To:	**The International Integrated Reporting Committee ("IIRC")** **dpresponses@theiirc.org**
From:	**The Integrated Reporting Committee of South Africa ("IRC of South Africa")** **c/o The IRC Secretariat** **PO Box 59875, Kengray, 2100, South Africa** **ircomments@saica.co.za**
Date:	**13 December 2011**
Subject:	**Comments to IIRC Discussion Paper on integrated reporting released on 12 September 2011**

Dear Sirs/Mesdames

The Integrated Reporting Committee of South Africa ("IRC of South Africa") supports the work of the IIRC in the light of its own roles of providing support and input to the international process and providing best practice guidance in South Africa. We congratulate the IIRC on the quality of its Discussion Paper, and express gratitude for the opportunity to provide input to this watershed process.

Overleaf we have recorded detailed comments to each of the discussion questions posed in the Discussion Paper. The key features of our comments are as follows:

- Emphasis should be placed on a broader stakeholder approach rather than one primarily aimed at investors.
- It will be critical to ensure that the guidance provided by the IIRC is clear, yet flexible enough to allow for:
  - regional/national differences to be taken into account, and
  - different stages of progress amongst companies.
- Certain areas need to be expanded, specifically materiality, assurance, and the interdependencies between the multiple capitals.

We hope our comments provide constructive input. We look forward to following further developments and participating in the process.

Yours sincerely

Graham Terry

GV TERRY
Chairman: Integrated Reporting Committee Working Group ("IRCWG")

Appendix

Comments of the Integrated Reporting Committee of South Africa to the IIRC Discussion Paper on Integrated Reporting

Background to the Integrated Reporting Committee of South Africa

The IRC of South Africa was established in May 2010 to develop guidelines on good practice in integrated reporting. Under the chairmanship of Professor Mervyn King, the IRC of South Africa's membership comprises a number of major South African organisations, namely:

- The Association for Savings & Investment South Africa ("ASISA")
- Banking Association South Africa ("BASA")
- Business Unity South Africa ("BUSA")
- Chartered Secretaries Southern Africa ("CSSA")
- Government Employees Pension Fund ("GEPF")
- Institute of Directors in Southern Africa ("IoDSA")
- Institute of Internal Auditors (IIA)
- Johannesburg Stock Exchange ("JSE")
- Principal Officers Association ("POA")
- The Seriti Institute
- The South African Institute of Chartered Accountants ("SAICA") – which also serves as the secretariat

The objectives of the IRC of South Africa, as stated in its Constitution, include *inter alia* establishing and procuring the recognition and acceptance of what it considers is or should be good practice in integrated reporting, as well as promoting the international harmonisation of integrated reporting by working with the IIRC. On 25 January 2011, the IRC of South Africa released its first Discussion Paper *Framework for Integrated Reporting and the Integrated Report*. The Discussion Paper was open for public comment for a period of 90 days, and attracted significant local and global comment. The written comments are currently being considered by the IRC Working Group along with the content of the international framework, with the aim to issue further guidance.

Comments to IIRC Discussion Paper ("the Discussion Paper")

In providing our comments below, we have kept in mind that the Discussion Paper is aimed at providing a rationale for integrated reporting and to offer initial proposals for the development of a framework. We believe that the Discussion Paper achieves this aim successfully, particularly taking into account the diversity of current reporting levels and requirements that apply globally. Our comments, therefore, are primarily made for consideration in the next stages of the process in moving towards an integrated reporting framework. We have used the questions as provided in the Discussion Paper to guide our response.

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

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

(a) Yes.

As outlined in the Discussion Paper much of the existing reporting does not lead stakeholders to gain an understanding of an organisation's true performance or its ability to create value in the future. Currently, most organisations demonstrate a flawed approach that tends to be short-term and fails to sufficiently appreciate the contribution of societal issues. In addition, reporting has evolved over long periods via a steady stream of additional and often unconnected disclosure requirements, and guidance has been subject-specific or regional aimed at encouraging increased disclosure of activity-based performance rather than demonstrating collective strategic thinking.

The Discussion Paper could be clearer on the need for stakeholders to be able to assess whether the company's board has considered the primary sustainability risks and that these have been addressed in business strategy.

