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Dear Mr Druckman,

Comments on the International Integrated Reporting Committee (IIRC) Discussion Paper

BDO is pleased to have the opportunity to comment on the above discussion paper issued by International Integrated Reporting Committee (IIRC). We set out below our responses to the questions in the discussion paper.

We support the IIRC proposal regarding a move towards integrated reporting and the development of an International Integrated Reporting Framework.

1. *Do you believe that action is needed to help improve how organisations represent their value creation process? Why/Why not?*

We agree that action is required to improve the reporting of value creation. Today's organisations are becoming increasingly more complex as they operate in a rapidly changing environment and so it is logical that reporting frameworks continue to evolve to address the changing needs of users.

The range of reporting requirements provided by company law, financial reporting standards, national Listing Rules, and corporate governance has created excessively lengthy, complex and frequently impenetrable reports. Investors and other stakeholders have increasingly raised frustrations with a lack of straightforward, risk-focused reporting that provides a balanced assessment targeted at the needs of the users of the reports.

We agree with the focus on creating a reporting model that recognises the range of external and internal factors impacting the ability to create value, underpinned by a clear focus on materiality and transparency. The move away from viewing reporting as a purely compliance driven process towards an opportunity to engage with stakeholders is a wholly appropriate direction.

Do you agree that this action should be international in scope? Why/Why not?

We fully endorse the development of a framework with international scope, which is central to achieving consistency and so genuine comparability for users of reports. National reporting frameworks or national adaptations of a global framework will only continue the current frustrations of investors and other users of reporting. The current diversity of reporting, both financial and non-financial, has contributed to a lack of investor understanding of the information being reported and the drive to produce a single coherent framework is therefore essential in our view.

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We also consider that if the focus of the discussion paper on different types of capital continues in the integrated reporting framework, then the global nature of most supply chains would render anything other than an international scope meaningless.

2. *Do you agree with the definition of Integrated Reporting on page 6? Why/Why not?*

We agree with the definition of Integrated Reporting provided by the IIRC. We consider the focus on material information is central to ensuring that integrated reporting remains concise and targeted at the critical drivers, risks, and opportunities associated with an organisation. However, we recommend that a detailed definition of materiality is included within the framework to establish principles for determining materiality outside of the financial aspects of the report, as materiality within a social and environmental context is a less well-established and practiced principle.

We agree that the scope of the reporting should be inclusive of strategy, governance, performance, and prospects as this represents a coherent approach. However, we believe that the 'commercial context' in which an organisation operates needs to be clearly defined within the framework to ensure that appropriate weight is provided to financial reporting, as financial and economic indicators remain the primary consideration for the majority of investors.

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

As noted in our response to question 1, we fully support the development of an international framework to provide the comparability required within an increasingly globalised marketplace and investing environment.

4. *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?*

We consider that the initial focus on larger companies is appropriate as it is these companies that represent a significant proportion of organisations of high public interest, either through publically quoted shares or through their significant contribution to the economy, environment, and society as a whole. We believe that it is important to recognise that it is the larger organisations that have the human capital, financial resources, and experience with broader forms of reporting to implement Integrated Reporting.

We recommend that the definition of 'large companies' will need careful consideration and should not be linked to definitions provided by national company laws or other regulations, as this may frequently include significantly smaller companies who may lack the systems and resources to implement Integrated Reporting in a cost-effective and efficient manner.

(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?

Whilst the concepts of reporting how an organisation creates, sustains, and develops value are appropriate to all entities we would caution against any application to small and medium sized enterprises in the short term.

Small and medium sized enterprises, which are often privately-owned and frequently owner-managed, represent key sources of job creation and innovation. Such enterprises are likely to be ill-equipped to implement a fundamental change in reporting without incurring significant costs associated with training and systems implementation. The costs, in both monetary terms and the demands on management time, risk reducing their competitiveness. However, in the event that these enterprises have external investors or lenders who may require Integrated Reporting, we recommend that this should be considered on a case by case basis, taking into account the specific demands of those stakeholders. Please see our response under question 11 for further considerations for smaller entities.

We believe that the concepts underlying Integrated Reporting are applicable to public sector organisations and believe such organisations should be included in the initial focus of Integrated Reporting, given their significant public interest status.

5. 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?

- a) We believe that an organisation's business model is appropriate as a central theme for the future direction of reporting since, without it, there would be no way of framing the context within which an organisation sets its strategy and operates. Similarly, an understanding of an organisation's business model is necessary in order to rationalise the various types of capital (see Question 6). However, we propose that this is referred to as an organisational model rather than a business model so as to more easily include charities, not-for-profit organisations and other organisations that may not perceive themselves as 'businesses'. We would also raise for consideration the issue of confidentiality and the extent to which organisations may be willing to detail their structure. This has the potential to create issues around a lack of consistency of the application of an integrated reporting framework.
- b) We believe that the ability to sustain value in the short, medium, and long term is an appropriate theme for the future direction of reporting. The ability to perceive value creation beyond the short term is a critical foundation of a sustainable business model. However, we consider that there may be significant differences in the perception of the meaning of short, medium, and long term between different sectors and operating models. A short term strategy for a major infrastructure or utility business may, for example, extend beyond the timeframes considered to be medium or long term by an IT or another technology-focused business. We recommend that consideration is given to the implications of these variable time horizons in order to strike a balance between allowing reporting organisations to contextualise short, medium, and long term and the underlying objective of achieving consistency and comparability.

