

**International Association of Consultants,
Valuators and Analysts**
707 Eglinton Avenue West, Suite 501
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14 December 2011

International Integrated Reporting Committee
www.theiirc.org
To: dpresponses@theiirc.org

Ladies and Gentlemen:

This letter of comment is submitted on behalf of the International Association of Consultants, Valuators and Analysts (IACVA), a member of the International Valuation Standards Council (IVSC) and the World Association of Valuation Organizations (WAVO). IACVA is a knowledge transfer and credentialing organization with Charters, issued or pending, covering Australia, Canada, China, Egypt, Germany, Ghana, India, Indonesia, Jordan, Kenya, Kuwait, Lebanon, Mexico, Nigeria, Philippines, Russia/CIS, Saudi Arabia, South Korea, Taiwan, Thailand, United Arab Emirates, United States (National Association of Certified Valuation Analysts – NACVA and the Institute of Business Appraisers – IBA) and Vietnam. The organization has nearly 10,000 members, who are mainly involved in business valuation and fraud deterrence.

As a worldwide organization, we are extremely concerned with the development of financial accounting and reporting as it affects the valuation profession especially in Canada (an IFRS country), where we are incorporated, as well as the United States, which has at the moment, a majority of our members.

We appreciate the opportunity to comment on the IIRC's Integrated Reporting Discussion Paper. Our observations on the questions listed in this document are as follows:

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

IACVA agrees with the document's view that "action is needed to help improve the value-creation process", however, as professionals involved in valuing entities in many countries, we have found that most managements do not understand how their various businesses create, or sometimes destroy, value for shareholders, lenders and other stakeholders. In particular, some of them do not know the magnitude of the risks involved in many of their activities.

Q1 (b) Do you agree that this action should be international in scope? Why/why not?

While IACVA is an international organization engaged in developing a common body of knowledge, we know the mindsets of business people in, for example Indonesia and Turkey, may be very different, therefore, if the action is started as international in scope, there is a high-risk the result will be the “lowest common denominator”. Developing techniques and benchmarks based on the requirements of major OECD countries is, in our view, a good way to being, as they tend to have lower risks and greater similarities of mindsets. Those can then be rolled out to the BRICS and with their input, transferred to other mature economies and developing nations. For example, IFRS was originally developed in Europe assisted by some commonwealth nations, then worldwide in stages.

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

The Discussion Paper in effect, defines Integrated Reporting as “a clear and concise representation of how an organization demonstrates stewardship and how it creates value, now and in the future.” The resulting document will have much in common with a valuation report. However, the definition ignores the key factor of risks.

We suggest the definition should be something like “a clear and concise description of the risks and rewards past, present and projected, to all stakeholder involved in the organization, from current operations, emerging activities and future opportunities.” This would result in a “warts and all” picture rather than a possibly airbrushed, puff-piece.

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

IACVA strongly supports the creation of an International Integrated Reporting Framework within the structure of our previous answers. In particular, we strongly recommend that the initial development be undertaken with respect to the requirements of the major OECD countries and that there be a strong emphasis on the risks involved as well as the rewards to stakeholders.

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 suggest that the initial sample, while biased towards large enterprises due to their greater ability to allocate experienced staff to the project, must include SMEs as these undertake the large majority of economic activity. A framework that does not satisfy their needs would be worthless.

Q4 (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?

In our view, there is insufficient evidence that the concepts underlying Integrated Reporting for large (multinational) enterprises will be equally applicable to SMEs. In the case of IFRS, this has not proven to be the case.

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?

We do not consider the use of (a) the organization's business model and (b) the ability to create and sustain value in the short, medium and long term to be most appropriate central themes of Integrated Reporting. As pointed out in our answer to Question 2, we prefer to concentrate on risks and rewards with respect to existing operations, emerging activities and future opportunities.

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

The concepts of financial, physical (land, improvements and resources), human (labour), structural and intellectual (intellectual property rights and knowhow) capital, are well established, going back to Adam Smith in the 1770s. The diagram of the application on page 10 of the Discussion Paper changes those well-established concepts to a different mix of financial, manufactured (physical?), human, intellectual, natural (land & resources?) and social capitals. Such differences from established procedures are not helpful.

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?

Page 13 of the Discussion Paper sets out five guiding principles:

- Strategic focus
- Connectivity of information
- Future orientation
- Responsiveness and stakeholder inclusiveness
- Conciseness, reliability and materiality

We do not find these sufficient nor the suggested content elements particularly useful:

- Organizational overview and business model
- Operating context, including risks and opportunities
- Strategic objectives and strategies to achieve those objectives
- Governance and remuneration
- Performance
- Future outlook

We prefer to look at an organization's:

- Existing operations
- Emerging activities
- Future opportunities

... in the light of the relevant risks and rewards.

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 six content elements set out in pages 14 and 15 and listed above fit neatly into the modified framework suggested in our answer to Question 7.

**Q9. From your perspective as a reporting organization:
(a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?**

Our members are extensive users of reported financial statements as well as projected financial information. In fact, the valuation profession could not operate without both. Therefore, we have carefully considered the 10 suggested benefits from a reporting organization perspective rating them as definite, or potential improvements from existing procedures, as well as having no impact.

Benefits	Definitely better	Potentially better	No impact
reported information better aligned with investor needs		X	
more accurate non-financial information available for data vendors			X
higher levels of trust with key stakeholders		X	
better resource allocation decisions, including cost reductions		X	
enhanced risk management			X
better identification of opportunities			X
greater engagement with investors and other stakeholders, including current and prospective employees which improves attraction and retention of skills	X		
lower reputational risk		X	
lower cost of, and better access to, capital because of improved disclosure			X
development of a common language and greater collaboration across different functions within the organization.		X	

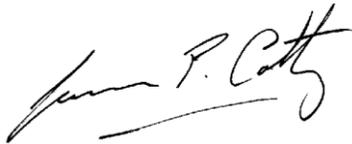
**Q9. (b) Do you agree with the main challenges as presented in the Discussion Paper?
Why/why not?**

In our view, the greatest challenges are likely to be:

- Litigation risk
- Importance of retaining commercial confidentiality
- Information system bottlenecks

Should a Board or staff member wish to discuss this matter further, you may contact me during normal business hours (Eastern Time) at 416-865-9766.

Respectfully submitted on behalf of the IFRS Committee of IACVA
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A handwritten signature in black ink, appearing to read "James P. Catty". The signature is written in a cursive style with a horizontal line underneath.

James P. Catty, MA, CA•CBV, CPA/ABV, CVA, CFA, CFE
Chair