(b) Yes.

Corporate reporting is a global discipline and an internationally accepted approach will aid comparability. It will be important, however, to ensure that the approach / framework takes cognisance of the differences between developed and developing markets, considers existing frameworks, regulation and guidance, and leaves room for regions to provide guidance that is tailored to local conditions.

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

Yes, subject to the comments below.

The 'definition' as presented in italics on page 6 is more of a description of what the process of integrated reporting should involve. While this aligns with the perception we have of integrated reporting in South Africa, if it remains limited to the text in italics, there may be value in including the following:

- Reference to 'activities' in the second line;
- Reference to the fact that integrated reporting is a *process*, which is expressed mainly in the *product* of an integrated report. While this is evident later on and implied through the focus on *integrated thinking*, it is not clear from the definition, and it is important to avoid confusion that the two are one and the same thing, whereas integrated reporting is a much more all-encompassing re-think of which material parts are expressed in the primary report;
- Reference to the integrated report as a reflection of the application of the board's collective mind. Again, while this is evident later on, it is a key aspect that should be emphasised upfront.

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

Yes.

As mentioned above, an approach that is supported and co-ordinated internationally will aid comparability. In addition to bringing much needed clarity on what an integrated approach would entail, it may, if implemented effectively, also reduce the burden of reporting which has resulted from the proliferation of local requirements and international voluntary guidelines, and diminish the opportunities for reporting arbitrage. Such a framework must, however, be developed with consideration of existing frameworks and regional / local imperatives, balancing these with the needs and priorities of report producers, report users and regulators.

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?

(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?

(a) No.

As alluded to in part (b) of the question, the principles and concepts of integrated reporting are indeed equally important for all types and sizes of organisations. Therefore we believe that the IIRC can be more ambitious in promoting the concepts and explicitly highlighting the applicability to all organisations.

While we understand why the IIRC has directed the Discussion Paper towards the needs of investors and asset owners as key stakeholders in the process, we believe that the IIRC needs to recognise that the broader stakeholder-inclusive model is an essential element of today's company.

In addition, the long-term prospects of an organisation are unlikely to be the focus of all investors, but rather mainly of long-term investors who have an interest in the organisation's ability to create value in the future. While the information needs of these long-term investors may be a useful initial proxy for a broader group of stakeholders, this may not hold true in the longer term or for all types of stakeholders. Further, while the Discussion Paper mentions the importance of stakeholders it fails to include them in the bias of the report.

In South Africa, we are seeing companies make significant efforts to engage with a broad range of stakeholders, and many of them are using their initial efforts at an integrated report as an important tool in helping stakeholders to understand the business and how it creates value. The IRC of South Africa believes the IIRC should relax its strict investor focus and recognise the need to embrace a wider range of stakeholders. We do not believe that any particular group should be seen to be given favour. If a single stakeholder group such as investors is given an explicit position of importance, we believe the credibility of the process and its pronouncements could be undermined. In contrast, the importance of understanding and implementing a proper stakeholder engagement model should be emphasised as part of the process of integrated thinking.

(b) Yes. As discussed above we believe the principles and concepts of integrated reporting apply equally to all types of organisations, including those operating in the public sector and not-for-profit organisations. While the implications and practical expression of the process may differ depending on the organisation, the underlying approach should be the same. If this line of thinking is accepted, this will highlight the limiting effect of the Discussion Paper's current focus on reporting for investors – the public sector's key stakeholders are not investors, but rather the citizens who they represent.

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?

Yes, it is suggested that amongst the objectives of integrated reporting is the desire to provide a more accurate account of an organisation's total economic value, as well as to address the current flawed approach to value creation. Reflecting more robustly on the business model and ability to create and sustain value are key to meeting these objectives.

(a) The business model is the primary mechanism used by the organisation to generate value. In some instances the model can only be viable in the short-term or create a short-term competitive edge. Its efficiency is also exposed to a number of variables including the availability of resources (human / financial / natural etc.) changing consumer patterns, legislation, or sensitivity to economic conditions. It is therefore critical for the organisation itself to understand and reflect on its business model on an ongoing basis, as well as to provide stakeholders with insights into its views on how it develops and adapts its business model, in order for the stakeholder to contextualise what the organisation has achieved over the reporting period and to be able to anticipate what may lie ahead. The IIRC should consider providing further guidance to organisations, such as the purpose of a business model, main value drivers / principles, key stakeholders, etc.

