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Dear IIRC Members

Discussion Paper -- Towards Integrated Reporting: Communicating Value in the 21st Century

Grant Thornton International Ltd (Grant Thornton) appreciates the opportunity to submit our comments on the International Integrated Reporting Committee's (IIRC) above-referenced discussion paper. In preparing our submission, we have had discussions amongst some Grant Thornton member firms, as well as informal discussions with various business owners and company directors, in order to canvass different opinions. The format of our comments below follows the questions raised by the IIRC in the discussion paper.

The World Has Changed – Reporting Must Too (page 4)

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

Yes. We agree that company reporting has not kept pace with the changes resulting from globalization and increased interdependencies amongst economies, companies and supply chains. There is a need for a framework that seeks to communicate, in a coherent and unified manner, a business's strategy, governance, performance and prospects. Whilst some elements of the reported information will be quite subjective, there should at least be a framework to make that assessment. For example, details about how a business's strategy is implemented are as crucial as the strategy itself. An average strategy well implemented beats an excellent strategy poorly implemented every time. Stakeholders need a way of assessing this. A framework for businesses to communicate how they are creating value for their stakeholders – through their strategy, its implementation and other stewardship matters – will provide stakeholders an opportunity to make this assessment of how value into the future will be driven.

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

Yes. Capital markets and businesses are international. A globally accepted approach is critical to ensure that a framework is robust enough to withstand changing and emerging geographic capital and economic influence. We do not yet know how areas of economic influence and concentration will develop over, say, the next fifteen years, but we can speculate that developing markets, including parts of Asia, Africa, Latin America and the Middle East, will take on more economic significance. Given the likelihood that the capital markets will be quite different in the coming decades, an integrated reporting framework must anticipate the likely cultural differences that may influence its adoption, if not application. That said, given the legal, cultural and other differences that still exist even today, it is important that any global framework be principles-based and robust enough to take into account matters of local importance that may not be relevant in every country or continent.

Towards Integrated Reporting (page 6)

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

Yes, the current definition is robust, although there will never be full agreement on a precise definition. We note that there is no explicit reference to risk in the definition, although we note that the paper makes frequent references to the concept of risk throughout the document. The financial crisis demonstrated how important it is to understand the notion of risk in businesses, and an analysis of risk versus reward is at the heart of investment decisions. Given the importance of risk assessment, consideration could be given to adding the notion of risk into the definition itself. This could be achieved simply by adding the word "risk" to the list of material information in the first sentence of the definition (ie, "…organization's strategy, governance, performance, prospects <u>and risk</u> in a way…").

An International Integrated Reporting Framework (page 8)

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

Yes. We have a unique opportunity in the aftermath of the global financial crisis to assess how the historical focus on financial reporting has served us in the past. Many have observed that the established financial reporting frameworks may not have given enough warning of some of the issues contributing to the financial crisis. The business environment now seems ready for a broader framework of accountability and responsibility that integrated reporting could bring. The historical financial reporting framework has served us well for measuring past performance; however a more forward-looking focus is desirable to better manage investor risk and allocation of capital.

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?

We have concerns about initially focusing on the largest companies to the exclusion of mid-sized and smaller companies. While larger companies with greater resources might choose to be the first to fully adopt integrated reporting, the IIRC should seek to ensure that the needs and objectives of smaller companies and their shareholders are met and their voices heard.

The reality is that the underlying principles of integrated reporting should be equally applicable to smaller organizations and bodies that are in the public interest and have stakeholders. Given this fact, smaller companies (particularly those with public shareholders) and their stakeholders should have a say in the early development of an International Integrated Reporting Framework, and we encourage the IIRC to include such companies in the Pilot Programme. In fact, it may be easier for smaller companies, who may typically be less complex than larger companies, to report under an International Integrated Reporting Framework, and therefore more willing to contribute to its development.

(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. As noted above, the conceptual foundations would still be applicable to any other type of organization in the public interest. If there are external stakeholders involved in an organization – no matter the size of the organization – they deserve to be treated in the same manner as stakeholders in larger organizations, and should have the opportunity to influence the concepts and development of integrated reporting. It is important that the needs of all stakeholders are taken into account.

For certain smaller entities (such as privately held enterprises), the trade-off between cost versus benefit of integrated reporting may not be compelling because of the lack of external stakeholders (such as outside investors that are not otherwise involved in managing the company). Therefore, the focus of integrated reporting should reside at public interest entities.

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 believe that presenting information on an entity's business model, especially as it relates to value creation and sustainability, should contribute to users of an integrated report better understanding associated risks and rewards. This focus is also consistent with the approach taken by various capital market regulators assessing "public offering" documents.

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

Yes. The multiple capitals approach is clear and useful. It demonstrates well that the current reporting focus on historical financial capital is limiting, and that other capitals can have tremendous impact on businesses and value creation and sustainability.

Economics, business, accounting, and related disciplines usually distinguish between quantities that are stocks or capabilities and those that are flows. The discussion paper description of multiple capitals links cohesively to concepts of stocks and flows.

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?

Yes, the Guiding Principles are appropriate, collectively and individually. We cannot identify any other significant Guiding Principles for inclusion. The focus required to shift from existing historical financial reporting to a real-time forward-looking environment will be challenging. As is always the case, success will be measured by reference to whether the Principles can be implemented in practice.

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?

