



Our Ref.: C/SIRAG

Sent by email to dpresponses@theiirc.org

14 December 2011

International Integrated Reporting Council

Dear Sirs,

**[IIRC Discussion Paper:
TOWARDS INTEGRATED REPORTING *Communicating Value in the 21st Century*](#)**

The Hong Kong Institute of Certified Public Accountants (the Institute) is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned discussion paper. Our responses to the specific questions raised in your discussion paper are set out in the Appendix for your consideration. In addition we have a number of general comments and observations.

The Institute is supportive of studies and discussions that help to explore ways to improve the quality of corporate and financial reporting, and to better address, in a balanced and cost effective manner, the reasonable and legitimate needs of various stake-holder groups. In this regard we believe that the IIRC has embarked on a very worthwhile and ambitious project to introduce and develop a new concept in business reporting.

We view the discussion paper as primarily an aspirational piece of work that sets out a vision and proposes a definition of integrated reporting and starts a discussion seeking agreement on objectives and what should be the next steps. The work of IIRC is forward looking and it raises some very thought provoking issues and proposals that could have significant implications for many stake holder groups, including the accounting profession. The ambition of the proposals is huge and there needs to be very careful management of the development process to ensure full engagement and commitment of the many stakeholder groups.

The IIRC should carefully consider all existing work that will have relevance to and may prove an important building block in development of its proposals. In particular the IIRC should integrate the experience and knowledge of the Global Reporting Initiative (GRI) into its work. There have been and will continue to be debates about the details of the GRI, but 2,000+ companies currently find value out of using it, key players in the investment chain such as Bloomberg use it as the reference framework, governments have referenced it as best practice, and GRI has spent 15 years consolidating the experience of many different experts from around the world into its standards.

The discussion paper focuses very much on the "destination" of an ideal model of integrated reporting and does not reflect on the "journey" that will have to be undertaken to get there. Given the number and variety of stakeholders that are involved we suspect that further consideration of the detailed steps that will take us to the ultimate goal will have to be undertaken to ensure engagement and commitment of



all stakeholders. We suggest that the IIRC reconsider its intention to issue an exposure draft in the second half of 2012. Moving to this stage takes the project into the realms of standard setting and we feel this may be too early to take this step. All responses to the discussion paper will have to be carefully considered and analysed and with output from the pilot programme, which we understand will not be completed until 2013, may indicate the need for further consultation or communication before developing an exposure draft.

The next step to take may be to identify key questions that have been highlighted by the consultation and pilot programme and to spend some time and effort on providing answers to address the concerns of stakeholders. In our view some questions that are raised by the discussion paper but not addressed include, but are not limited to:

- Are value creation and the concept of multiple capitals the right concepts to base the framework on?
- Do stakeholders have a common understanding of the multiple capitals?
- How does the incorporation of more information into mainstream corporate reporting balance the often stated objective of reducing clutter in reporting?
- How prevalent are standardised metrics for non-financial performance?
- How can the concept of materiality be applied to non-financial information?
- Who will set the framework standards or benchmarks and how can this be reconciled to current standard setting organisations and frameworks?
- Will there be assurance requirements for integrated reports, and if so what would be the required level of assurance on non-financial data?

As stated above the Institute is committed to participate in all significant initiatives that may affect the future professional lives of its members and the wider business community in Hong Kong. We recognise the ambition of the IIRC initiative and the potentially significant changes it may bring to corporate reporting. In this respect we urge that sufficient time is taken to fully consider all responses to the consultation, outputs from the pilot programme and all potential implications of the IIRC proposals.

If you have any questions on our comments, please do not hesitate to contact me at chris@hkiipa.org.hk.

Yours faithfully,

Chris Joy
Executive Director

CJ/dy

Encl.

**RESPONSE TO IIRC DISCUSSION PAPER:
TOWARDS INTEGRATED REPORTING *Communicating Value in the 21st Century***

Q1.

