



CHARTERED SECRETARIES
AUSTRALIA

Leaders in governance

13 December 2011

International Integrated Reporting Committee
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Dear Committee members

***Towards Integrated Reporting:
Communicating Value in the 21st Century***

Chartered Secretaries Australia (CSA) welcomes the opportunity to comment on the discussion paper, *Towards Integrated Reporting: Communicating Value in the 21st Century* (the paper), examining a new approach to corporate reporting. In the paper, the International Integrated Reporting Committee (IIRC) explores initial proposals for the development of an international integrated reporting framework and outlines the next steps towards its creation and adoption. CSA believes that the response from those responsible for preparing reports to shareholders and the implications of integrated reporting for a small market such as Australia provide an excellent viewpoint from which to engage in this consultation.

Chartered Secretaries Australia (CSA) is the independent leader in governance and risk management in Australia. As the peak professional body delivering accredited education and the most practical and authoritative training and information in the field, we are focused on improving organisational performance and transparency. Our Members are all involved in governance and corporate reporting, with primary responsibility to develop and implement governance frameworks in public listed and public unlisted companies, as well as in private companies, not-for-profit organisations and in the public sector. They bridge the interests of the board or governing body, management and stakeholders, and have a thorough working knowledge of the operations of the financial markets, the needs of investors and corporations law.

General comments

CSA Members strongly support effective disclosure as a foundation principle of good governance. Our Members would argue that governance has four essential elements:

- **transparency** — being clear and unambiguous about the company's structure, operations and performance, both externally and internally, and maintaining a genuine dialogue with, and providing insight to, legitimate stakeholders and the market generally
- **corporate accountability** — ensuring that there is clarity of decision-making within the company, with processes in place to ensure that the right people have the right authority for the company to make effective and efficient decisions, with appropriate consequences delivered for failures to follow those processes

- **stewardship** — developing and maintaining a company-wide recognition that the company is managed for the benefit of its members, taking reasonable account of the interests of other legitimate stakeholders
- **integrity** — developing and maintaining a corporate culture committed to ethical behaviour and compliance with the law.

The aims of integrated reporting align with these principles and are to be commended. However, more disclosure does not necessarily translate as better disclosure — our view is that the focus in corporate reporting should be on ensuring the right information is made available, in the right format. CSA supports the intent of integrated reporting, which seeks to achieve these objectives, but has a number of concerns as to how integrated reporting can be implemented so that it can become a framework for reporting that can accommodate the complexity of financial, management commentary, governance, remuneration and sustainability reporting.

Our concerns stem from the practical insights of those responsible for preparing and liaising with the board on much of the reporting that is in question and of the very real difficulties attached to any forward-looking reporting when issues of personal liability apply. CSA Members are also more aware than other stakeholders of the resources that must be committed to achieve integrated reporting, given that SMEs, mid-cap and micro-cap companies represent the majority of Australian Securities Exchange (ASX) listings by number.

Furthermore, in the Australian context, in light of the global financial crisis and the ongoing debate in relation to sustainability reporting and integrated reporting, the ASX Corporate Governance Council (the Council)¹ undertook an internal review and targeted consultation on the *Corporate Governance Principles and Recommendations* in 2011, with a particular focus on Principle 7 on risk management and the reporting of not only financial reporting risk but also all other material business risks. During the course of the review, it became clear that valuable work is being done in various forums, including by the IIRC, and that practical guidance may ultimately emerge to assist larger enterprises to integrate their management of strategic issues in ways that are more conducive to production of more meaningful external reporting on company performance. It was also recognised that such practical guidance has not yet been developed. CSA recognises that the IIRC's paper is a first attempt to articulate a framework, but notes that it is very much a first effort to discuss broad principles rather than provide practical guidance.

During the review undertaken by the Council, as with many other debates on the scope for companies to make more information available about company performance in order to satisfy different constituencies, the willingness of company boards and management to experiment with new reporting methodologies was linked to finding ways of making compensating reductions in disclosures that were not seen to add value. While we recognise that the IIRC is clear that integrated reporting cannot merely add to existing reporting obligations but is designed to operate in an environment where 'the clutter' has been removed, the reality is that rescinding legislative requirements, which have expanded over the past decade at a pace that has created undue length and complexity in company reporting, is unlikely to happen in the near future. Therefore, integrated reporting has the potential to add to the clutter and add to compliance obligations at this point in time, without achieving its overarching aims.

