Corporate Sustainability Report Pioneers Working Group

Brazilian Commission for Integrated Reporting

Trends and Challenges in Integrating Financial and Sustainability Information: experiences in the Brazilian market

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INTRODUCTION

This paper is the result of several meetings of the Corporate Sustainability Report Pioneers Working Group, coordinated by Brazil's GRI Focal Point, CEBDS, and CDP, organized within the framework of the Brazilian Commission for Integrated Reporting.

The companies were invited to be a part of this group based on their history and experience in sustainability reporting for at least three years. To promote sharing and engagement in the company as a whole, a representative from the sustainability area and another from the financial or investor relationsarea of each company were invited to participate on the group.

The trends and opinions presented here reflect the experience of this group, which held meetings on four occasions in São Paulo and Rio de Janeiro. The workshops counted on expository content presented by experts, followed by group activities and debates, with the purpose of promoting the sharing of experiences and knowledge about the integration of non-financial information, the motivation for this work, and the challenges involved.

At the first meeting, companies were invited to complete a qualitative survey with open-ended questions about their motivation to publish sustainability reports, challenges faced in elaborating these documents, audiences the reports were aimed at, and favorable and unfavorable factors for the integration of financial and sustainability information. The results are presented throughout the documents.

This paper reflects the activities and debates carried out by this group in a consolidated way. None of the companies' specific situations or information is disclosed. With the purpose of contributing to and sharing with the Brazilian market the means used by these companies, we present this report summarizing the **Trends and Challenges in Integrating Financial and Sustainability Information** according to those related to this group.

We thank everyone for their participation and engagement, and we wish you good reading.

Kind regards,

Glaucia Terreo *– GRI*
Marina Grossi *– CEBDS*
Juliana Lopes *– CDP*

ABOUT CDP

CDP is a non-profit international organization that provides the largest and most complete global system of environmental disclosure. We work with market forces to motivate companies and cities to measure and disclose their impacts on the environment and natural resources in order tofind ways to reduce them. CDP has the largest corporative database of climate change, water, and forest information. This information creates insights that allow investors, companies, and governments to mitigate risks in using energy and natural resources, and to identify opportunities for a more responsible approach in relation to the environment.

ABOUT CEBDS

CEBDS is a civic association, founded in 1997, that leads the corporate sector's efforts to implement sustainable development in Brazil, with effective articulation before governments, companies, and civil society. Gathering the country's largest corporate groups, CEBDS is Brazil's representative on the World Business Council for Sustainable Development (WBCSD) network, which has almost 60 national and regional councils in 36 countries and 22 industrial sectors, in addition to 200 corporate groups that operate on all continents.

ABOUT GRI

The Global Reporting Initiative (GRI) promotes the elaboration of sustainability reports that can be adopted by all organizations. GRI produces the most comprehensive structure for sustainability reports in the world, offering more organizational transparency. This structure, including the directives to elaborate reports, sets the principles and indicators organizations can use to measure and communicate their economic, environmental, and social performance. GRI is committed to continuous improvement and to increasing the use of its directives, which are available to the public freeonline. GRI, a non-governmental organization comprising a network of multiple stakeholders, was founded in 1997 by CERES and the United Nations Environment Program (UNEP). In 2002, GRI moved to Amsterdam, where its secretariat is currently located. It also has regional representatives known asfocal points in South Africa, Australia, Brazil, China, India, and the United States, and a global network of 30,000 people.

ABOUT THE BRAZILIAN COMMISSION FOR INTEGRATED REPORTING

The Brazilian Commission for Integrated Reporting comprises several companies and individuals interested in discussing integrated reporting and follow the IIRC's work around the world. The purpose of integrated reporting purpose is to unite accounting, financial, and socio-environmental information on the same platform.

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MEETING AGENDAS

08/26/2013 – Banco do Brasil (SP)

Integrated reporting of the organizations' strategic visions, risk mitigation, opportunity generation, and follow-up of the law
Coordination: ResultanteConsultoriaEstratégica

Construction of elements from the IIRC's framework
Coordination: Rever Consulting

10/17/2013 – SulAmérica (RJ)

Challenges in integrating sustainable management
Coordination: Catavento

10/24/2013 – Banco do Brasil (SP)

How to integrate the sustainable management process with the reporting and assurance process – Norm AA1000
Coordination: BSD Consulting

Sustainability and accounting norms – checking the existing synergies
Coordination: TheMediaGroup

11/26/2013 – SulAmérica (RJ)

The financial sector'sintegrated reporting perspective
Coordination: ResultanteConsultoriaEstratégica

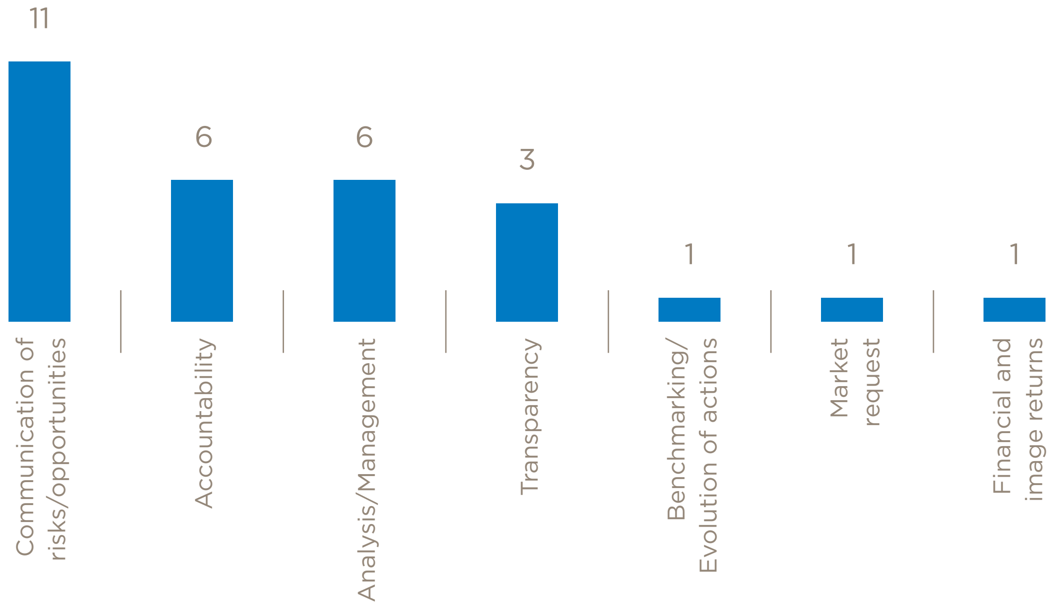
Presentation of the integrated reporting study: Brazilian perspective – Report Communication
The process of assurance in the context of integrated reporting
Coordination: BSD, BVQI, EY and KPMG

CONTENT

MOTIVATIONS

Companies have different motivations when reporting their environmental, social, and corporate governance initiatives and results. Sustainability reports, increasingly common among Brazilian companies, arise from the internal or external demand for sustainability information. The survey on sustainability reports done in the first workshop for the Working Group of Pioneering Companiesapproaches the subject through a question regarding companies' motivationsfor producing a sustainability report. The results show that the main motivations for them to produce this document are related to the desire to communicate to their stakeholders the exposure to business risks and opportunities besides those presented on traditional financial statements and reports. Figure 1 also shows that many companies use the report as an accountability tool for their initiatives and results, and as a diagnostic and management tool for their sustainability practices over time and in relation to their competition.

Figure 1 – Motivations
for publishing a sustainability report



Source: Survey – coordinated by Resultante Consultoria Estratégica

However, during the debates, the companies questioned the wisdom of using the report, in its current format, as a decision-making tool for different stakeholders, especially investors and shareholders. The ease of access, comprehension, and use of this information by the companies' groups of interest was questioned in a context in which new demands arise and it is necessary to make the companies' business case clear in answering and generating value from environmental, social, and corporate governance issues. These topics were discussed in more depth by companies and experts based on the current scenario of reporting practices and the paths that can be taken towards the integration of financial and sustainability information.

