

14 December 2011

International Integrated Reporting Committee
Email: dpresponses@theiirc.org

Dear Sir/Madam

SAICA SUBMISSION ON THE INTERNATIONAL INTEGRATED REPORTING COMMITTEE'S (IIRC'S) DISCUSSION PAPER: *TOWARDS INTEGRATED REPORTING – COMMUNICATING VALUE IN THE 21ST CENTURY*

In response to your request for comments on the IIRC's Discussion Paper: *Towards Integrated Reporting – Communicating Value in the 21st Century*, attached is the comment letter prepared by Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics. The APC is the technical advisory body to the Accounting Practices Board (APB), the standard-setting body in South Africa.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Financial Reporting

cc: Moses Kgosana (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

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GENERAL COMMENTS

We commend the IIRC for the publication of the discussion paper on Integrated Reporting which is, to a large extent, an improvement and expansion of the South African Integrated Reporting Committee (IRC) Discussion paper issued in January of this calendar year. In general our participants were comfortable with the approach outlined, but there was concern regarding the approach undertaken by the IIRC in the development of its framework where it first asks high level questions about the framework which has not yet been developed. We would have preferred that the IIRC outline what the framework is, which could have been followed by a set of questions posed regarding this framework.

In order to fast track the global acceptance of this proposed Integrated Reporting Framework we would encourage that the IIRC reconsider its composition to include international standard-setting/regulatory bodies such as The International Organization of Securities Commissions (IOSCO), thus adopting a structure that is similar to that of the IFRS Foundation. Moreover we also suggest that the members of the IIRC should be representatives of bodies that have the ability to influence organisations to prepare an Integrated Report.

The sustainability and continuity of the IIRC in the longer term is a concern based on our reading of the current terms of reference of the IIRC which state that, "*The IIRC will continue to exist until its work is handed over to a new or existing body, or a decision is made by the IIRC to disband itself.*" Our suggestion is that the IIRC gives due consideration to the sustainability of the Committee to ensure that the quality of its work is not compromised over the long term.

SPECIFIC COMMENTS

The World has Changed – Reporting Must Too

Question 1

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

We agree that there is a need to improve how organisations represent their value-creation process. As indicated in the discussion paper this new initiative should be aimed at addressing a disconnect of the information that is provided under the various forms of traditional reporting. It should also improve inconsistencies and should act as a useful tool for investors who wish to compare performance between organisations in the same jurisdiction and those in different jurisdictions. Having said this, the resultant product of this action, which should be in the form of a framework, should not be mandatory but should be a framework that is made available for adoption on a voluntarily basis. It should be acknowledged that this action is something that will be achieved over time. As noted in the IRC discussion paper, Integrated Reporting is a journey.

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

We agree that the action should be international in scope given that the marketplace has become globalised. As noted in the response to question 1(a) above, it is more likely initially to assist in meeting the needs of investors particularly those who wish to be provided with information that will enable them to make a comparison between entities that operate in different jurisdictions. It is for this reason we believe that the initial scope of this discussion paper that is developed to serve the interests of these investors in mind should be narrowed down to include only large multi-national organisations. However, the framework should be developed based upon a sound set of principles that will also form the basis of establishing a future framework that will scope in other organisations such as small and medium enterprises. Whilst international in scope, local jurisdictions should have the authority to place an emphasis on certain reporting requirements within the framework, if considered necessary, in order to cater for the local circumstances that are not seen to be widespread internationally.

Towards Integrated Reporting

Question 2

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

We agree with the definition generally, other than one portion of the definition provided on Integrated Reporting, as it is unclear to us what is intended by the use of the term “*commercial environment*”. We understand “*economic environment*” to have a broader definition than “*commercial environment*” as evidenced in the IRC’s Discussion Paper. We request that the IIRC defines the term “*commercial*” in the context of the proposed framework in order to eliminate any inconsistencies in practice that may arise.

An International Integrated Reporting Framework

Question 3

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

We support the development of an International Integrated Reporting Framework. The framework will assist in driving the consistencies and comparabilities (as far as is possible) that are necessary for Integrated Reporting to be successful. However, as indicated previously, we would have preferred the discussion paper to have included more detailed outlining the Framework.

Question 4

(a) *Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/why not?*

As noted in the response to question 1(b) above, Integrated Reporting is more likely initially to assist in meeting the needs of investors, particularly those who wish to be provided with information that will enable them to make a comparison between

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entities that operate in different jurisdictions. With this objective in mind the initial focus should be narrowed down further to include only large multi-national organisations and this should be extended to other organisations over time. Similar to our response to question 1 above, the framework should be developed based upon a sound set of principles that will form the basis of establishing a future framework that will address the reporting requirements of other organisations.

We support the stance taken in the discussion paper that the initial focus be placed on the needs of investors. At the stage when the IIRC decides to consider the needs of other stakeholders, the framework may need adjusting to ensure their needs are specifically addressed. The comments received from various respondents for Question 9 will then have to be further considered.

However, some of the participants were not supportive of the proposal to narrow the scope as set out in the discussion paper as they were concerned this view seemed to be short-term rather than long-term, specifically when it is reasonably certain that Integrated Reporting will have to evolve over time to consider the reporting requirements of all relevant stakeholders.

(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?

The concepts underlying Integrated Reporting should be equally and consistently applicable to small and medium enterprises, the public sector and not-for-profit organisations with public interest. There was a concern that it could be difficult for smaller and medium enterprises during the early years of adopting this Integrated Reporting Framework to produce an Integrated Report, due to resource and capacity constraints. In our view, when developing an Integrated Reporting Framework that takes into consideration the needs of small and medium enterprises these limitations should be borne in mind.