¹ The ASX Corporate Governance Council brings together 21 groups, including ASX, from disparate business backgrounds, including directors, company secretaries, CEOs, CFOs, institutional investors, retail investors, investor relations and internal auditors, among others, each representing the varying aims and priorities of their constituencies. Each Council member offers valuable guidance and information specific to their constituencies and industry.

CSA Members are also concerned that the paper mentions only in passing the challenges facing integrated reporting, devoting the majority of its content to the advantages. While CSA supports the guiding principles of integrated reporting, we are of the view that ignoring the very real challenges inherent in preparing integrated reports serves neither investors and other interested stakeholders nor the companies reporting to them. The challenges cannot and should not be dismissed easily, as they present real obstacles to achieving the aims of integrated reporting.

A final comment is that integrated reporting is based on the assumption that investors will use the information it provides. In Australia, it is still only a minority of the investor community seeking environment, social and governance (ESG) information, with the majority still only interested in financial information. The investor community is not homogenous. At this point in time there are serious questions that need to be addressed as to whether a majority of investors will use the information integrated reporting would provide, particularly given the resource allocation required within companies to prepare such information. In addition, in the Australian context, there is no quantifiable evidence or accepted view that additional or different reporting is required in order to effect change in director or management attitudes and behaviour.

The paper also notes that a key objective is to ensure there is comparability of data, yet there is no discussion of how realistic it is to expect there to be comparisons between different industries and sectors, nor is there any discussion of how forward-looking information, which cannot be audited in the same manner as historical financial information, can be objectively provided. The subjectivity of such information raises questions about the comparability of data.

Our comments on the particular issues raised in the paper are all made within this context. We hope that the issues we raise will not be read as a refusal to deal with the principles and aims of integrated reporting as CSA supports the intent of integrated reporting and the benefits that could accrue from it. CSA Members' interest in raising the issues attached to integrated reporting stems from deep expertise in the preparation of much of the corporate reporting under discussion, and the desire that a full discussion take place of the practical implications of moving to an integrated reporting framework.

We recognise that the Pilot Program involving companies from around the world, including Australia, will begin to address some of the issues raised in our submission. We look forward to having access to the outcomes of the Pilot Program as companies find ways in which to manage some of the challenges of integrated reporting.

Nonetheless, our view is that integrated reporting is in the early stages of a long process of evolution, and we wish to make a contribution to that. CSA Members are of the view that incremental improvement, third party assurance, the gradual expansion of issues which are reported, a better focus on the major material issues and contextual information on how they fit with other business strategies and activities will all lead to integrated reporting over time. We hope our comments are received in the manner in which they are intended.

Executive summary

CSA Members strongly support effective disclosure as a foundation principle of good governance. The aims of integrated reporting align with these principles and are to be commended.

While CSA supports the intent of integrated reporting, it has a number of concerns as to the practical implications of implementing integrated reporting. Dealing with the challenges inherent in integrated reporting will involve not only good faith from both reporting organisations and investors as the journey unfolds, but also has the potential to involve legislative amendment, with commensurate government support across jurisdictions.

CSA is of the view that the following challenges need further attention:

- For a company to integrate reporting on financial, management commentary, governance, remuneration and sustainability issues, there is a considerable resource and cost burden. Larger companies have access to the variety of information contemplated by integrated reporting, but SMEs are less able to apply dedicated resources to such reporting.
- Further clarity is required as to the difference between reporting, which assists shareholders to determine if they are willing to support the plans of the board and executives for its growth and success, and continue to support the board even if the entity experiences setbacks, and ongoing information provided to stakeholders to ensure they are kept aware of the entity's undertakings. At present these two forms of communication to two very different audiences are being treated as if they are the same and as if the audiences have the same needs.
- Despite many years of discussion, global consistency has not yet been achieved with financial reporting (for example, the US is still to adopt IFRS), which can be measured and audited. This raises questions as to how consistency is to be achieved in the reporting of non-financial issues.
- Investors now have many different financial and other interests in companies and are not necessarily long-term investors (in these days of high-frequency trading, they can be less than one-second investors). It is not feasible to say that all shareholders' interests are aligned. Investors will, therefore, have different views on the reporting most valuable to them.
- In Australia there is only a minority of the investment community that is seeking information on ESG issues. This raises the question as to whether or not investors will use the information in integrated reporting, and whether the resource and cost burdens associated with such reporting can be justified.
- Integrated reporting will involve a high level of subjectivity, given that management commentary, governance, remuneration and sustainability reporting do not lend themselves to the objective measurements of financial reporting. This means that the ideal of comparability of reports may be undermined.
- Financial information is static and backward-looking. The information being contemplated by integrated reporting is forward-looking and does not lend itself to being readily audited.
- If directors are releasing prospective information, issues of personal liability arise. Directors are subject to statutory and common law duties which require them to act with reasonable care and diligence and in good faith in the best interests of the company and for a proper purpose. A defence may apply to decisions taken by directors in relation to breaches of care and diligence but it is not available, at least in Australia, where the process leading up to the decision is defective (such as where the decision is made on the basis of clearly inadequate information). Providing forward-looking reporting means that the information provided could well be based on inadequate information, given that circumstances can change rapidly. This in turn exposes directors to actions against them, including class actions, which are becoming increasingly prevalent. At present, a 'safe harbour' from liability for directors and executives has not been adopted in each jurisdiction — this is certainly the case in Australia. Introducing such a defence across jurisdictions will involve considerable effort and time and require a political will to do so. The liability issue must be addressed before integrated reporting can be adequately implemented.
- Despite the admirable aim of 'removing the clutter', until such time as each jurisdiction streamlines current reporting obligations, there is a very high risk that advocacy for integrated reporting will add further complexity to reporting. Given the reluctance of governments to review and reduce existing legislation, the challenges inherent in streamlining existing reporting obligations are considerable. Again, seeking and gaining

government commitment to reducing current statutory reporting obligations across jurisdictions will involve substantial effort and time.

In preparing this submission, CSA has drawn in particular on the expertise of its internal national policy committee, comprising company secretaries and governance professionals in public listed companies.

Yours sincerely

A handwritten signature in black ink, appearing to read "Tim Sheehy". The signature is written in a cursive, flowing style with a large initial 'T'.

Tim Sheehy
CHIEF EXECUTIVE

Q1: Do you believe that action is needed to help improve how organisations represent their value-creation process? Why? Why not?

An integrated strategy to achieve financial results and create lasting value for the company, its investors, and its stakeholders is a key objective of most listed entities. CSA agrees that a focus on a single bottom line cannot offer sufficient assurance that a company will be sustainable in the longer term, and companies need a better understanding of their non-financial performance; better ways of disclosing it; and better ways of factoring it into their strategy and operations.

The aim of the IIRC in advocating for the creation of one report integrating social, environmental and financial data that will help companies succeed by building trust with their investor and stakeholder communities is admirable. CSA is of the view that the process toward such a report is not a short-term project. CSA is of the view that resolving the very real challenges inherent in integrated reporting will take some years.

Q2: Do you agree with the definition of integrated reporting on page 6 [of the paper]? Why/why not?

CSA supports the definition of integrated reporting in the paper.

Q3: Do you support the development of an international integrated reporting framework? Why? Why not?

Good corporate governance recognises the broad objective of maximising shareholder value, while acting fairly in the interests of other stakeholders with an interest in the company's affairs. Fundamentally, reporting is about relationships between the company and its investors as well as other stakeholders and building trust. Reporting is part, but by no means the whole, of a process of engagement with investors, the aim of which is to provide a means of communicating information to and hearing from investors so as to:

- keep investors aware of the entity and its performance and prospects
- assist investors to determine if they are willing to support the plans of the board and executives for its growth and success, and continue to support the board even if the entity experiences setbacks in the short to medium term.

CSA Members therefore support the aims and objectives of an integrated reporting framework. However, we note that global consistency has not yet been achieved with financial reporting that can be measured and reported. The United States has still not adapted the International Financial Reporting Standards (IFRS), which means that comparability of financial reporting is still a work in progress. This raises questions as to how consistency is to be achieved in the reporting of non-financial issues.

Financial information is backward-looking and static. Moreover, it can be audited. Much of the reporting contemplated in the paper is forward-looking, and therefore constantly changing. It is not static and cannot be audited in the same manner or with the same confidence as financial reporting. CSA cautions that any move to an international integrated reporting framework, which deals with disclosures that cannot be easily measured or audited, needs to be realistic in terms of what can be achieved.