INCREASING IMPACT OF ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE ISSUES (ESG)

Information quality and timing: In all debates, it was evident that reportsare necessarybecause of management practices and processes. Integrated reporting results from and provides accountability for integrated management. However, companies emphasize that there is a long way to go, and that business areas, which provide the information in the report, must be engaged. Information quality involves not only trust in the data provided but also designing the information survey so that it really reflects the impact of environmental, social, and corporate governance information on operations and relationships between companies. Timing, a topic that was hotly debated during the meetings, addresses in particular the timing of publishing sustainability reports. At different moments during the debates, the timing alignment between publishing annual results and sustainability information was considered a challenge, but also a core factor for increasing the use of this information in financial decisionmaking process. The provided information's quality and timing are indicated as key issues for the company so that it can appropriately communicate performance and material aspects in the reporting process.

THE COMPANIES' EXPERIENCE:

Companies are trying to release GRI reports, especially for environmental, social, and corporate governance information, at the same time as the financial reports, in the first months of the year.

This practice presupposes a continuous follow-up of sustainability indexes and engagement with the companies' leaders and business areas through meetings, professional education, and, in some cases, integrating these issues with the strategic planning. For the security of information, it is essential that the company providing this service follows-up on the works throughout the year, giving agility to the process, and creating more trust in the publication.

From communication to accountability: The discussion of the purpose of sustainability reports were conducted on the debate of them serving as a communication piece, or as a result of management practices towards integrating ESG issued into the companies' strategy. The process of establishing integrated reporting should be aimed at communicating initiatives and results to the companies' stakeholders and to benefiting decisionmaking within and outside of the organization.

NEW DEMANDS FROM THE COMPANIES' STAKEHOLDERS

Because of its relevance and impact on companies, sustainability information has been in demand from different stakeholders. Employees, consumers, investors, and civil society, among others usually addressed in sustainability reports, are added to players such as rating agencies, banks,intermediates to productive investment, regulatory bodies, and government.

As shown in Figure 2, when questioned about the publics addressed in the sustainability report, companies indicated a diversity of stakeholders in the sustainability reports. In Figure 3, however, it is clear that some publics are not fully engaged with these publications. This result is most clear for shareholders and investors, as well as consumers and government. Some companies indicate that they do not have processes allowing them to identify publics that are not engaged with the sustainability report, even though they have been producing GRI reports for at least three years.

Figure 2 – Publics to which the sustainability report is addressed

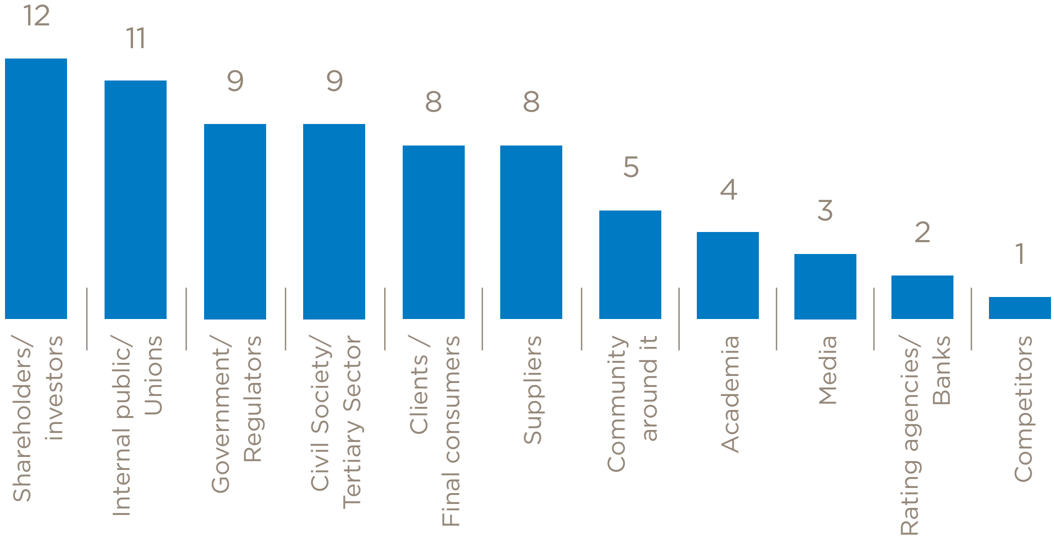
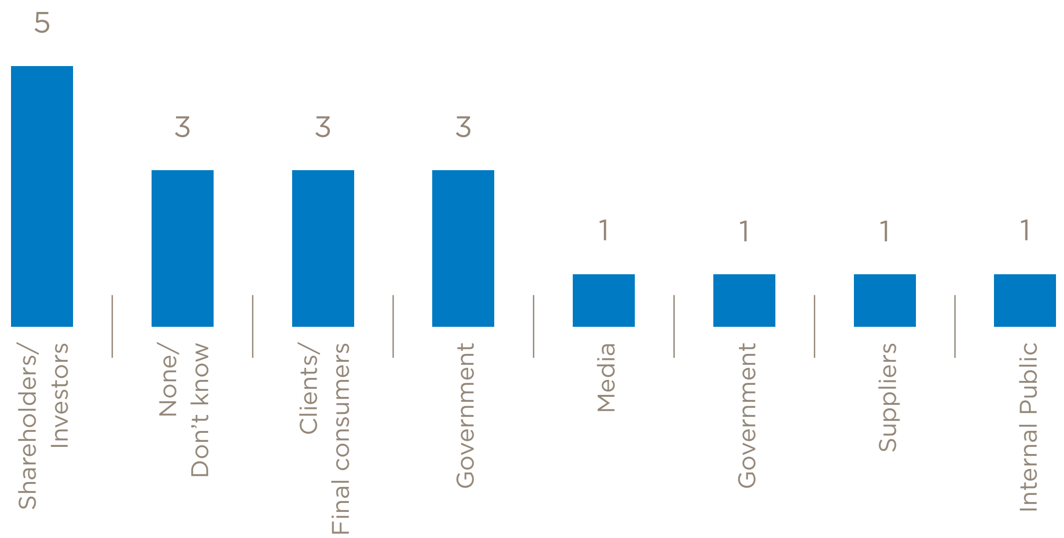


Figure 3 – Publics not currently engaged with the sustainability report



Source: Survey – coordinated by Resultante Consultoria Estratégica

A single document for multiple stakeholders: For companies, the inclusion of all these publics in a single document presents a big challenge. Aligning the language and content is an important challenge when responding to demands from different company stakeholders to create an adequate report. In this sense, companies indicate that they need to limit the report according to each public's demands, resulting in a more customized and specific report, but this creates the challenge of accessing the resources and tools needed to provide specific detail for each stakeholder.

Fewer pages, less information? Recently, it has been debated whether is it best to present shorter reports or to increasethe number of

THE COMPANIES' EXPERIENCE:

Some companies brought examples of communications pieces and relationship channels with their stakeholders that aimed to provide customized responses to their demands, such as producing the report as a magazine or using existing channels to engage with stakeholders and provide accountability for their initiatives.

It was highlighted that, although there are many indexes, each stakeholder has different demands and interests, and continuous engagement can be a way to respond to these demands without needing to produce different documents.Taking advantage of the communication channels and initiatives already in use by companies for other purposes is a way to integrate environmental, social, and corporative governance issues.

indexes to be reported based on stakeholders' demands. For companies and experts, the communication of results should be more objective, associated with a profound analysis of the materiality of socio-environmental and corporate governance topics involving the company.

Voluntary versus mandatory report: Another relevant debate involves the mandatory provision of sustainability information, in terms of its format and content. Initiatives such as Report or Explain, from BM&FBOVESPA, were pointed to as examples of engagement when reporting sustainability information. However, according to the companies, the metric for determination of standardized and comparable indexes for elaborating the report still require greater involvement from the regulatory bodies. The examples brought by the companies show that the regulator's participation is a great driver of management and reporting practices. For example, Aneel (Brazilian regulatory agency for electric utilities companies) requires companies in its sector to publish socio-environmental indexes. Following this idea, in its "Edital 41" (which has not yet been published as a normative), the Central Bank presumes accountability from financial institutions regarding their performance on environmental, social, and corporate governance issues.