(b) The concept of value creation is also central to integrated reporting – being a key focus area for stakeholders who are concerned about the ability of the organisation to create value for them. It will be key, though, to provide a clearer explanation of value in order for organisations to understand that different stakeholders are concerned about different concepts of value (e.g. investors are concerned about future earnings / employees are concerned about a secure future or advancement prospects, etc).

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

The concept is both useful as a starting point and to highlight the contribution of broader societal and environmental issues to the ability to create value. We believe, however, that the IIRC should expand this discussion considerably and explain the interdependencies between these capital elements - it can be suggested that manufactured and financial capital stocks are essentially products of, *and dependent on*, human, intellectual and social capital stocks, which in turn are products of *and dependent on* natural capital. The diagrams provided as well as the text box on page 11, do not reflect this interrelationship and interdependency sufficiently.

And so, while it may be clearer to understand this approach in the context of integrated reporting (as opposed to the traditionally narrower views of risk and opportunity), report preparers may struggle with the interdependencies as well as practical aspects – more guidance in this regard would be helpful. It may be worthwhile to mention here that the South African Discussion Paper suggests that one of the objectives of integrated reporting is to foster appreciation of these interdependencies within the organisation as well as with its stakeholders.

Under the description of Human Capital on page 11, we suggest the inclusion of the “ability” to innovate (as opposed to only the motivation). It may also be worth mentioning the ability and agility of people to react and adapt to changing markets, resource availability etc.

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?

Overall:

- The guiding principles are useful within the context of the Discussion Paper.
- There is scope to provide more detail on some of the stated guiding principles and to provide more practical guidance to report preparers. The framework needs a clear set of guiding principles designed to assist report preparers to make decisions about the extent and quality of information to include in the report.
- We submit that there is scope to provide additional examples of guiding principles (noting for example those referenced in the South African Discussion Paper such as report scope and boundary, the selection of report content, the quality of reported information – building on the work of the GRI and IFRS), as well as more detail on the implications of some of these principles. For example, the Discussion Paper does not have sufficient coverage of the concept of materiality (see below). Report preparers in South Africa are finding it difficult to determine what is relevant and material at an integrated report level. The IIRC should consider developing models and illustrative guides on how these principles can be applied in practice.

Comments on individual principles:

- Responsiveness and stakeholder inclusiveness: the Discussion Paper is inconsistent in its guidance on the extent to which an organisation takes account of and responds to stakeholder needs, while emphasising the more limited investor focus of the report initially. This is likely to create confusion amongst preparers around how to respond to stakeholder needs.
- On the principle of “future orientation”, it might be useful to provide some information on how to deal with possible challenges associated with the disclosure of forward-looking information, as well as to reflect on the frequent query regarding how an organisation can be expected to disclose competitive information relating to its future strategy.

  Conciseness, reliability and materiality: as mentioned above, more detailed guidance is needed on materiality. For example, it should be clarified that organisations should disclose the process used to determine materiality. The reference to exclusion of information that is “relatively static” creates the implication that such information is not material, which may not hold true.
- Detailed guidance on materiality is needed, particularly as the IIRC definition of integrated reporting refers to “material information”. A potential approach may be to indicate that the information provided should relate to issues that are of such importance and relevance that they could substan*tively influence the assessments and de*cisions of the organisation and its stakeholders. For the purpose of the integrated report, the targeted stakeholders are those who are seeking to evaluate the organisation’s performance and make an assessment about its ability to create value in a manner that sustains or enhances the systems on which that value depends. This will require disclosure of the organisation’s impacts on the financial, economic, social and environmental systems that have a bearing on the organisation’s ability to

create value over the short, medium, and long term, as well as disclosure on its capacity to respond to the changing context in which it operates.

- It must be noted that concern has been expressed by various international stakeholders over whether materiality must be determined in conjunction with stakeholders, whether a sectoral or geographic lens should be applied to it, etc.

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?