If an auditing approach is undertaken, every metric must be verified. CSA is of the view that 'reasonableness' should be a threshold issue in any assurance methodology, given that forward-looking information cannot be verified in the same manner or with the same confidence as backward-looking, financial information. CSA also notes that any focus on assurance should not stifle the development of metrics for the measurement of non-financial information.

Moreover, company performance is vulnerable to future developments particular to their own organisation. What is important to one organisation is not necessarily important to another. Applying an auditing approach may not provide for a recognition of that crucial difference, leading to 'standards' that seek to apply uniform metrics covering a multitude of different organisations. Importantly, any forward-looking information that is released also has implications for directors, who hold corporate and personal liability for the validity of such statements.

Mention should also be made that there is the potential for a duplication of effort with existing reporting structures such as the Global Reporting Initiative (GRI), against which many large multinational companies already report. CSA notes that the GRI is a member of the IIRC and supportive of its aims. CSA also notes that the GRI has announced that it 'is currently developing the next generation of the Guidelines (G4), which is intended to provide companies with a stepping stone towards integrated reporting. and, in the context of the IIRC's framework, help users formulate content for integrated reports.'² CSA is of the view that it would assist companies to understand further how maintaining GRI reporting will dovetail with any move to integrated reporting, so that concerns of duplication of effort can be addressed.

Another other issue to consider in moving to a global standard of reporting for the purposes of comparing and contrasting is that of competitive advantage. Those companies alert to the long-term impact of environmental, social and governance issues and in a constant dialogue with their investors and stakeholders have a competitive advantage. Shifts in environmental and social issues that ultimately feed into the fundamental drivers of corporate performance generate value-creation opportunities. CSA is of the view that companies alert to the competitive advantages of integrated reporting will lead the way, and strongly support this movement being undertaken as a matter of choice by individual companies rather than mandated by regulation.

Any advocacy to embed integrated reporting in legislative frameworks, for example, would compound difficulties in reporting rather than assist in building trust with investors. Some companies are more advanced than others in terms of reporting on non-financial issues as well as financial results (for example, the resource sector has been reporting on sustainability issues for some time). It would be unfair to impose reporting obligations on those companies that have not yet been on the same journey or add to existing reporting obligations which are already onerous.

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

(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 organisations?

Focus on larger companies

CSA Members are very aware of the issues of resources that apply in committing to integrated reporting, given that SMEs, mid-cap and micro-cap companies represent the majority of ASX listings by number. Any focus on integrated reporting must be on larger companies in the first instance, as they are the only companies with sufficient internal resources to allocate to such a framework.

² <http://www.globalreporting.org/CurrentPriorities/IntegratedReporting/>

For a company to integrate reporting on financial, management commentary, governance, remuneration and sustainability issues, there is a considerable resource and cost burden. A reporting methodology that can meet a verification process requires:

- site visits
- meetings with stakeholders
- the capture of data and its analysis to provide it in measurable form
- diversified entities do not have the same issues in each stream, and unlike financial reporting where the issues are the same and can be reported under one methodology, any integrated reporting needs to reflect the differences in each stream
- occupies substantial amounts of management time.

CSA notes that the compliance issues associated with integrated reporting for smaller companies is very high. It can be costly to capture and provide the relevant information to demonstrate a company's approach towards the management of financial, manufactured, human, intellectual, natural and social capital, especially if that company is not already capturing such information for its management purposes. Larger companies have access to the variety of information contemplated by integrated reporting, but SMEs are less able to apply dedicated resources to such reporting. Mid-cap and micro-cap companies would likely struggle to articulate the value-creating process as sought.

The difficulties facing smaller companies in reporting on non-financial issues was recognised by the GRI, which focused originally on larger, multinational corporations. It took some years to release a GRI reporting framework for SMEs and this has not been taken up to the same degree as the original framework intended for much larger corporations.

As noted above, even for large corporations integrated reporting can prove costly. For example, a diversified entity with a spread of businesses does not have the same issues in each stream, and unlike financial reporting where the issues are the same and can be reported under one methodology, integrated reporting needs to reflect the differences in each stream. Such an organisation would have to design all its planning, reporting and measurement in each stream and on every line and this would require the company to create a whole new planning department to undertake this. While such integrated planning, reporting and measurement could well bring advantages to the organisation, it is not a resource allocation that could be lightly undertaken.