NEED FOR MORE TRANSPARENCY FROM COMPANIES

According to the companies, the report constitutes an instrument through which it is possible to provide transparency for their actions, risks, opportunities, and processes to generate value for their different stakeholders.

Relation with the economic-financial results: Seen by companies as not only a challenge but also an opportunity, the sustainability analysis, through its relation with the company's economical-financial results, is the key process for integrating reporting and managing performance. The impact on variables such as sales revenue, operational cost, market share, and provisions, among other traditional figures on financial statements, is a constant debate in the companies, for which there is still no clear solution.

In one of the meetings, a debate regarding the potential financial impacts of risks and opportunities arising from socio-environmental issues was proposed to the companies. The results highlighted the topic's relevance for different aspects of the companies' management. When discussing risks, the companies and their stakeholders, especially investors, shareholders and financial analysts, need to know when the potential losses are way beyond liabilities, encompassing the loss of revenue, access to domestic and international markets, increase in operating costs, and difficulty accessing financing from private banks and development agencies, for example.

THE COMPANIES' EXPERIENCE:

The companies that have tried to measure the results of their sustainability actions are presenting positive results in terms of value generation for the organization.

Initiatives related to the efficient management of resources appear to be the simplest regarding tangibilization of results, through two means:

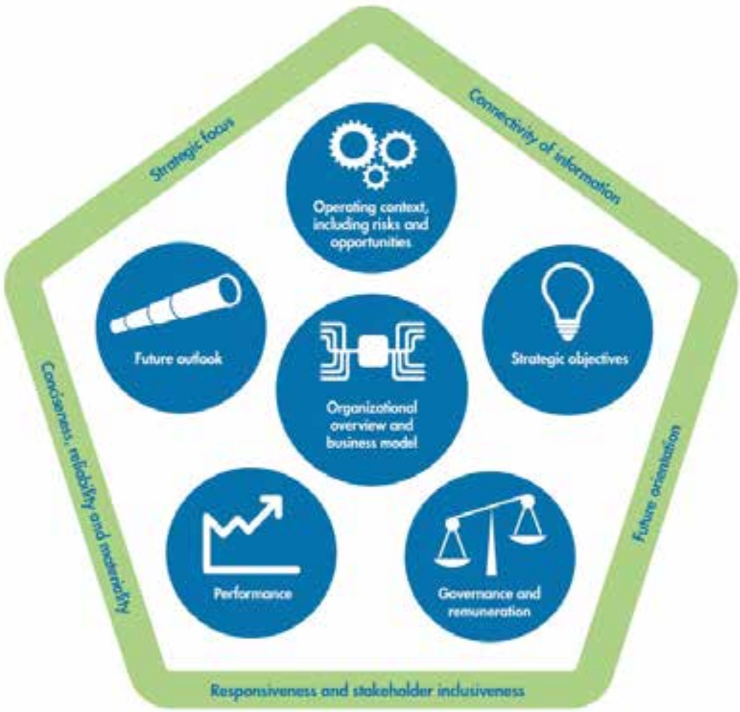
- **Reduction of operational costs through better use of resources such as energy, water, raw materials, or operational inputs (e.g., printing optimization).**
- **Creation of additional revenue through reuse/recycling of production residues or even development of new products from these residues.**

Materiality versus comparability: The study of materiality when defining the reports' scope found that it was oftenin opposing to the concept of uniformity and comparability of information throughout time and among companies from the same sector. The reports' transparency, under this point of view, was debated by companies and experts, who understand the need for a company to provide information in the most appropriate way for operations, with the duty of contextualizing the data provided and supporting the decision maker when comparing companies, for example.

TRENDS IN REPORTING PRACTICES

The perspective of integrating financial and sustainability information creates expectations for companies from the financial institutions and other parties interested in this information. Integrated reporting, in its structure, seeks to contribute to the debate and to create a rational way to incorporate sustainability information into the organizations' strategy and management plans, as shown in Figure 4. The meeting took place before the launch of the IIRC framework, so the discussion was based on the document presented for public consultation.

Figure 4 – Integration components of the reporting process



Source: IIRC, presented by Rever Consulting

The orientation principles and the elements of content in integrated reporting are connected in order to create a logical line of thought:

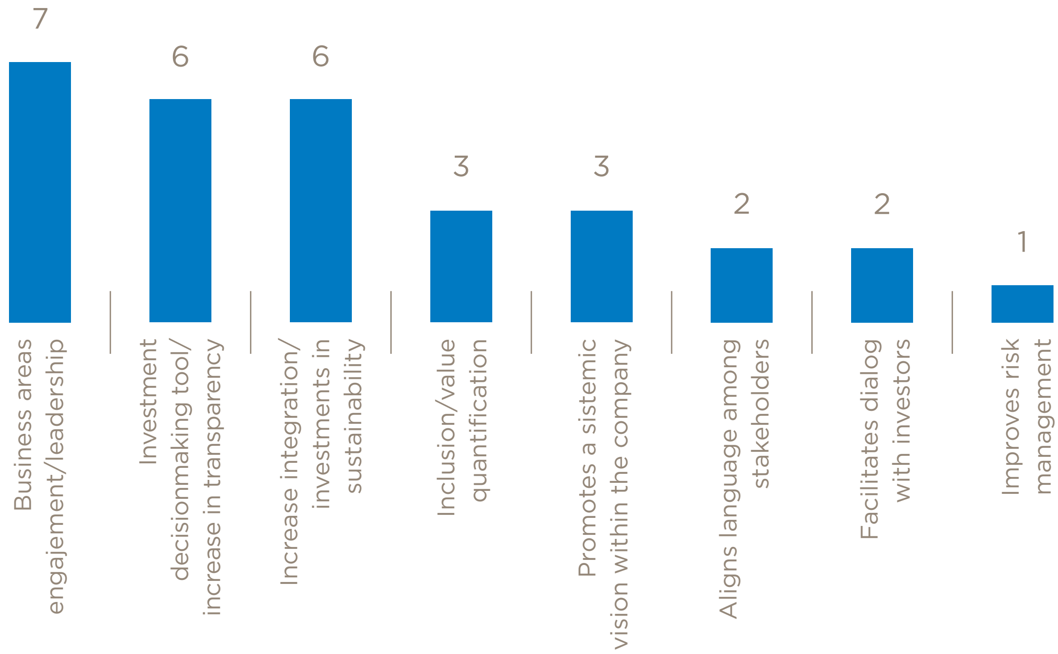
Overview of the organization → Business model → Strategy and resource allocation → External environment and Future panorama → Opportunities and Risks → Governance → Performance

The goals and results to be achieved from this model, according to the participating experts' and companies' vision, are as follows:

- Definition of value/meaning of the company's mission internally and to society
- Integrated visualization of the business model, taking into consideration the different capitals (financial, manufactured, intellectual, natural, human, social, and relationship)
- Identification of risks and opportunities for the business according to material topic
- Review of the connection between the context, risks and opportunities, compromises, and performance indicators
- Suggestions of key performance indicators (KPIs)
- Connection between economic, social, and environmental performance indicators

As part of the survey, the companies were invited to provide the factors they considered favorable to the integration of financial and sustainability information. The results show the attention given to dialogue between areas, to the use of information to support investment decisions, and to the different publics of interest.

Figure 5 – Factors favorable to the integration of financial and sustainability information



Source: Survey – coordinated by Resultante Consultoria Estratégica

During the debates of the Working Group of Pioneering Companies, some trends were observed for companies to improve the process of management and report integration that inform, as detailed below, the importance of materiality study, integration of the theme to the organizations' strategies, and adoption of tools and systems that support the management of environmental, social, and corporate governance issues, as well as keeping up to date with changes in legislation and sector regulations about these issues.