Overall:

- The elements are appropriate and provide a sound foundation for preparing an integrated report. However, they should not be prescriptive. Different organisations in different industries may find improved ways of presenting information, and not everything will be equally relevant or material to all types of organisations.

Comments on individual elements:

- Strategic objectives: this should be positioned as the second element after 'organisational overview and business model'. This section should also encompass the organisation's approach to incorporating material issues into strategy – as a key issue for stakeholders it must be given prominence.
- Governance and remuneration: the approach to remuneration overall and at broader management level (beyond the executive) would be useful in the bigger context of the company's governance. We believe it is particularly important to suggest that the integrated report should reflect the remuneration differential between highest and lowest levels.
- Performance: the last paragraph should be added to the bullet points in the section as elements of performance reflection, namely linkages between past and current performance and the links between current and future outlook. This section calls on the organisation to explain how it will enhance its positive impacts and lessen its negative impacts and so balanced reporting should be emphasised. The IIRC should address the issue of the financial information that could be included in the integrated report, highlighting, in a non-prescriptive fashion, the considerations in this regard.
- Future outlook: it would be useful here for an organisation to also reflect on the views of key stakeholders in determining future outlook. As mentioned in relation to the Guiding Principles above, it might be useful to provide some information on how to deal with possible challenges associated with the disclosure of forward-looking information, as well as to reflect on the frequent query regarding how an organisation can be expected to disclose competitive information relating to its future strategy. It should be more clearly specified that the expectation is of high level forward-looking information and not a forecast that is time bound and becomes a target.

Potential additional elements:

- Another element that would add value is analytical commentary, proposed in the South African Discussion Paper, as this would provide a useful means of contextualising the different elements and linking them together.
- Consider inclusion of a Director's Statement to give credibility to the integrity and appropriateness of the report content.

- It may be useful to clearly define "value drivers" and to provide some practical examples of these and perhaps also of some "critical stakeholder dependencies".

Q9. From your perspective as a reporting organisation / investor / policy-maker, regulator or standard-setter / key stakeholder:

(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? Why / why not?

The section on "What will Integrated Reporting mean for Me?" is lengthy and the benefits and challenges could be formulated more crisply. Overall, we believe that what has been presented in terms of benefits and challenges generally holds true and is appropriate.

As the membership of the IRC of South Africa includes a range of different organisations, further specific comments aim to provide perspectives from the different points of view.

Reporting organisation:

- The first suggested benefit is "reported information better aligned with investor needs". Building on the comments provided above about the limitations of an investor-only view and the realities around the priorities of different types of investors, we are not convinced that this is a primary benefit as many investors arguably don't have the longer-term or societal perspective or the readiness to deal with new and evolving reporting formats.
- Some South African companies have enjoyed further benefits, which could augment the list, including:
  - The process of compiling the integrated report sparked and added momentum to the integration of strategy and systems; and
  - Integrated reporting has increased line management's awareness of non-financial targets and sustainability issues.
- "Improved awareness" generally within the reporting organisation itself as well as amongst its stakeholders could be added as a benefit – integrated thinking requires awareness raising among, *inter alia,* management and staff to facilitate the required mindset change.
- Two key challenges that could be added relate to:
  - The continuing misunderstanding (both internal and external) about the nature of integrated reporting; and
  - The internal structural challenge of moving away from the traditional silo approach, particularly to reporting (and the concomitant internal politics that may result).

Investor perspective:

- We suggest that "improved analysis" is a primary benefit, highlighting that integrated reporting seeks to provide a more accurate reflection of an organisation's full economic value.

Impact on investment analysis:

- We believe that if integrated reporting is implemented seriously it will facilitate the disclosure of useful information that will enable investors to do better and more integrated analysis. The value will, however, be realised in the articulation by the company of its understanding of the challenges and opportunities it expects to encounter in the future, rather than in a set of 'plug and play' numbers to be inserted into models.
- The IIRC should acknowledge that current investment analytical processes and formats are lacking in relation to their ability to reflect on sustainability issues, particularly qualitative information, a challenge which currently will hamper investors' ability to form holistic views on the company's future outlook and ability to continue creating value.