CSA also notes that there is no agreed international definition of 'large company'. This is not merely a matter of semantics. Without such agreement on definitions, clarity as to where the focus will lie will be lacking.

Finally, much of the information mentioned in the paper is already made available by larger companies on their websites. While CSA accepts that the paper clarifies that one aim of integrated reporting is to 'remove the clutter' and bring together in one place the myriad of reporting strands, CSA is of the view that the paper does not reflect any consideration of the difference between information and reporting. Further clarity is required as to the difference between reporting, which assists shareholders to determine if they are willing to support the plans of the board and executives for its growth and success, and continue to support the board even if the entity experiences setbacks, and ongoing information provided to stakeholders to ensure they are kept aware of the entity's undertakings. At present these two forms of communication to two very different audiences are being treated as one and the same and as if the audiences have the same needs. Given that assurance of the information in an integrated report is central to achieving the objectives of this form of reporting, it is very important to separate investor requirements from stakeholder expectations and not treat them as indistinguishable.

Focus on investor needs

The paper states that the drive to integrated reporting is to meet investor needs and to provide comparability of data for investors. It also notes that integrated reporting will serve the information needs of other stakeholders. CSA is of the view that further clarification is required as to the difference between reporting and information (see above).

Investors now have many different financial and other interests in companies and are not necessarily long-term investors (in these days of high-frequency trading, they can be one-second investors). Shareholders today are a diverse group, dispersed geographically (including internationally) and, in many large companies, can number in the thousands, if not the millions. With dynamic and global investment strategies, shareholders may include an individual resident in Australia planning for his or her retirement, a large institution with billions of dollars under management, a foreign investor, a global hedge fund, and an investor with no interest in the company beyond a short-term trade. The traditional retail investor in Australian equities may represent a small proportion of the capital of a large ASX-listed company.

Such a diverse group and their interests cannot be definitively described as unanimous. It is not feasible to say that all shareholders' interests are aligned. A shareholder who is on the register for 24 hours may not have the same interests as one who seeks to remain on the register over decades. Even long-term shareholders can have different views on appropriate measures of performance and ongoing viability. Investors will, therefore, have different views on the reporting most valuable to them. CSA therefore questions whether the aim of focusing on investor needs is as straightforward as claimed.

Existing forums for dialogue

Throughout the year, and not just in the lead-up to the annual general meeting, many institutional investors meet with the companies in which they invest and discuss issues relating to performance and prospects. Sophisticated and targeted communication with institutional investors via analyst briefings provides a stream of engagement with institutional investors, who do not rely on the general meeting as the prime forum for engagement with the companies in which they invest. Any information discussed at such meetings that is market-sensitive is required to be released to the market immediately in Australia, as part of our continuous disclosure regime, to ensure that all investors and stakeholders have timely and equal access to information that could affect, either favourably or unfavourably, the price or value of their holdings. These meetings with institutional investors constitute respect for those owners of the company with large holdings, as they provide a forum for the direct questioning of directors and senior management.

The ASX Corporate Governance Council introduced amendments to the *Corporate Governance Principles and Recommendations* in 2010 encouraging companies to 'arrange for advance notification of significant group briefings and to make them widely accessible, including through the use of webcasting or any other mass communication mechanisms as may be practical'.³ This provides for retail shareholders and investors in other jurisdictions to readily access analysts' briefings.

CSA points to these many existing forums for investors to gain clarity as to the financial and non-financial strategies of a company and the risks attached to those strategies. This is ongoing reporting, keeping investors abreast of performance and prospects. It is not yet clear how integrated reporting is to mesh with this ongoing dialogue with the investment community.

³ ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations*, 2nd edition, amended 2010, p 31

On the issue of comparability, CSA notes that integrated reporting will involve a high level of subjectivity, given that management commentary, governance, remuneration and sustainability reporting do not lend themselves to the objective measurements of financial reporting. This means that the ideal of comparability of reports by mandating reporting may be undermined.

Moreover, CSA is of the view that, in Australia at least, where at this stage only a minority of the investment community is seeking information on ESG issues, there is a question as to whether investors will use the information. CSA Members note that, if asked whether the information contemplated by integrated reporting is desired, it is unlikely that any investor will say no. However, the more important question to consider is whether the information will be used, particularly given the resource allocation required within companies to prepare such information.