IMPORTANCE OF MATERIALITY IN THE REPORTING PROCESS

In all meetings, the concept of materialitywas discussed according to the definition given by the Committee of Accounting Pronouncement (CPC-00):

> *"Information is material if its omission or its misstating can influence decisions made by users based on the accounting-financial information about a specific entity that reports the information. In other words, the materiality is an aspect of specific relevance of the entity based on the items' nature or magnitude, or both, to which the information is related in the context of the accounting-financial report from a particular entity."*

Materiality is understood to be a fundamental issue in the reporting process. The definition, like the accounting norms, is not quantitative and standardized for all companies and sectors. The understanding and verification of materiality has more relevance within the integrated reporting context and is reinforced by other market tools and initiatives that already deal with the issue, such as GRI.

Determining materiality: The companies use different methodologies to determine materiality, such as panels, individual interviews, and electronic consultation. The inclusion of stakeholders in adequately determining a report's scope involves the companies' promise to listen to and answer the demands of their publics of interest. Some companies' experience in this sense brought to the fore the necessity of going beyond consultations as a mere formality to produce the reports, and to create a continuous engagement process with stakeholders, which supports the determination of material issues for the company.

Equilibrium = Materiality + Transparency: The report of material issues was the subject of an important debate among the companies about the transparency with which these issues should be reported to stakeholders. Socio-environmental and corporate governance issues, the reports of whichare not as regulated as those of financial information, can be considered strategic and/or secret by companies, especially risks that, if they materialize, could represent financial losses.

THE COMPANIES' EXPERIENCE:

The disclosure of liabilities related to environmental, social, and corporate governance issues by the companies, or the exposition to risks that can generate financial losses, is of great complexity for all sectors.

The companies indicate a lack of knowledge and measurement of these risks; even when there is measurement, there is difficulty in communicating its impacts on the companies' operations and relationships.

The debate indicates that the collaborative and sector work can induce better reporting practices for risks related to these issues. The indications by companies and experts compare the disclosure of environmental, social, and governance risks to material issues under the heavily regulated economic-financial aspect and whose omission can result in serious penalties for the companies. The examples presented include cases in which the information in the sustainability report not presented on the financial statements caused notifications and reviews of accounting reports by Brazilian companies.

Review and assurance: The "expiration date" of the materiality studies were also on the agenda. The arguments vary, but, in general, the companies agree that the annual review, besides being onerous, may not generate great benefit in terms of elaboration of the reports. An alternative may be extending materiality surveys to periods of two or three years, for instance. In relation to the assurance of this process, which will be discussed in more depth, the focus of discussions was on the importance of participation by assurance companies from the beginning of the materiality process, which occurs during the process of assurance, goes through the review and analysis of issues that, not having been considered by companies, can be reflected on the assurance report. In this sense, the engagement of assurance professionals from the beginning of the materiality survey was indicated by the companies to be a good practice that generates adherence to this process for issues with more impact on the companies' operations and relations.

Subsidies to strategies and management: The materiality survey, besides providing a basisfor the reporting process, can constitute an important tool for prioritizing actions and integrating sustainability practices with the companies' strategy and management. Those companies involved in this working group presented different experiences in which the contribution of stakeholders contributed positively to generate value and results.

INTEGRATION OF SUSTAINABILITY ISSUES WITH STRATEGY AND COMPANY MANAGEMENT

The most relevant and debated issue throughout the meetings was, by far, the integration of socio-environmental and corporate governance issues with the companies' strategy and management. This area's developments and challenges present themselves together, but important topics were raised regarding the incorporation of this theme into the companies' business routines.

Elaboration of scenarios and trend analysis: Understanding the main topics related to socio-environmental and corporate governance issues and the impacts on companies' businesses is a fundamental step in the integration into companies' strategy and management. Studying the scenarios and their impacts makes it easier for leaders, business areas, and the companies' value chains to understand the topic. Climate change, shortage of resources, changes in the population pyramid, and the population structure of income distribution are examples of topics that have significant impacts on risk management and business opportunities, and that were presented by the companies.

Contextualizing sustainability: The identification, in business areas, of issues related to the theme of sustainability is crucial to engaging the internal public and the development of debate and integration within the companies. The alignment of areas depends greatly on sustainability professionals' understanding of issues relevant to their business areas and of how the topic interacts withthe company's routine, activities, goals, and relations.

Establishing KPIs: Even though they are hard to quantify, the performance measurements of sustainability actions should interact in the broadest way possible with the measurements adopted by the organization to assess its results. The companies were invited to discuss the alignment between financial and sustainability indicators, and the results greatly reflected the difficulty of establishing the connection. The paths indicated go through the integration of these issues to strategic planning, intensification of dialogues between areas and, whenever possible, generation of tangibleresults from sustainability actions.

THE COMPANIES' EXPERIENCE:

Some companies brought examples of positive impacts of the materiality survey, which created action and results:

- **Understanding stakeholders' demands supports the prioritization of initiatives to be developed by the management areas**
- **Engagement of business areas is facilitated by the materiality survey, which validates the stakeholders relevant to the organization in terms of the importance of environmental, social, and corporate governance issues**
- **The focus on priority actions for stakeholders generates optimization of the use of resources, reducing expenses for actions with less potential of generating results and responses to the demands of the public of interest**

MANAGEMENT SYSTEMS, TOOLS AND CERTIFICATIONS

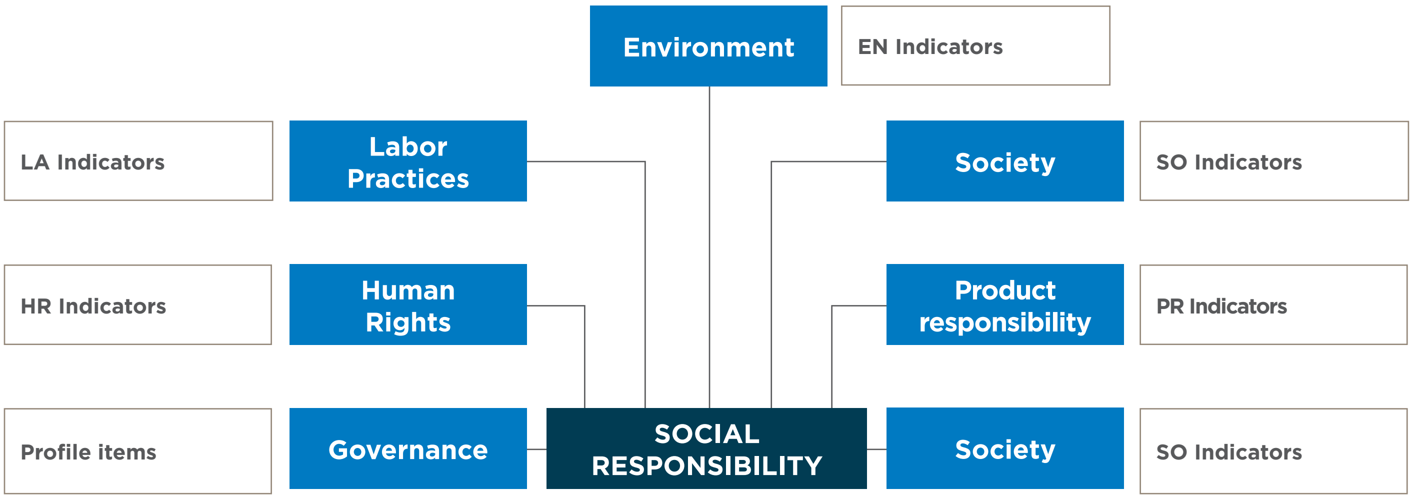
Most participating companies adopt instruments recognized by the market to support management of their sustainability initiatives. The proliferation of standards, management systems, certifications, indices, reporting guidelines, and industry agreements is also seen as a point of attention for companies that should seek adhesion to commitments and to use the tools most applicable to their business model.

When asked to associate different standards, management systems, protocols, and agreements to the respective scope, there is an evident need for companies to use caution in observing the initiatives that they decide to participate in, working objectively and constructively, consistent with their culture, branch of activities, and the nature of their relations.

