



December 14, 2011

International Integrated Reporting Committee

To: dpresponses@theiirc.org

Re: Towards Integrated Reporting: Communicating Value in the 21st Century – AICPA Comments

Dear Sir/Madam,

The American Institute of Certified Public Accountants (AICPA) respectfully submits the following written comments in response to the International Integrated Reporting Committee (IIRC) Discussion Paper *Towards Integrated Reporting: Communicating Value in the 21st Century*.

The AICPA is the world's largest association representing the accounting profession, with nearly 370,000 members in 128 countries representing many areas of practice, including business and industry, public practice, government, education and consulting. As a founder of Enhanced Business Reporting, the AICPA continues to promote the adoption of a common, open standard, global framework for more relevant business reporting. We appreciate the opportunity to comment on this discussion paper.

The following are responses to the discussion questions raised in the paper:

Q1. (a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?

We do agree that organizations need to revise the content and format of their business reports. For too long, annual reports have focused only on the entity's financial results, and then only with respect to historical information. The foundation for the current external financial reporting model (that is, US GAAP and other equivalents like IFRS) was adopted during, and to meet the needs of, the industrial age. It is, to a large extent, based on the assumption that profitability is driven by tangible assets such as physical plant and equipment and raw materials that are needed to produce tangible products. This model was not designed to describe the vast array of new business models that companies now follow in the knowledge economy—business models that, in many cases, rely heavily on the employment of intangible assets to create value and drive profitability.

Furthermore, as highlighted in the recent research report *Tomorrow's Corporate Reporting: A Critical System at Risk* by CIMA, PwC and *Tomorrow's Company*, "our current reporting system is characterized by a fragmented presentation of information, disparate views about the purpose of corporate reporting, and a complex web of rules and standards...[which] exacerbated in some jurisdictions by the high potential for legal risk exposure, renders it very difficult for companies to tell their "business story" in a meaningful and understandable way." It is important to achieve Integrated Reporting to provide stakeholders with the information that is indicative of current and future value creation potential (strategy, financial, governance, risk, etc.).

(b) Do you agree that this action should be international in scope? Why/why not?

Yes, an international answer is more useful than differing national answers. A global, common framework would lead to more transparent reporting and greater consistency and comparability, and is necessary in today's global economy where so many organizations are operating across multiple jurisdictions.

Q2. Do you agree with the definition of Integrated Reporting on Page 6? Why/why not?

As presented, the words describe what integrated reporting "does", not what it "is". Accordingly, we feel the definition should be revised to better define what Integrated Reporting "is." In other words, is it a process, a set of principles, recommended disclosures, or something else? We believe this level of specificity will be very beneficial in helping people who are not familiar with Integrated Reporting to better understand, embrace and implement it. As framework development efforts progress, the clarification of the framework elements may help facilitate a more clear definition of what Integrated Reporting is.

We also believe that in defining Integrated Reporting, in recognition of the needs of the preparer community, it is important to emphasize that an integrated report is not intended to be an add-on to existing reports. Accordingly, we agree with the statement on page 5 of the Discussion paper that "While reporting has expanded and evolved, it has also become increasingly complex. Critical interdependencies are not brought to light and disclosure gaps remain. It is not enough to keep on adding more information. The connections need to be made clear and the clutter needs to be removed. Only the most material information should be included in the Integrated Report."

It is also important to emphasize in this context that we do not believe the Integrated Reporting framework should be prescriptive in the sense that all companies would have to report on all elements. Instead, we believe that the framework itself should be comprehensive, so that companies can find and report the common framework elements that are most relevant to their stakeholders in a way that is comparable across companies and time periods to the extent practical.

Q3. Do you support the development of an International Integrated Reporting Framework? Why/why not?

Yes, we strongly support the development of such a framework and have been working towards this common goal through our Enhanced Business Reporting-related activities for many years. The preliminary, high-level Enhanced Business Reporting framework that was developed through these efforts is a public, open standard framework, and we would encourage the IIRC to incorporate any of its content in subsequent framework development efforts. We would also encourage the IIRC to consider leveraging work that has subsequently been done to build upon this framework internationally through the efforts of the World Intellectual Capital Initiative (WICI). We believe a common, collaboratively-developed, freely available open-standard, global best practices framework is the critical step in enabling positive progress toward business reporting that better meets the needs of users.