Applying the concepts to SMEs, and organisations in the public and not-for-profit sectors

CSA is of the view that any movement to an international integrated reporting framework will inevitably be applicable to all organisations, and not be limited to large public listed companies. CSA points to the success of initiatives such as the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* as a model of how improvements in reporting for listed companies can influence reporting standards generally.

The Principles and Recommendations are a flexible framework for corporate governance which provides a practical guide for listed companies, irrespective of their size or industry, their investors, the wider market and the Australian community. The Principles and Recommendations are not prescriptive. If a listed company considers that particular Recommendations are not appropriate to its circumstances, it has the flexibility — under the 'if not, why not' approach — not to adopt them, as long as it explains the reason(s) why. Listed companies are required to disclose in their annual reports the extent to which they have followed each Recommendation.

Since their introduction in Australia in 2003, they have modelled the framework for governance practice and reporting, not just for listed companies but also for unlisted companies and organisations in the public and private sectors. Based on this success, CSA considers it likely that, over time, the concepts of integrated reporting will be applied to SMEs and organisations in the not-for-profit and public sectors.

Q5. Are: (a) the organisation'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?

In relation to reporting to investors on the deployment of their capital, the organisation's business model and its ability to create and sustain value, the company is reporting on the material business risks that a business faces, how the entity manages those risks; and how it measures its success in managing those risks. While these are appropriate themes for the evolution of reporting, there are multiple challenges to implementing such reporting.

CSA notes that companies legislation, in Australia and other common law countries, is very clear as to the division of responsibilities in companies. The business of a company is to be managed by or under the direction of a board of directors appointed by and accountable to the shareholders, and the directors exercise all powers of a company except those that are required to be exercised in a general meeting.

At no point has companies legislation either here or overseas contemplated shareholder participation in the management of listed and broadly held companies on a day-to-day basis. That is, companies legislation recognises that it would be impractical for shareholders to be

involved in every decision. Indeed, it would paralyse a company if each decision had to go before shareholders.

Equally, companies legislation recognises that mechanisms are required for the review of decisions taken by directors. As part-owners, shareholders should be engaged in the corporate governance of companies. They should engage with companies on long-term strategic and governance issues to provide a real test to the thinking and behaviour of boards and management, and to ensure that boards properly oversee management. However, shareholder engagement and shareholder involvement are not synonymous. There is a difference between testing directors' thinking on long-term strategic and governance issues and asking directors to disclose granular detail of business models, plans and the material business risks attached to strategy.

Proper risk management in a company is a complex and sophisticated issue. Whereas agreement can be reached on one set of financial accounts, it is not feasible to reach one certification of material business risk management. Given that risks may emerge that have not been anticipated, it would be extremely difficult for companies to attest that any report has captured all of its material business risks, which may include but are not limited to: operational, environmental, sustainability, compliance, strategic, external, ethical conduct, reputation or brand, technological, product or service quality and human capital.

Moreover, disclosure of the risks themselves could have confidential and competitive advantage implications. Strategy, business plans and models can change in a very short space of time as external circumstances shift. They can be aligned with the thinking of a particular CEO, and while it is appropriate for that CEO to detail the plans and strategies in a memoir as information belonging to the past, detailing them as they are unfolding may damage the company. Disclosing commercially sensitive information regarding strategy to competitors is not, ultimately, in investors' favour. A company's five-year strategic plan is a commercially sensitive document and must remain confidential.

Reporting that is based on ongoing disclosure of the organisation's business model as it evolves, and its material business risks and their management in relation to the organisation's strategic objectives, itself poses a risk, which is that of blurring the line of responsibility between shareholders and directors. It is not possible to report to investors in detail on strategic models without blurring that line.

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

CSA supports the concept of multiple capitals in explaining how an organisation creates and sustains value. Indeed, most companies talk to these issues at each general meeting.

Information on these multiple capitals is, therefore, already available to investors. In Australia, if investors were to read the chairman's and CEO's reports, which must be disclosed to the market via the ASX announcements platform immediately after their presentation to shareholders at the annual general meeting, they would find the report on multiple capitals is already available.

The paper makes the point that one of the aims of integrated reporting is to ensure that all current reporting can be collated and streamlined in one report. Nonetheless, the annual general meeting is considered to be a core forum for engagement between shareholders and directors and the chairman's and CEO's presentations will not and should not be replaced by any other form of reporting. This raises the issue again of the risk of integrated reporting adding to existing reporting obligations rather than streamlining them.