Management Systems: organized to manage and promote continual improvement in organization processes, management systems are constituted as instruments for creating policies, reviewing processes, and managing company information. Applied to the theme of sustainability, environmental, health and safety, quality and stakeholder management systems were mentioned by companies as instruments used in their operations and everyday activities.

Some management systems were debated by participants and specialists, such as Standard AA1000, released in 1999, which provided guidelines for development of other tools and management systems for environmental, social and corporate governance issues, including ISO Standard 26000. Interaction between management systems and GRI guidelines were presented as an important facilitator in reporting the results of sustainability activities at companies.

Figure 6 – Correspondence between ISO Standard 26000 and GRI Guidelines



Source: Presented by BSD Consulting

Certifications: Applicable to products or procedures, certifications involve the verification and assurance of norms or management systems by an independent third party. Regarding socio-environmental and corporate governance issues, some certifications, such as ISO norms or sector certifications (e.g., FSC for the forest sector, LEED and Acqua for the construction sector), are seen by companies as a way to demonstrate their commitment to sustainability to their stakeholders. Throughout the debate, companies were preoccupied with the certifications' scope, which can be limited to a unit or procedure that is not material to the company's group of operations.

Sustainability indexes: The companies that are part of sustainability index portfolios, such as the Corporate Sustainability Index (ISE) and the Efficient-Carbon Index (ICO2) from BM&FBOVESPA, or the Dow Jones Sustainability Index (DJSI), stated that they use the indexes, feedback reports, and meetings promoted by these initiatives to support the management of socio-environmental and corporate governance issues in their strategy and management. The survey of gaps in relation to best market practices, evolution of surveys, and dialogue with experts is seen as the main reason for participation in the indexes. Both sustainability professionals and finance and investor relations professionals expressed doubt about investors' demand the companies participate and the performance of sustainability indexes. In this sense, the increase in the disclosure of answers, as promoted by ISE, is seen as a way to make the process of including companies in the portfolio clearer, and to increase the relevance of these indexes for the investment industry.

Reporting tools: In addition to supporting the integration of financial and management information, reporting guidelines and indexes are fundamental in identifying, managing, and responding to demands by the companies' stakeholders. Protocols, sector agreements, and reporting guidelines are very important tools when delimitating what, how, and to whom to report socio-environmental and corporate governance information. The reporting tools were more associated with integration of financial information because of its nature and structure. The companies identified clearer indexes, measurements,and forms as being of great importance in the process of integration, management, and accountability of financial and sustainability information.

The GRI guidelines are adopted by the companies as the main form of reporting sustainability information. The recent interactionof their indexes with thematic initiatives such as CDP – also adopted by market indexes such as DJSI as referencedin the report about climate change management in the companies – is viewed in a good light by organizations that seek to condense and unify the information reported to their multiple stakeholders.

Climate Disclosure Standards Board (CDSB): The presentation by CDSB, a consortium of NGOs that operate in business and environment areas, managed as a CDP special project, brought the experience of integrating environmental issues performance – more specifically, climate change management by the companies – and financial performance through the creation of a framework to report information about business risks and opportunities related to climate change and integrated with financial information.

IMPROVEMENTS IN THE LAW, REGULATION, AND SELF-REGULATION

One of the trends indicated by the companies in the means of integration is the regulation of sustainability issues, and their reporting to the companies' interested parties. Directly or indirectly, standardization is, no doubt, a great driver of this topic of strategy development and management practice. The worries about generation of public policies, norms, and agreements exist, in particular, in the dialogue with decision-making actorsfor these normative tools.

Another issue of great relevance is the synergy between norms and guidelines already adopted by the market, especially regarding the disclosure of company information. The use of channels that already exist to report information to stakeholders not only reinforces the importance of sustainability issues, but also facilitates their integration into the companies' management and strategy, and avoids the creation of a parallel agenda to discuss socio-environmental and corporate governance issues.

Accounting norms: The Brazilian Committee of Accounting Pronouncements (CPC), in its many documents that guide the elaboration of financial statements, presents convergence points with the reporting of socio-environmental and corporate governance information. The detailing of these issues, for instance, through explicative notes, is a path to be explored by the companies. The dialogue with financial, investor relations, and service provider areas relevant to the process, such as audit companies, is fundamental to developing this issue.

Some examples brought up during the meetings, regarding the accounting standards and their relationships with the theme of sustainability.

Sustainability and Accounting Standards – Current synergies

corresponding CPC number	Accounting themes	Sustainability themes
no number	Publication of Accounting Statements	List of stakeholder groups engaged by the organization
CPC 04	Expenditures on Research & Development	Patent (Innovation)
CPC 05	Use of controller's physical structure or personnel by the subsidiary	Conflicts of interest on the Board of Directors
CPC 07	Government subsidy	Cession of public lands for execution of social project
CPC 09	Value-Added Statement	Investments in the community
CPC 24	Externality after the end of the fiscal year that impacts results	Significant oil spill that occurred on the 2nd day of the year
CPC 25	Civil liabilities related to environmental issues	Environmental fines
CPC 27	Investments in new plants	Green Building
CPC 29	Management of financial risks related to the change in price of the biological asset	Food safety
CPC 33	Personnel costs	Profit sharing and bonuses

THE COMPANIES' EXPERIENCE:

Comprehension of the relationship between social, environmental, and corporate governance themes and the financial context of companies is indispensable in the integration of management and reporting practices.

Companies and experts discussed the interface between the topics, and there were cases of institutions that have already studied and structured the correspondence of themes required and regulated by CVM to the GRI guidelines, adopted in the sustainability report.

According to the companies, the technical knowledge necessary to carry out this study presumes the involvement and collaboration of sustainability, financial, and investor relations areas within the company.

Financial report: The production of financial reports besides the accounting statements is a way to highlight the relevance of sustainability topics to the publics of investors and financial analysts, which are highly important to companies. Two accountability reports from the Brazilian (*Formulário de Referência*) and international (Form 20F) markets were related to the sustainability topics usually analyzed and managed by the companies. In several sections, it is possible to create synergies between economic-financial and sustainability information in a document broadly accepted by the market as source of information for financial decisionmaking.

Figure 7 – Reference Form: Synergies with sustainability information

Section from the Reference Form	Relation with sustainability issues
4. Risk Factors	Exposition to socio-environmental risk, mitigation and management
5. Market Risks	Sustainability issues that can represent threats or opportunities to the company's operations (e.g. climate change)
9. Relevant Assets	Biological assets, agricultural production or those that are highly dependent on socio-environmental issues
10. Board Comments	Strategic vision from socio-environmental and corporate governance themes
12. Board of Directors and Administration	Structure of corporate governance
13. Management compensation	Practices of remuneration to the main executives and members of the Administration Council
14. Human Resources	Policies and practices before the associates: - Benefits - Training - Free association to unions - Non-discriminatory/incentive to diversity practices - Respect to human rights - Practices before the chain of suppliers
16. Transaction with Related Parties	Practices to mitigate conflicts of interest and operations with related third parties

Source: CVM – Reference Form

Figure 8 – Form 20F: Synergy with sustainability information

Section of Report 20F	Relation with sustainability issues
4. Information about the company	Exposition to business risks and opportunities arising from socio-environmental issues

6. Directors, Senior Management and Employees	- Structure of corporate governance
	- Policies and practices before the associates:
	  - Benefits
	  - Training
	  - Free association to unions
	  - Non-discriminatory/incentive to diversity practices
	  - Respect to human rights
	  - Practices before the chain of suppliers

7. Majority Shareholders and Transactions with Related Parties	Practices to mitigate conflicts of interest and operations with related parties
11. Disclosure of Qualitative and Quantitative Information about the Market Risks	Sustainability Issues that may represent treats or opportunities to the company's operations (e.g. climate change)
Part II – Ethics Code	Presentation of the company's Ethics Code, their sections and content

Source: SEC – Form 20F

Requirements from the financial industry: In addition to the development of norms and initiatives to integrate the financial and sustainability issues companies face, the trend of increasing requirements by sponsors and investors is also presented as a trend in the Brazilian and international markets. The sector agreements already cover credit operations, resource allocation by investors, and operations of the insurance industry.