We agree that there is a need for a new reporting model that brings together the currently disparate pieces and perspectives of business reporting to produce in a more holistic external presentation of decision-useful information for investors and other stakeholders. As envisioned by the Framework, integrated reporting would also reflect integrated thinking and management of the

organization by linking and aligning externally reported information to information being generated internally for management decision-making.

Q4. (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/why not?

Yes, we believe that starting with a focus on larger companies and on the needs of their investors will serve as an important core foundation that can be leveraged over time to meet the needs of all companies and audiences.

(b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?

Yes, we also think that the principles and concepts of the Integrated Reporting Framework are widely applicable to other reporting entities and their respective stakeholders; however, it may take time for the framework to be built out sufficiently to incorporate key elements that may be specific to some of these constituencies. We believe that the framework can and should be developed in such a way that it is scalable to the needs of small and medium sized enterprises, both public and private. A useful illustration can be found in the [Enhanced Business Reporting Private Company sample reports](#).

Q5. Are: (a) the organization's business model, and (b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/why not?

Yes, we do think that the organization's business model and its ability to create and sustain value are appropriate as central themes for the future direction of reporting.

We would, however, suggest that it might be helpful to provide some additional definition or description of the term "business model." While there is not one single definition of the term, a company's business model can be considered to have the following key elements: 1) a value proposition for what the company provides to the customer, 2) a pricing formula and cost structure that yields value to the company, 3) key resources that the company uses in delivering the value proposition to its customers, and 4) critical operational and management processes necessary for sustaining the successful delivery of that value proposition over time.

Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?

Building on the response to question 5 above, as drafted in the Discussion Paper the "Resources and relationships" or "capitals" discussion is related to, but separate from, the discussion about the "Business Model and Value Creation." Including a description of a company's business model that incorporates as one of its key elements the key resources that a company uses in delivering its value proposition creates the opportunity to treat the capitals discussion as a natural extension of the Business Model and Value Creation process rather than as a separate section.

We do believe that it is important to address different types of resources or "capitals" in expressing how a company creates value, not just the tangible aspects of physical and monetary capitals as is the case with current financial reporting frameworks. Accordingly, in drafting the [Enhanced Business Reporting framework](#), a concerted effort was made under the category of

resources to capture both the tangible and intangible aspects of physical and monetary capitals, and to capture other types of capitals, such as human, relationship, and organizational capitals. While we strongly believe that it is important for an integrated reporting framework to contain categories and related reporting elements for all of the different types of capitals, including definitions and examples both tangible and intangible, we do not find the term “capitals” to be widely understood or embraced. We believe it would be better to simply include framework categories and related reporting elements for different types of “resources”, with descriptive words for the different types (e.g. human, physical, monetary/financial, etc.), instead of using the word “capitals” to describe these categories.

Q7. Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added? Why/why not?

The guiding principles on Strategic focus, Connectivity of information, and Conciseness, reliability and materiality are very consistent with our vision for the future of business reporting.

While we agree that “Future orientation” is crucial, we feel that this guiding principle should be based solely on a commitment by companies to disclose the information necessary for report users to understand and analyze the organization’s value creation potential. For example, a company might be expected to disclose key leading indicators that an investor could use as input to a model that would generate a projection related to expected performance, but the company itself would not be expected to disclose such a projection. Some companies may be hesitant to disclose projections based on their expectations of future performance, and as a result including this expectation of management in the guiding principles could serve as an unnecessary barrier to adoption of Integrated Reporting. Instead, as long as management is disclosing key information upon which they are basing their decisions (e.g. leading indicators and other information with predictive value that is not competitively sensitive), they are providing the transparency and raw material necessary to enable stakeholders to make their own predictions on future performance potential, without subjecting the company and its managers to unnecessary liability or reputational risk by forcing them to document projections in an ever-changing business environment.