Q.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?

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 Guiding Principles that should be added? Why/why not?

CSA supports the Guiding Principles and Content Elements but reiterates that our concerns rest with the challenges that are inherent in any implementation of integrated reporting. The challenges cannot and should not be dismissed as minor issues that can be easily resolved.

Q9. From your perspective as a reporting organisation:

(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?

CSA agrees with the benefits as presented in the paper. The aims of integrated reporting align with the core principles of good governance and are to be commended. CSA supports the intent of integrated reporting.

However, CSA is concerned that the benefits set out in the paper are heavily weighted to the theoretical. The paper spends only one page setting out the challenges attached to integrated reporting, yet those challenges are very real and cannot be dismissed as instances of negativity. CSA accepts that the Pilot Program will provide greater clarity as to the practical application of the theory set out in the paper, but is keen to add to the discussion of how practical application could proceed.

Regulation

Existing regulation as regards reporting is already substantial. In Australia, listed companies have obligations under the:

- Corporations Act
- Accounting Standards
- ASX Listing Rules
- ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*.

There has been a trend to continually add to reporting obligations over the past decade, rather than any move to streamline and reduce them. If integrated reporting is not simply to add to reporting obligations, with all of the substantial, attendant compliance costs, a review of existing regulatory obligations must take place and recommendations made to reduce 'the clutter'. CSA notes that such a process is an ambitious hope rather than a certainty.

It is also important that integrated reporting is not seen in each instance as an easy collation of existing data in a new format, as it has the potential to involve far more internal resourcing than is contemplated in the paper. Many companies attempt already to ensure that reporting is not undertaken in silos — they will work to ensure consistency in, for example, their annual and sustainability reports. If the company is a matrix organisation, the integration is already present in how it reports. However, for many companies, the compliance costs in seeking to integrate current reporting that must meet a plethora of statutory and regulatory requirements would be

immense. The paper itself notes that such a process demands ‘integrated thinking’ and this would involve internal restructuring and re-engineering rather than a collection of existing data in one report. The preoccupation with legal compliance and the reliability of the information are serious issues that do not automatically translate into improved usefulness or relevance of information.

Another consideration in Australia is the continuous disclosure regime, which means that listed public companies and disclosing entities must disclose materially price-sensitive information immediately upon becoming aware of it. The aim is to ensure that no investor should be disadvantaged in comparison with any other investor. The continuous disclosure regime does not prejudice an entity’s commercial operations by requiring it to release information meant only for management’s internal use, nor does it require the disclosure of sensitive negotiations (subject always to maintaining confidentiality). Listed entities are required to strike a balance between the timely disclosure of information and the safeguarding of commercial interests.

The continuous disclosure regime must be considered in any move to integrated reporting. It is not just that investors are already provided with any information that could affect their investment immediately the company becomes aware of it, which in part speaks to the aims of integrated reporting. It is also that the release of any forward-looking information is subject to the laws relating to continuous disclosure in Australia.

Further clarity is required as to the difference between reporting, which assists shareholders to determine if they are willing to support the plans of the board and executives for its growth and success, and continue to support the board even if the entity experiences setbacks, and ongoing information provided to stakeholders to ensure they are kept aware of the entity’s undertakings. The paper treats these two forms of communication to two very different audiences as if they are the same and as if the audiences have the same needs.

For example, a sustainability report may provide the information that stakeholders such as employees require (it assists them to understand if the organisation is an employer of choice), or NGOs (it provides information on how the organisation manages its impact on the community in which it is involved), but may not provide the reporting that investors are seeking (it may not provide the detail on inputs and outputs which allows an investor to see how the material business risks are being managed). It cannot be assumed that a report to investors will automatically meet stakeholder needs, as those needs can differ.

Directors’ duties and directors’ liability

If directors are releasing prospective information, issues of personal liability arise. Directors are subject to statutory and common law duties which require them to act with reasonable care and diligence and in good faith in the best interests of the company and for a proper purpose. A defence may apply to decisions taken by directors in relation to breaches of care and diligence but it is not available, at least in Australia, where the process leading up to the decision is defective (such as where the decision is made on the basis of clearly inadequate information). Providing forward-looking reporting means that the information provided could well be based on inadequate information, given that circumstances can change rapidly. This in turn exposes directors to actions against them, including class actions, which are becoming increasingly prevalent. At present, a ‘safe harbour’ from liability for directors has not been adopted in each jurisdiction — this is certainly the case in Australia. Introducing such a defence across jurisdictions will involve considerable effort and time and require a political will to do so. The liability issue must be addressed before integrated reporting can be adequately implemented.