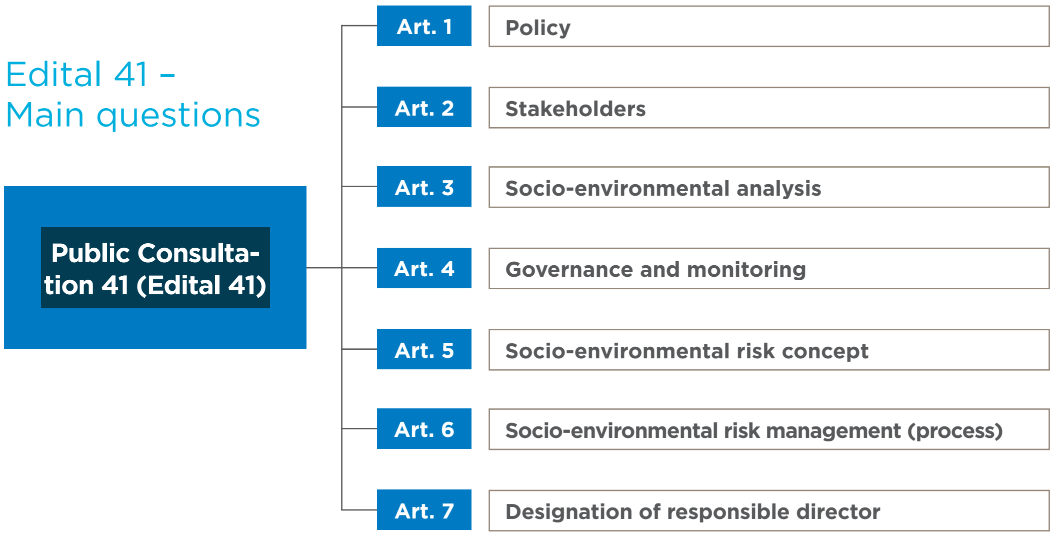
Figure 9 – Sector agreements in the financial industry

	Ecuador Principles	**Principles for Responsible Investments**	**Carbon Disclosure Project**	**Principles for Sustainability Insurance**
Operations aimed	Credit Operations	Investments	Investments	Insurance
Nature of Initiative	Group of guidelines based on socio-environmental policies from IFC, which aim the integration of theses issues to the practices of credit granting by the signing financial institutions	Voluntary and aspiring principles that aim the integration of ESG issues to the analysis and management of assets, by institutional investors, resources managers and providers of financial services	NGO created from the demand of investors, which developed a methodology for companies and even cities to report their exposition to risks and opportunities related to climate change, and actions adopted to manage the topic	The same way as the Principles for Responsible Investments, the PSI is constituted of voluntary principles that aim the integration of ESG issues to the insurance industry's operations and relations
Signatories	79	1,229	700	38
Actions in Brazil	The Brazilian companies that signed the Ecuador Principles act in a pro-active way in the agreement implementation and promote a broad exchange of experiences in its implementation. Brazil has a representative in the steering committee of the Ecuador Principles (Itaú-Unibanco)	The Brazilian Network acts through three working groups: - Engagement with investee companies - Integration of investment practices - Integrations of investments policies (pension funds) Brazil had two representatives on PRI's board (Previ and Santander Asset Management)	CDP maintains a structure in Brazil to act with the companies and investors, with the support of class associations from the sector and financial institutions	The initiative has the support of the National Confederation of Insurance Companies (CNSeg), whose acts publicizing the initiative and facilitating the dialogue with agents from the value chain of the insurance industry. Brazil also has a representative on PSI's board (SulAmérica)

Source: Ecuador Principles, PRI, CDP, and PSI

However, an important sign of how these issues are becoming important to the sector was the launch during Rio+20 of "Edital 41"from the Brazilian Central Bank. This norm, as an orientation, covers all financial products and services of all institutions regulated by the Central Bank. The following sections were included in the Edital available for public consultation:

Figure 10 – Main topics of the Brazilian Central Bank's "Edital 41"



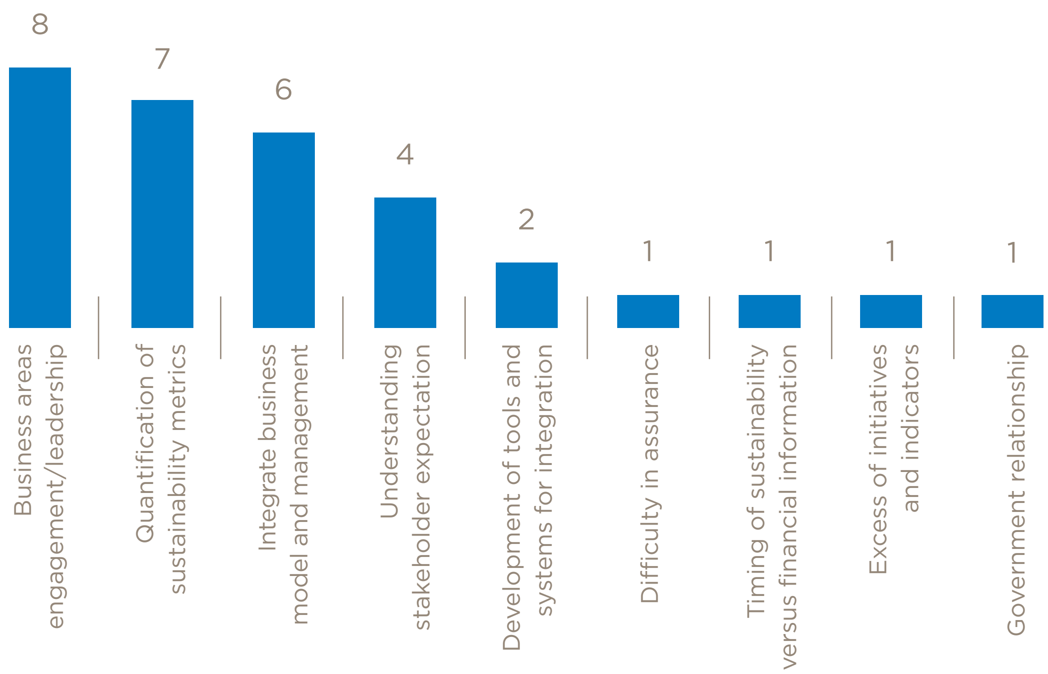
Source: Brazilian Central Bank's Edital 41, presented by Resultante Consultoria Estratégica

Although there is no estimated date of publication, this regulation will impact not only banks and institutions regulated by the Brazilian Central Bank but also companies interacting with those institutions to finance their production activities.

CHALLENGES TO INTEGRATION

In addition to the trend of adopting integrated reporting as the companies' reporting practice, the Working Group of Pioneering Companies discussed some important challenges in the integration of financial and sustainability information. When questioned about this, the companies indicated internal engagement, the creation of indexes to measure the results of sustainability measures, management integration, and adequate comprehension of stakeholders' demands, among other factors, as the main challenges, as follows:

Figure 11 – Challenges to the integration of financial and sustainability information



Source: Survey – coordinated by Resultante Consultoria Estratégica

The discussion regarding the challenges of adopting practices of integrated reporting included some fundamental topics, discussed by companies and experts. The debates were centered on ways to increase the incorporation of environmental, social, and corporate governance issues in business strategy and management.