Policy-maker, regulator or standard-setter:

- Regulators may need to receive additional detail to enable them to fulfill their regulatory roles, but where a regulator's role is aimed at ensuring that sufficient disclosure takes place to protect stakeholders, such as minorities, consumers, etc, integrated reporting can bring more comfort that the information presented will be useful to a wide range of users.
- Buy-in by policy-makers, regulators and standard-setters to the concepts and proposed approach to integrated reporting will be key in ensuring the success of the endeavour – it will create confusion and undermine what integrated reporting aims to achieve if a different model is required or advocated.
- Given its new and evolutionary nature, integrated reporting is something that ideally should not be regulated in extensive detail at this early stage, beyond promoting the concepts and accepted approach. While acknowledging the need to promote comparability and standardisation, policy-makers, regulators and standard-setters should be wary of enforcing disclosure of certain elements in an integrated report without considering the general desirability and materiality of these to the reporting organisation and its key stakeholders.

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

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

(a) Given the nascent nature of the process, the steps to be taken make sense. It is a pity that implementation is likely to take longer than what may be desirable however, as the concepts are new, they will take time to resonate with all the different stakeholders. In addition, success will depend upon the effectiveness and quality of reports generated.

It may be useful to include time for consultation with stakeholders and potential facilitators of the process. An example would be stock exchanges and/or those authorities who regulate listed companies, as a central player in various national economies and the drivers of many disclosure requirements. While we are not in favour of an extensive regulatory approach to the matter, as has been seen in South Africa, the stock exchange can play a significant role as an influencer of corporate behaviour and even of policy-making.

The pilot programme has immense practical value, but it may be useful to open participation in the pilot programme to key stakeholders who may provide feedback on the effectiveness of what the pilot companies are achieving and the appropriateness of the direction in which the process evolves as a result of the pilot programme. Such stakeholders would be the key anticipated/potential users of the integrated report, including major investors (such as large institutional investors with a long-term perspective), regulatory bodies, key sustainability stakeholders, etc. We believe this will provide invaluable input into the creation of a framework that is not only practical for report generators, but also usable by the anticipated audience of the report.

(b) As discussed above, this is a process that will take some time to resonate with all the different stakeholders. We believe that broad market consensus will be key to the success of the IIRC's work and thus we suggest that the pilot programme, as well as further engagements (particularly with key stakeholders in the process such as report producers, report users and regulators), should be prioritised as these will provide critical input into the creation of a practical framework.

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

- In the bulleted list on "Why do we need Integrated Reporting?" recognition should be given for the issues of poverty and increasing socio-economic inequality – the societal aspects in the Discussion Paper seem to have a predominantly environmental focus.
- We generally support the alternative pathways, but would caution against these being used by organisations as 'one stop' solutions, which may create unnecessary deviations from moving in the desired direction and inadvertently promote misunderstanding as to what integrated reporting entails (particularly that it is a more complex and difficult process than what it is intended to be). Confusion could arise from the difference between setting an aspiration that can be achieved over time versus the transition process to achieve that aspiration (this speaks to our earlier comment in relation to the *process* of integrated reporting and the *product* of an integrated report). It may be very useful to consider presenting the pathways as different stages in a process towards integrated reporting – such a 'roadmap' will enable reporting organisations to track their progress and give stakeholders insight into how they are moving ahead.
- We believe the Discussion Paper fails to address some important areas. It provides insufficient guidance on some of the practicalities of preparing an integrated report, which are necessary even at this early stage of the process. Some examples of issues that should be considered are:
    - More detail around identifying and addressing materiality, as set out earlier in this document.
    - A discussion about assurance. Basic guidance should be provided since many of the challenges that hamper the smooth migration to integrated reporting will also hamper the assurance of such reports. Briefly touching on the issue under "other perspectives" on page 24 is not sufficient.
    - Guidance on what financial information should be included, without being prescriptive on the detail.
    - Guidance on a statement by the company's board to accompany the integrated report, emphasising the need for the effective involvement of the organisation's leadership in the reporting process. This issue is explicit in South Africa through the recommendations of the Third King Report on Governance, as well as the South African Discussion Paper where it is stated that the "users of the report should be able to determine whether the organisation's governing structure has applied its collective mind…"