S and the GRI, John Elkington of the Triple Bottom Line (who soon left), Hugette Labelle of Transparency International and David Nussbaum of WWF. There were no representatives from Greenpeace, Friends of the Earth or radical academic bodies, such as Rob Gray's Centre for Social and Environmental Accounting Research.

[11] Exactly half of the council's initial members were qualified accountants.