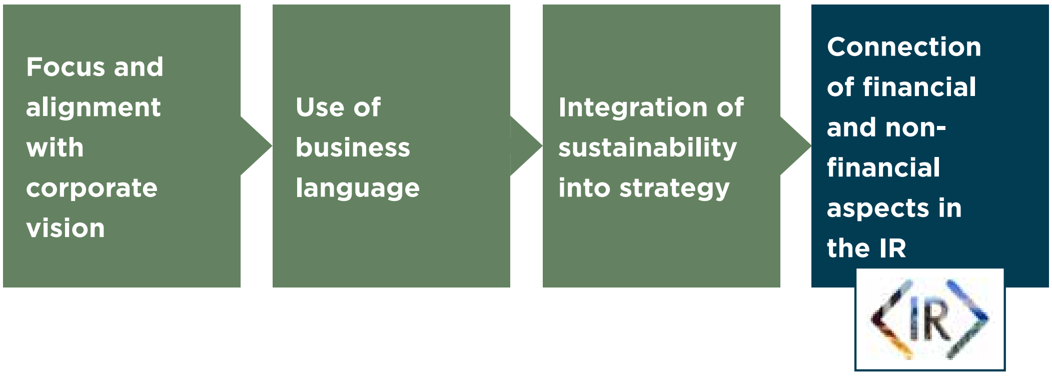
Figure 12 – Integration of sustainability and strategy: From supporting areas to business areas

Source: Elaborated by CataventoConsultoria

ALIGNMENT OF LANGUAGE AND CONCEPTS

Comprehension of the business: At different times, the Working Group of Pioneering Companies discussed the alignment of sustainability issues with the business language usually adopted by organizations. Experts indicated the need for sustainability areas to clearly understand the context of the company's business, drivers, and goals, so the topic is aligned with its strategy and business plan. On the other hand, the need to develop engaging actions with the company's main stakeholders, with the goal of increasing knowledge and comprehension of the impacts of sustainability issues on decisions and paths taken by the company's management was highlighted.

Focus and prioritization of actions: The prioritization of actions is also indicated as an important issue when aligning the socio-environmental and corporative governance issues with the company's operations. The importance of using the study materials to guide sustainability actions' focus to a reduced number of initiatives with great impact over the companies' results was stressed. The presentation of initiatives, according to the working group, should correspond to the company's main economic-financial variables, regarding its impact and performance measurement.



Source: Elaborated by Catavento Consultoria

Making use of business opportunities: Authors such as Bob Willard, of The Sustainability Advantage, give examples of sustainability actions that promote value generation through differentiation from competitors, increased efficiency, and positive impact on different financial statement accounts, such as the ones presented in Figure 13.

Figure 13 – Potential impacts of sustainability issues within companies

Source: Elaborated by ResultanteConsultoriaEstratégica, based on Bob Willard's work The Sustainability Advantage

Long-term issues versus short-term goals: The socio-environmental and corporate governance issues are generally applicable in the medium to longterm. However, the market vision and establishment of performance and remuneration goals are still based on short-term, annual, or even quarterly results. This is an important obstacle for companies when aligning the concept and language of sustainability, technical, and financial areas, as well as for relevant external stakeholders such as investors and financial analysts. Although there is not yet an outlined solution to these issues, some companies have been inserting socio-environmental performance goals into their staff's variable remuneration, or seeking an approximation of the business language to report, internally, business risks and opportunities related to the sustainability topic.

KEY STAKEHOLDER ENGAGEMENT

The difficulty of surveying, understanding, and responding to stakeholder demands is usually indicated as an obstacle to the development of reporting practices, especially forintegrated reporting. According to the companies, the challenge is responding to different interests through different languages, measurements, and interaction channels. As in the debates regarding synergy with accounting norms and financial reports, in stakeholder engagement it is also possible to use the channels available within the company to inform content and disclose the company's sustainability practices, goals, and results.

Some groups were indicated by the companies and experts as key stakeholders in the development of the integrated reporting process:

Senior management: The board of directors and the company's main executives, who are responsible for formulating the organization's strategy and management practices, are essential for integrating sustainability topics into the corporate agenda. In order to engage this stakeholder, the companies' experiences reinforce the need to translate sustainability issues into economic-financial language through the construction of a business case based on risk management, business opportunities, and follow-up/thinking ahead of the legislation. Moreover, according to the companies, the engagement of business areas with the internal project becomes a

THE COMPANIES' EXPERIENCE:

In one of the meetings, the companies were invited to debate the difference between the practices reported, the public's perception of the action, and value generation for the community and for society in general. Some sectors, in which companies are frequently awarded for their environmental, social, and governance actions, are not seen by society in the same positive lightas those that receive market awards.

The companies' highlights regarding this issue focused on the principles of balance, transparency, and materiality. The reporting practices, by addressing the most relevant issues in a transparent way and avoiding the omission of problems, negative aspects, and impacts, will avoid the appearance that reports and other reporting tools are used as "a very well told lie."

consequence of the alignment of leaders with sustainability concepts and their impacts on the company's operations and relations.

Government/Regulatory bodies: The development of public policies and norms can drive the debate regarding integration, but the dialogue with this stakeholder presumes a broad technical knowledge by the companies about sustainability issues and their relevance/applicability to the companies/operations. The Working Group of Pioneering Companies highlights the importance of collaborative and sector work in the debate with regulatory bodies, which,in addition to standardizing the discourse and demands before this stakeholder, avoids distortions in reports from companies in the same sector, which the market can interpret negatively.

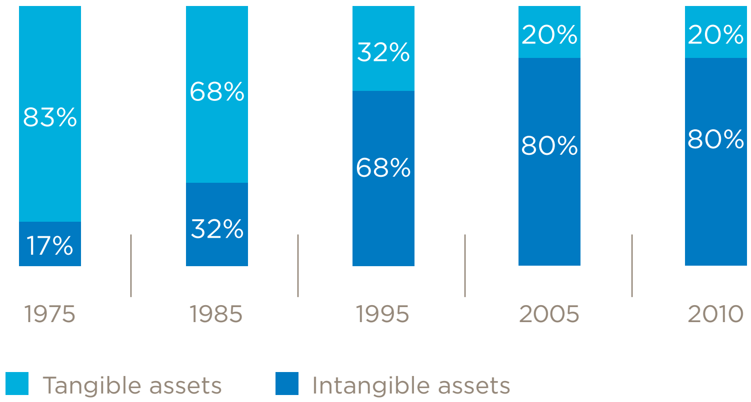
Final consumer: Engaging with the final consumer depends, mostly, on the business context and the sector in which the company acts. Throughout the debates, the main challenges indicated by the companies in the interaction with the consumer were related to sectors that have direct access to retail, such as food and beverages, consumption/retail, and distribution of electric power. This stakeholder's engagement involves the development of specific channels, use of adequate language, and understanding of topics addressing their interests and demands. The companies also highlight the difficulty in counting on consumers' participation in materiality surveys, and their reduced interest in the information published in the sustainability reports.

QUANTIFIABLE AND STANDARDIZED MEASUREMENTS

Measuring the results from sustainability actions and their incorporation into the companies' values has been under debate by sustainability and financial professionals and academicsfor many years, and no conclusive answer has been found. Some of the topics discussed by the companies regarding this important challenge are as follows:

Valuing intangibles: Incorporation of intangible assets' values into the valuation model used by the companies is still under debate by the market, but its increasing importance for the companies' market value is evident. The treatment of intangibles addresses, in many cases adequately, the integration of sustainability information into financial reports. The capital values in the integrated reporting framework were reported to the companies; their operations and relations should also be debated by different actors, with the purpose of advancing the consideration of socio-environmental and governance issues when making financial decisions.

Figure 14 – Components of the companies' market value



Source: Ocean Tomo, presented by Rever Consulting

Studies and initiatives from the investment industry: Analysts and investment managers, in collaborative works, presented forms and cases of sustainability issue integration into the valuation models adopted by the companies. The guidelines for integration, from macroeconomic issues to the alteration of variables in valuation models,has become part of institutional investors' and resources managers' agenda, though not in a very quantitative way.

Figure 15 – Integration of sustainability issues into investment assessment and decisionmaking

Economic Analysis	**Impact on the economic activities and macro themes, such as resource scarcity**
Industry Analysis	**Consumer preference and regulatory changes influence, such as environmental regulations**
Corporate Strategy	**Risk and opportunity management of ESG issues, such as those in the supply chain**
Financial Reporting	**Impact on the increase in revenues, operational efficiency, tangible and intangible assets and cash flow**
Valuation tools	**How the analysis considers these issues, in the discount rate or economic value added**

Source: UNPRI – Integrated Analysis (2013), presented by Resultante Consultoria Estratégica

Historical analysis in a scenario of changes: Regarding the measurements currently used by the market to make economic-financial decisions, companies and experts debated the necessity of reassessing indexes and measurements based on historic data that analyze the results of past choices in order to make decisions for the future with a long-term orientation. This necessity is even more strongly presented when the scenarios, trends, and demands related to socio-environmental and corporate governance issues are taken into consideration in some or none of the measurements adopted by the companies' finance, technical, or senior management professionals.