The other issue that arises in relation to providing prospective information is how to provide assurance on such information. Historical information is static and can therefore be audited, which is not the case with forward-looking information. Companies would need to ensure that an integrated report has the same integrity as all other reports to shareholders (which aligns with

the Corporations Act, dealing with the offences of providing false or misleading statements or information), which requires assurance processes to be implemented. Assurance processes need to consider:

- Who is the audience for this report?
 - What are the company's material business risks? For example, they may include reputation; environment; community; employees; donations etc
- Is the information provided aligned with the audience?
- What communication tools can the company use to ensure that one document is not being sent to all audiences, given the different information needs of the different audiences?
- Who signs off on the report internally?
- What is the accuracy of the information and the verification process?

If an auditing approach is undertaken, every metric must be verified. CSA is of the view that 'reasonableness' should be a threshold issue in any assurance methodology, given that forward-looking information cannot be verified in the same manner or with the same confidence as backward-looking, financial information. CSA also notes that any focus on assurance should not stifle the development of metrics for the measurement of non-financial information.

Moreover, company performance is vulnerable to future developments particular to their own organisation. What is important to one organisation is not necessarily important to another. Applying an auditing approach may not provide for a recognition of that crucial difference, leading to 'standards' that seek to apply uniform metrics covering a multitude of different organisations. Importantly, any forward-looking information that is released also has implications for directors, who hold corporate and personal liability for the validity of such statements.

Proper risk management in a company is a complex and sophisticated issue. Whereas agreement can be reached on one set of financial accounts, it is not feasible to reach one certification of material business risk management. Even with assurance processes in place, the issue remains of how directors are to release prospective reports without putting themselves at risk of exposure to actions against them should the future be different from what the strategy envisages.

Commercial confidentiality

Strategy, business plans and models can change in a very short space of time as external circumstances shift. Disclosing commercially sensitive information regarding strategy to competitors is not, ultimately, in investors' favour. A company's five-year strategic plan is a commercially sensitive document and must remain confidential.

Capacity building

It is a very big resource commitment for a company to integrate reporting on financial, management commentary, governance, remuneration and sustainability issues, and it is also very expensive. Larger companies have access to the variety of information contemplated by integrated reporting, but SMEs are less able to apply dedicated resources to such reporting.

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 undertaken?

(b) What priority should be afforded to each action? Why?

CSA is of the view that it would be useful for the IIRC to:

- release an Exposure Draft of the Framework — CSA cautions that, given that the term 'exposure draft' is generally applied to the release of new legislation and regulation, care should be taken to clarify that the document relates to an 'approach' to reporting and is not a framework that is either regulated or mandated

- work with others on emerging measurement and reporting practices — CSA believes that any effort to reduce duplication will be well received by reporting organisations. For example, further partnering by the IIRC with the GRI and stronger communication from both on that partnership would be most helpful so that reporting organisations can see that there is a genuine effort to not require companies to meet additional voluntary reporting frameworks that are competing with existing ones
- outreach, encouraging organisations to adopt and contribute to the evolution of integrated reporting — CSA notes that the Integrated Reporting Pilot Program should assist in this regard, as organisations voluntarily apply to participate and their successes and challenges can provide useful feedback for the outreach initiative and the Pilot Program can also consider different sizes of organisation which should facilitate agreement on a definition of 'large'
- explore opportunities for streamlining and harmonising reporting requirements within and across jurisdictions — CSA is of the view that this is the single most useful work that the IIRC could undertake, as successful advocacy on this front can only be achieved by international coordination and with high levels of government access
- consultation regarding the ongoing governance of integrated reporting — CSA would like to see the IIRC release further information as to what it envisages by the statement 'Develop, through public consultation, institutional arrangements for the ongoing governance of integrated reporting'. It is not clear from the paper exactly what the IIRC contemplates in this regard. CSA would also like to see the IIRC clarify which sections within an integrated report are required to have independent assurance, as this can have a direct impact on the cost of preparing and publishing such information.