Yes, we generally believe that the Content Elements are appropriate. We cannot identify any other significant Content Elements for inclusion. We note, however, that the paper identifies three levels of concepts: (i) resources and relationships, or "capitals"; (ii) Guiding Principles; and (iii) Content Elements. There is some overlap amongst these concepts, especially between the Guiding Principles and Content Elements. This could lead to confusion on the part of the writers of the integrated report, as well as the users, and we are concerned that this could cause integrated reports to become unwieldy and may lead some to take a "check-the-box" approach to drafting and reading such integrated reports.

What Will Integrated Reporting Mean for Me? (page 20)

Q9. From your perspective:

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

Yes. The main benefits are well identified. Although Grant Thornton is not a reporting organization, we believe that integrated reporting should have tremendous benefit in protecting reputational risk and brand of reporting organizations. With the advent of the internet and particularly social media, corporates have in large part lost the ability to manage the accuracy and veracity of information distributed about them. With integrated reporting, a corporate's "reputation" will be more transparent, and information circulated via social media in particular, can be assessed by stakeholders against what they know a company stands for (as gleaned from their integrated reporting).

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

Yes, the main challenges are well identified. It will be interesting to see if the "commercial confidentiality" challenge results in a more generic approach to communications by corporates to validly protect competitive information.

Overall, whilst the environment is currently ripe for change, the move to integrated reporting will be a challenging journey that may take some time. The cultural change that is required (both at corporate level, as well as country level) should not be underestimated. Ultimately the community of investors and other stakeholders will play a substantial part in determining the speed and degree to which organizations must move to integrated reporting.

Further, any integrated reporting framework will need to operate within the constraints of different national regulatory environments. For example, many countries may well find that company directors are initially reluctant to fully embrace integrated reporting concepts surrounding communicating a business's strategy and business model, until regulatory change regarding directors' liability occurs. It is one thing to know that company directors are responsible for a business's performance, and quite another to publish and hold them accountable against that business's strategy. In time, however, the market will drive the change required, as businesses that do not embrace integrated reporting may find it difficult to access capital.

Moreover, there are formidable institutional barriers, beyond liability concerns, that will in due course need to be overcome in order for integrated reporting to be accepted globally. This includes, for example, national laws regarding disclosure of information in annual reports, global standards regarding financial reporting, corporate governance requirements, and the oversight by regulators of the quality and accuracy of disclosure. Although it is still early in the process, addressing the institutional mechanisms for adoption of a new integrated reporting framework will likely be even more of a challenge than developing the framework itself.

As an umbrella organization of member firms that provide assurance services to reporting organizations, Grant Thornton and our member firms will face our own challenges in adjusting to integrated reporting. For example, an International Integrated Reporting Framework will contain disclosure of matters that are typically more subjective than traditional financial statements. If investors and other users of integrated reports seek assurance on such information, it may be necessary to develop additional assurance frameworks and techniques. To be sure, however, there are also substantial benefits and opportunities for assurance providers as well.

(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. Existing information in capital market offering documents is prepared by a range of people and stakeholders, and there is sometimes a lack of coordinated and integrated thinking in the preparation and presentation of the document, leading to inconsistent messages. Under an International Integrated Reporting Framework, organizations (both corporate and public) will be forced to pay more attention to coordinating and ensuring communications are accurate and consistent. Further, reporting organization should make further use of technology to facilitate the timeliness and integrity of information that is communicated to the public.

Future Direction (page 25)

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?

Yes. In terms of other significant actions that should be considered, a crucial part of working towards credible integrated reports is addressing issues relating to the accompanying assurance of the reports and other communications provided by auditors.

We believe that the IIRC should make it a priority to engage with service providers (auditors, environmental engineers and the like) who would provide assurance over integrated reporting information for investors. A challenge will be that some of the best information will be qualitative and subjective, which would be somewhat difficult for these service providers to provide assurance over. It would therefore be prudent to ensure that any potential issues surrounding the "auditability" of communications required by an integrated reporting framework are addressed by the framework itself.

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

All of the proposed actions are important and are mutually reinforcing. In terms of outreach to IIRC stakeholders, the most wide reaching and cost-effective way remains using technology to conduct this work, such as teleconferencing and webinars.

We suggest the IIRC focus on who the intended users of integrated reporting are, and what the intended use of the new information is from the standpoint of the intended users. In building a new integrated reporting framework, there should be clarity of purpose. To this end, we are particularly interested in the IIRC's pilot programme, and believe that it will be especially useful to have concrete, real-world examples of integrated reporting. We believe that such examples will not only make it easier for companies to develop their own integrated reports, but will also stimulate interest in integrated reporting as companies and other stakeholders are provided with evidence that it is possible and beneficial to develop coherent and useful integrated reports.

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

We commend the IIRC for taking leadership of this. The introduction and implementation of a globally accepted integrated reporting framework is vital. Work on this must be treated with urgency. The world's environment, resources and many of its economies are facing significant issues, and the absence of an integrated reporting framework is not helpful.

Another interesting facet of integrated reporting is that it is trying to bring together faculties that are more "art" than science. For example, few would dispute that business strategy itself is a widely debated topic, and there are many interpretations of what a good strategy looks like. Traditionally, company reporting has been focused on financial and other information that are typically measurable. As we bring elements into a modernized reporting framework that are not as easily measured, investor and market expectations and understanding of these different elements will also need to be modernized. This will take quite some time. Best we get started.

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We would be pleased to discuss any suggestions raised in this submission. Please do not hesitate to contact myself, Jon Block (phone: +1 202 861 4100; email: jon.block@us.gt.com) or Simon Trivett (phone: +61 8663 6001, email: simon.trivett@au.gt.com).

Yours faithfully

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