Furthermore, while we agree that “Responsiveness and stakeholder inclusiveness” is an important guiding principle, the explanation of this guiding principle as written in the Discussion Paper is confusing. We are fully in support of advocating for an Integrated Report that enhances transparency and accountability, and we agree that an entity’s relationships are important in achieving this, but disclosures related to relationships are just one category among many of key framework elements. Perhaps the definition of this guiding principle would be clearer if it were focused on the importance of an Integrated Report’s relevance to the key concerns of all stakeholders, without the emphasis on disclosures related to relationships.

Finally, we believe that a more expansive discussion of the principle(s) of conciseness, reliability, and materiality, especially materiality considerations, would provide a better understanding and facilitate the adoption of integrated reporting. The Climate Disclosures Standards Board (CDSB) Climate Change Reporting Framework (CCRF) may serve as a useful point of reference. Chapter 3 of the CCRF, *Fundamental Characteristics of Decision-Useful Information*, draws extensively from the IASB Exposure Draft - *An Improved Conceptual Framework for Financial Reporting* (IASB ED 2008). Included among the fundamental characteristics of decision-useful information in the CCRF are the “enhancing characteristics” of relevance and faithful representation and the

“constraining characteristics” of materiality and cost. Relevance is defined as information that is “capable of making a difference to decisions made by users.” Information is relevant if it has “predictive value, confirmatory value, or both.” Faithful representation is characterized by information that is complete, neutral, and free from material error. These characteristics, and materiality in particular, serve as the filter applied “to avoid irrelevant clutter and unreasonable cost burdens,” consistent with the objectives of the Integrated Reporting Framework.

Q8. Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added? Why/why not?

The first four Content Elements of 1) Operating Context, Including Risks and Opportunities, 2) Strategic Objectives, 3) Organizational Overview and Business Model, Governance and Remuneration, and 4) Performance map very closely to the corresponding categories of the Enhanced Business Reporting Framework which are 1) Business Landscape, 2) Strategy, 3) Resources and Processes, and 4) Performance. Accordingly, we believe the first four Content Elements provide a solid foundation for building out the more detailed framework necessary for enabling the preparation of a solid Integrated Report.

As stated above under Question 7, however, we believe the framework should only cover the elements or raw material (such as leading indicators, narrative disclosures, etc. upon which management bases key decisions) necessary for users of the information to make their own reasonable assessment of the future outlook of the entity. As a result, we do not believe that a separate Content Element focused on Future Outlook is necessary. Instead, we believe this information would be captured in the framework elements related to the other IIRC Discussion Paper Content Elements (for example narrative disclosures related to business risks and opportunities would be covered under Operating Context, information on strategy would be covered under Strategic Objectives, and leading indicators would be covered under Performance).

Also, with respect to the Content Element Organizational Overview and Business Model, Governance and Remuneration, we feel that the name of this content element should be shortened to “Organizational Overview, Business Model and Governance.” Referencing remuneration specifically as part of this Content Element implies undue focus on this potentially controversial topic, which is in reality one key area among many related to governance, and as such referencing it specifically may serve as an unnecessary barrier to corporate adoption of the framework. Specific disclosure elements related to remuneration could and should be included in the detail under the Governance Content Element, with a focus on the strategic role of remuneration from a governance perspective.

Q9. What will Integrated Reporting mean for Me? From your perspective as a key stakeholder:

(a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?

Yes. The merits of evolving the reporting model to better meet the needs of today's business model have been discussed for years, and it is time for the focus to change from a debate around whether or not it is beneficial to a focus on making progress in this area on a global basis.

(b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?

We believe the main challenges to enhancing the business reporting model are the following:

- Lack of a structured reporting framework
- Perceived compliance burden
- Perceived competitive disadvantage
- Fear of liability/litigation risk
- Reluctance to voluntarily evolve reporting practice in the absence of regulatory mandate
- Lack of internal processes and controls for reporting and monitoring of non-financial information
- Concerns around ability to provide meaningful assurance on non-financial information
- Perceived barriers related to technological capabilities

Accordingly, we agree that a first step is the development of a common structured reporting framework as proposed by the IIRC. The other elements included in this list are also consistent with the challenges raised in the Discussion paper. While many of these barriers are more perceived than real, they do pose real challenges to the adoption of Integrated Reporting and must be proactively addressed in developing and promoting the adoption of an Integrated Reporting framework. This will require time and broad-based, multi-stakeholder coordination to achieve, but we believe it is worth the effort. As stated earlier in this comment letter, we also believe that it is critical that IR not be pursued simply as an add-on to existing requirements.