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

Yes, we find the concept of multiple capitals helpful in explaining how an organisation creates and sustains value. By utilising a framework of separate 'capitals', integrated reporting will be able to provide a context for issues and to focus on material considerations. We believe that, when taken individually, the majority of the types of capital will be familiar to the majority of stakeholders. The

possible exceptions are social and natural capital although appropriately drafted guidance would address any uncertainties surrounding these terms.

The issue of cultural and/or heritage 'capital' may fall within social capital but, if so, this would need to be made explicit. In this respect, we note that the Discussion Paper is not seeking to restrict the way that capitals can be categorised or described.

We note that there will be differences in the extent to which each of the capitals can be directly measured and reported. We recommend that supporting guidance is provided to ensure that the different types of 'capital' are treated with an appropriate balance.

7. *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?*

Overall, we believe that the guiding principles provide a sound foundation for preparing an Integrated Report.

A common criticism of disclosures contained in annual reports has been that they are often 'boiler plate' and not sufficiently relevant to the specific facts and circumstances relating to the reporting entity. Although the principle 'concise and material' can be interpreted in a way that the report should only contain relevant information we think it would be useful to clarify this by explicitly mentioning relevance and so we recommend that 'Relevance' be added as a guiding principle.

We consider there to be an element of overlap between the two principles 'strategic focus' and 'future orientation' and that 'future orientation' could be incorporated into 'strategic focus'.

Whilst we agree with the content described by the principle 'responsiveness and stakeholder inclusiveness', we believe that the word 'responsiveness' could be viewed as being reactive whereas it would be more desirable if an integrated report was seen to be 'proactive'.

8. *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?*

We believe that the Content Elements in the Discussion Paper are appropriate but reiterate our comment under Question 7 with regards to 'future orientation'.

9. *a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not? b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not 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*

We agree with the main benefits as presented in the Discussion Paper but consider there to be many challenges for companies, assurance providers and the users of reports.

From the perspective of an assurance provider, we consider that different skills will be required to provide assurance over some of the information contained in an integrated report. It will be important that these skills and the relevant assurance frameworks are developed parallel to the Integrated Reporting framework.

There is an established process to provide assurance over financial information. The level of assurance which can be given in relation to elements of the Integrated Report is likely to be different from the level of assurance which investors are used to receiving over financial information. We consider that this is likely to lead to an expectation gap which will need to be carefully and explicitly managed so that it is not to the detriment of integrated reporting.

Integrated Reporting will mark a significant departure from existing frameworks for reporting. For Integrated Reporting to be adopted as a recognised form of reporting by entities, investors and other stakeholders, we consider it imperative that the IIRC not only provides a framework for reporting but also provides guidance and education that meets the needs of each of these stakeholders. We believe that this could be made available over time, but guidance for investors will be needed at the time of the launch of the framework in order to support the IIRC's initial focus on the investor.

We consider that whilst Integrated Reporting will drive the disclosure of information that is useful for integrated analysis, this will only be of use to the investor if there is consistency of how the disclosure is measured and compiled. This consistency needs to be across entities, industries, and jurisdictions to allow investors to make informed comparisons and analyses.

10. (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?*

We agree with the actions listed in the discussion paper as the next steps to be undertaken by the IIRC. We consider it to be important that a pilot program is launched parallel to the development of a draft integrated reporting framework.

11. **Do you have any other comments that you would like the IIRC to consider?**

We have the following additional comments:

Adoption of Integrated Reporting

As we have stated earlier in this letter, we do not believe that the adoption of the Integrated Reporting model should be mandatory for all entities. Rather, its use should be encouraged for those companies where such a reporting model would provide better information for users of the report. We believe that the IIRC will need to consider how to encourage adoption in these circumstances.

Consistency

We support the development of an International Integrated Reporting Framework as we consider this to be necessary to achieve consistency and comparability of Integrated Reports across entities and jurisdictions. To help achieve this aim, we recommend that a glossary of terms is included within the framework and that the definitions of terms are consistent with those used by the IASB for financial reporting and by the IAASB for auditing. Of particular concern is the definition of the terms material and materiality which are used throughout the Discussion Paper.

Guidance for smaller entities

Notwithstanding the initial focus on larger companies, we recommend that the needs of smaller entities that would want to adopt Integrated Reporting are taken into consideration.

Unlike existing reporting frameworks when the size of the entity often drives the complexity of reporting, Integrated Reporting is dependent on the industry and operations of the entity. We believe that this may result in many smaller companies adopting an Integrated Reporting model as this will provide more meaningful information about the company and how it creates value to the users of the annual report. For example, companies operating in the brewing or clothing industries may choose to produce an Integrated Report due to the fact that brewing companies have very high energy and water impacts at the point of production and clothing companies tend to have complex supply chains with a high degree of ethical sensitivity.

In recognition of the fact that such entities often do not have sophisticated internal reporting processes, we consider that it is important that the framework to support Integrated Reporting is scalable and that guidance is produced specifically for smaller, less-complex entities.

Should you wish to discuss any of the comments in this letter, please contact Marc Reinecke at marc.reinecke@bdo.co.uk.

Yours sincerely,

BDO International Limited