The dilemma in defining the measurements also involves, as previously presented, the debate about the customizing and materiality necessary to comprehend each company's operations and their respective chains of value versus the necessity of acquiring comparable information over time and between companies in the same sector. The uniformity of financial reports, which are essential to adopt as tools in investment decisionmaking, still needs to be debated in terms of non-financial information, so that a consensus is reached about the best way to analyze and integrate this universe of data and information into the assessment of performance practice and economic-financial decisionmaking.

ASSURANCE OF INFORMATION

Doubts about the assurance of the integrated reporting were expressed at the first meeting of the Working Group of Pioneering Companies, after a company, when discussing the challenges of integrating information, asked why it was not possible to have an integrated audit in an integrated document. The issues referenced the financial audit procedures, separated from the assurance made about non-financial information. Insurance companies presented two different assurance methodologies to the participating companies – NBC TO 3000 and AA 1000 – in addition to the methodology of management systems certification, in the case of norms and management systems. Although generally based on the verification and assurance of information based on the study of internal controls, procedures, systems, and documents, the scope, assurance level, and format of the decision or the final report may present variations. Some methodology differences were indicated by the insurance companies, and are listed below.

Assurance of sustainability information (non-financial information assurance methodology): In verifying sustainability information in the current way, the methodologies for assurance/verification have great impact on the final product of this process: the assurance or certification decision, in the case of norms and management systems. Although they are generally based on the verification and assurance of information based on the study of internal controls, processes, systems, and documents, the scope, assurance level, and format of the decision or final report may present variations. Some differences in methodology were indicated by the insurance companies and listed below.

Figure 16 – Methodologies for assuring sustainability information

Norm	NBC TO 3000	AA 1000	Management Systems/Norms
Nature	Establishes basic principles and essential procedures to carry out works to assure social, environmental and governance information, when it is not applicable the audit procedures or review of financial/accounting or historical information that are subjected to specific norms.	Standard to assure the sustainability reports	Analysis of adopted principles and internal procedures
Responsible for Norm	Federal Council of Accounting – CFC	Accountability	Own methodology based on good management and assurance practices (AA1000, ISAE 3000, ISO norms)
Definition of Scope	Based on materiality, risks and internal procedures and controls. Depends on the nature, time and extension of procedures to get the evidences and carry out tests and assurance can be reasonable (more extensive and deeper) or limited (more limited procedures). Reasonable and limited assurance procedures can be applied to the same sustainability report.	Type 1: level of accession to principles (inclusion, materiality and response capability) Type 2: level of accession to the principles and trustworthiness of actions	Level of accession to the principles, nature of assurance, limits of the sustainability report
Planning	Industry analysis, understanding the organization's business model, materiality and risks, as well as the organization's structure and reporting process.	Industry research, media, understanding the business, critical analysis of goals from the previous report, materiality, points in the previous process.	Understanding the business, assessment of current sustainability reports, complexity X definition of Verification team.

Norma	NBC TO 3000	AA 1000	Sistemas Normas de Gestão
Sampling	Defined from the information relevance and risks associated. The specific quantity of evidences to be analyzed is defined based on the frequency of control activities.	Selection based on materiality, sustainability context, strategy, internal practices and topics of the previous process	Internal Controls, analysis and tracking of procedures, management systems
Tests	Performance of substantial tests and internal control of the analysis of documents, calculations and premises adopted for quantitative information, in loco interviews and TI control tests (specific for Reasonable Assurance).	Field activities, interview with leaders, managers, visits to units, analysis of sustainability management, of information, of internal controls, confirmation through evidence	Documents verification, in loco interviews and technical verification (operational capacity to generate reliable data)
Decision	Assurance Report	Declaration of Guarantee	Declaration of verification with specific technical decision and assertive conclusion

Source: NBC TO 3000, INMETRO, AA 1000, presentation by insurance companies EY, KPMG, BSD, and BVQI

Challenges to the assurance of integrated reporting: In addition to the challenges for the integration of financial and sustainability information already indicated – engagement of leaders, concept alignment, definition of measurements, and so on – assurance requires an even deeper dialogue with regulatory bodies, who define and limit the auditors' role. The standardizationof sustainability information, or lack thereof, is always a challenge to insurance companies, which act based on clear regulationsfor financial information. However, the increasingly larger impact of socio-environmental and corporate governance issues for companies is undeniable, and the determination of materiality will need to be discussed in more depth.

In the companies, the dialogue between the financial and assurance areas of sustainability information audit teams is incentivized. In some cases, the same company is hired to carry out both procedures, which sometimes are treated separately. A systemic approach of assurance also requires the clear attribution of roles and responsibilities and, as for reporting practices, the assurance practices should be integrated as the sustainability theme is integrated into the companies' strategy and management.

CONCLUSION

The contributions from the framework for publishing integrated reporting, launched on December 9, 2013, are important to the development of the debate about socio-environmental and corporate governance issues, and their integration into companies' strategic and, as a consequence, reporting practices.

In relation to the challenges proposed by the Working Group of Pioneering Companies, the document addresses some issues in an objective and clear way. The reinforcement of the strategic focus and future orientation, as the first principle in the framework, seeks answers to issues such as the short-term orientation of the company's staff and market analysts. The promotion of this debate is aligned not only with the sustainability professional's demands, but also with companies and finance professionals for decisionmaking.

Other principles, already previously presented by the IIRC, conjugate the demands and necessities raised by companies in the integration of financial and sustainability information. Determination of the report's scope, definition of the principle of materiality, engagement of stakeholders, and comparability of information between peers and over time drive the debate on these issues by companies and the different players destined to deal with integrated reporting. These definitions are also very close to the principles and guidelines adopted by GRI. In this sense, the IIRC's work in aligning itself with the current initiatives accepted by the market is of great relevance to companies, who reinforce the necessity of standardization and synthesizing the initiatives related to socio-environmental and corporate governance issues.

The framework's organization through principles, without the construction of performance indexes, constitutes the main gap between the document produced by the IIRC and the demands indicated by the Working Group of Pioneering Companies. The establishment of measurements and indicators to measure and monitor the results is indicated by many of the companies that took part in the working group, and the development of this debate will have to come from the dialogue between the companies and their stakeholders. The reporting practices suggested by the framework regarding the reporting of non-financial information will count on measurements of existing initiatives for the reporting of environmental, social, and corporate governance practices to be viable. The GRI's guidelines remain the reference regarding sustainability measurements and indexes, and their alignment to specific initiatives such as CDP, for the Working Group of Pioneering Companies and investors.

However, as in existing initiatives, comparability remains a challenge inintegrated reporting. Adopting relative measurements (percentage of sales, units by product, etc.) is a facilitator of comparative analysis between companies. The demand from finance and accounting professionals, though, is for a more rigid regulation of measurements, which makes the analysis and assurance of information easier. Although the uniformity of information, over time and between companies of the same sector should be discussed according to each organization's particularities and its most relevant impacts, the debate between companies reinforces the importance of comparability ifintegrated reporting is to be used in decisionmaking, especially for financial decisions.

The debate is broad, and among market analysts and financial and investor relations professionals, there does not seem to be a consensus about current reporting practices and the reviews this process requires. The union of efforts from different actors is promoting the development and innovation in these discussions, in which collaborative work and the dissemination of knowledge are indispensable.

This group expects to contribute to this very important discussion based on its experience and difficulties regarding management and reporting of sustainability initiatives. All efforts in building this working group were based on the will of the companies' staff and market experts that seek comprehension and the exchange of information about a world and a society that, in a changing scenario, will present new demands to each and every one of us.

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