In page 9 of the discussion paper it is implied that Integrated Reporting will encourage the use of technological innovations including XBRL. We note that other technological innovations that would cater for non-financial information will have to be explored, because XBRL is currently aimed purely at quantitative financial and sustainability information.

Business Model and Value Creation

Question 5

Are: (a) the organization's business model; and (b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/why not?

We do not agree that the “*business model*” should be used as the term for one of the central themes of the future direction of reporting, because it is a term that is often interpreted in practice to refer to organisations that exist for commercial reasons. Use

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of this term may unintentionally scope out organisations such as not-for-profit organisations and public sector organisations that may not exist for this purpose. In our opinion, 'value creation model' is a more suitable term to be used as a central theme for the future direction of reporting as it encapsulates all organisations including those whose object is not to generate returns.

The organisation's ability to create and sustain value in the short, medium and long term' is appropriate as a central theme for the future direction of reporting.

Question 6

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

We agree with the move from the traditional focus on only financial capital to reflecting multiple-capitals.

Guiding Principles

Question 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?

In page 6 of the Discussion Paper it is stated that Integrated Reporting is intended to combine material elements of information currently reported in separate reporting strands. In reading the Guiding Principles there appears to be an overlap of these principles with some of the International Accounting Standards Board's *Conceptual Framework for Financial Reporting* qualitative characteristics and the *Global Reporting Initiative's "G3.1" Sustainability Reporting Guidelines*. As the Integrated Report is intended to bring together material information from different reports, in our discussions it was unclear whether a new set of guiding principles for the Integrated Reporting Framework should be established or whether they should be fully aligned with those of the *Conceptual Framework for Financial Reporting* and the *Global Reporting Initiative's "G3.1" Sustainability Reporting Guidelines*. The latter is our preferred approach and the Framework that is developed should reconcile the principles.

In addition to the guiding principles proposed we recommend that the IIRC considers including 'verifiability' as one of the guiding principles for preparing an Integrated Report. This is a concept that is referred to in the *Conceptual Framework for Financial Reporting*, as one of the enhancing qualitative characteristics.

"*Future orientation*" and "*strategic focus*" seem to be closely linked and from our reading of the requirements under each of these principles there was, to a large extent, similarities between the two. Accordingly we feel that the IIRC should reconsider the relevance of having future orientation as a separate guiding principle as most of what is required under this would be addressed in strategic focus.

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In addition to the comments above, the identified principles should merely act as guidelines that enable thinking and should not be prescriptive.

The last paragraph of page 13 states “*While reliable information needs to be complete, neutral and free from error, it is recognized that this is seldom, if ever, achievable in every respect, so the objective is to maximize these qualities to the extent practicable, for example, by ensuring that any negative issues are as faithfully reported as positive ones...*” We would suggest that the framework focuses on the judgement management would make in determining whether information is reliable in its context and whether there are material discrepancies that could impact on the reliability of the information. We are concerned that the conclusion reached that disclosing complete, neutral and error free information is seldom possible, and therefore appears to condone inaccurate or misleading reporting.

Content Elements

Question 8

Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added? Why/why not?

The content elements in the Discussion Paper are appropriate with the exception of “*future outlook*”. Similar to our comments on future orientation in question 7 above, we believe that some of the requirements in “*future outlook*” are already captured in ‘strategic objectives and strategies to achieve those objectives’ and therefore will be redundant.

We also propose that the IIRC include additional guidance under the “*Performance*” element that will require entities to provide relevant benchmarking information including that on industry or competitor benchmarking and an explanation on how the Key Performance Indicators and Key Risk Indicators (KPIs and KRIs) will translate to individual material entities within the organisation that are reported on in the Integrated Report.

It appears that there is a missing discussion on how the content elements are related and an introductory sentence under each content element linking it to the others could be useful.

What Will Integrated Reporting Mean for Me? (Reporting organizations, Investors, Policy-makers, regulators and standard-setters, Other perspectives)

Question 9

From your perspective:

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

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Reporting organisations

Participants from reporting organisations raised concerns with the manner in which the benefits were expressed. They were of the view that the benefits could rather be described as 'perceived benefits' despite the fact this was based on research conducted because it was believed that this research may not be conclusive. They also questioned how trust with key stakeholders would be improved with less information provided in an Integrated Report compared to traditional reporting.

Investor Perspectives

With the benefits mentioned, it is important to note that the Integrated Report might in most circumstances be used only as a preliminary report to make an initial assessment for making effective investment decisions.

Policymakers/Regulators/Standard-setters

We agree with the involvement of these parties in the development of an Integrated Reporting Framework and their contribution should be taken into consideration, but care should be exercised in ensuring that their influence does not give rise to a rules-based framework.

Other Perspectives

We agree with the views presented in the discussion paper on other perspectives notably that which recognises that it may be more difficult to assure information on the Integrated Report.

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

We agree.

(c) *Do you agree that Integrated Reporting will drive the disclosure of information that is useful for integrated analysis (from the perspective of investors)? Why/why not?*

We agree.

Future Direction

Question 10

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

We do not agree with the sequence of the actions that will be undertaken by the IIRC going forward. We would prefer that the development of the framework and the pilot programme should run parallel to ensure that the potential issues with the framework are dealt with timeously. All other actions can be undertaken as planned.

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

We prefer that the development of the Framework and the pilot programme should be given first priority. In second place would be achieving harmonisation by involving

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the appropriate organisations or individuals in the development including international standard-setters such as IOSCO and to formalise their participation.

Question 11

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

We have the following additional comments:

- Similar to the GRI guidelines, we request that the IIRC consider the possibility of developing industry specific integrated reporting frameworks.
- As regards smaller companies who intend adopting the Framework we believe that more prescriptive guidance is required.

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