(c) Do you agree that Integrated Reporting will drive the disclosure of information that is useful for integrated analysis (from the perspective of investors)? Why/why not?

Yes, provided that the framework Content Elements and their respective definitions are developed in such a way that they support relevance, understandability and comparability. The detailed Content Elements should also be developed in such a way that they lend themselves to the creation of standardized Integrated Reports (using an information format standard, i.e. XBRL), which will facilitate disclosure, consumption and analysis of key business information. Finally, illustrative integrated reports that would be appropriate for various national jurisdictions should be included as part of the exposure draft intended to be issued in 2012. The resulting transparency of disclosure would benefit investors by eliminating the need for data mining and normalization, thereby increasing accuracy and freeing up time for more sophisticated analysis.

- Q10. (a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/why not? Are there other significant actions that should be added?
- (b) What priority should be afforded to each action? Why?

The actions outlined in the Discussion paper seem appropriate at a high level, but there is a lack of specificity with respect to how the framework will be developed (what resources will be brought to bear, and how will the necessary expertise be engaged?). We believe this is a very resource intensive undertaking, and the key to its success lies in a well thought out tactical plan and the dedication of sufficient resources to support framework development and adoption efforts. The articulation of a more detailed and transparent plan outlining the planned approach of the IIRC, and the role that various stakeholders can play in the various elements of the process, may be very beneficial to future efforts to engage the necessary resources. Some examples where more clarity and transparency may be helpful include the following:

- For the IIRC Pilot Program, who are the companies involved, how are the findings going to be shared with other companies interested in adoption, and how are investors being engaged in the process?
- What is the process for identifying and developing the key measurement and reporting practices, what resources are required and how will they be engaged?
- How is the IIRC planning to engage with other groups working toward similar objectives (e.g., the Global Reporting Initiative, WICI, CDSB)? What is the strategy for harmonization of the IIRC framework with other Integrated Reporting-related frameworks?
- With respect to outreach, what is the strategy for being more inclusive and expanding participation in the ongoing process – for example, what is the strategy for engaging key constituencies such as CFOs and investors?
- What is the strategy for facilitating adoption in different geographic jurisdictions around the world? Some countries are in the process of forming national Integrated Reporting committees, will there be coordination around this, and how will the IIRC coordinate with the EU and other jurisdictions that are considering Integrated Reporting requirements?
- Will any consideration be given to the development of an XBRL taxonomy for the Integrated Reporting Framework? Also, given that the XBRL Standard Business Reporting (SBR) projects currently underway around the world are looking at converging reporting concepts, will the IIRC consider how Integrated Reporting might be leveraged in those SBR efforts?

- Q11. Do you have any other comments that you would like the IIRC to consider?

Expanding upon the comment above under question 10, we believe a detailed resource plan should be developed and documented for staffing the framework development effort with the appropriate subject matter experts, and that a reasonable development timeline should be set. While we understand that IIRC has done an excellent job of exploring existing best practices frameworks, and that the GRI framework will be heavily leveraged, we believe that the skillsets necessary to develop a robust, verifiable Integrated Reporting framework covering all relevant content areas will require significant involvement from CPAs and CAs with advisory, reporting and auditing backgrounds. As a starting point, we recommend that the IIRC consult with members of the Accounting Bodies Network in this effort. It is also important to decide whether the framework

will include industry-specific KPIs and disclosures such as those being developed by the members of WICI and, if so, a plan for engaging industry-specific expertise will also need to be developed.

The AICPA remains committed to fulfilling our role in the A4S Accounting Bodies Network, and to continuing to assist in both international and US-based IIRC efforts, such as the Roundtables that we recently hosted. We applaud the commitment of the IIRC to develop an International Integrated Reporting Framework, and would be pleased to provide further assistance in implementing tactical plans related to the engagement of US CPAs in the framework development, implementation and adoption processes, as well as advocacy-related efforts in the US.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Coffey". The signature is fluid and cursive, with a large initial "S" and a long, sweeping tail.

Susan S. Coffey, CPA
Senior Vice President, Public Practice and Global Alliances
AICPA