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

Yes. To the extent that it is becoming widely accepted that value creation and sustainability are key to organizations success it is important to consider how these matters can be represented and reported in a manner that does not focus primarily historical or short term financial returns.

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

Business is conducted on an international scale and therefore any action on a new reporting framework should recognize and address the international nature of business. Financial reporting standards are already moving to international application and the value of allowing investors to make comparisons of consistently prepared information across international markets is well recognized.

Q2. Do you agree with the definition of Integrated Reporting on page 6 of the discussion paper? Why / why not?

This is quite a detailed explanation rather than a definition of integrated reporting. There needs to be a clear statement of what integrated reporting does and what benefits it brings.

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

Yes, as explained in the answer to Q1. However, it should be exactly what it says – a "framework" – based on principles that allow reporting entities to start at an appropriate level and build up to more detailed and higher quality reporting as appropriate. Entities should be encouraged to identify matters that are material to their sustainability and focus on reporting on those matters as a priority. There would be a danger in promoting just a single all embracing model that many entities would be discouraged from engaging with the project.

Q4.

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

Yes. Larger companies have the biggest impact on economic and environmental sustainability and investor influence over such entities is a crucial area to utilize. There may have to be extensive education and communication to persuade investors to accept that there are benefits to them in setting sustainability and integrated reporting as a priority.

However, the framework should be developed so that smaller entities can adopt integrated reporting on a scale and in a manner that suits their business and governance structure. Smaller entities may struggle to cope with the "top of the line" model and provision should be made for different levels of adoption.

As noted in the response to Q3 care needs to be taken to ensure that the application of the framework is "scaleable" and that smaller entities are not effectively excluded from its use. The consultation and development stage should be all inclusive to give a clear message that this is not just for larger entities, although it will inevitably be larger entities that take the lead.

- (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, but this will need to be clearly explained at a conceptual and principle level and it must be clear that it is not a requirement to adopt a "gold standard" of integrated reporting from the very start. Organizations should be encouraged to identify and focus their reporting on matters that are material to their long term sustainability and draw what is necessary from the framework to facilitate that reporting.

- 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?**

Both are appropriate themes for reporting. Addressing short, medium and long term perspectives is also important.

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

The concept is helpful for understanding the discussion paper. It may not be appropriate to rigidly structure reporting around the six capitals as they are often inter-related and will not all be relevant to all organizations. The paper acknowledges this.



- 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?**

The guiding principles are appropriate – collectively and individually. However, there may be some concern expressed over information disclosed under the principles of strategic focus and future orientation in respect of commercial confidentiality and director liability. It is not clear the extent, if any, to which information expected to be disclosed would be more commercially confidential than is disclosed under current reporting frameworks. There may also be a concern that estimates and opinions about future activities and events given by directors could result in liability for claims for damages from stakeholders. The paper mentions "safe harbor provisions" which should be given further consideration if liability concerns prove to be a barrier to entities taking up integrated reporting.

- 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 contents follow on logically from the principles and are therefore appropriate, subject to the same concerns expressed under Q7. Responses to the discussion paper will provide a better picture of how various stakeholders view the relative importance of different content elements.

- Q9. From your perspective:**

Policy-maker, regulator and standard-setter

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

The point on stewardship of common resources may be a benefit that will derive from integrated reporting. The other four benefits are objectives that are being reached for under any number of initiatives. If integrated reporting can contribute to achieving these then it will be worthwhile.

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

The issues identified will be significant challenges. Additionally, regulators and standard-setters will need to ensure that the reporting framework is principle based and flexible enough to accommodate all sizes and types of entity in a practical and meaningful way. A degree of regulatory leverage may be helpful in persuading entities to take up integrated reporting but



forced imposition of an overtly rigid and complex framework will not deliver the benefits that are hoped for.

There will need to be significant work undertaken to bring the various elements of current standard setting and regulatory frameworks into a common position if the intention is to develop a single standard setter for integrated 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 added?**

The "transition" period will be vital in getting integrated reporting understood, accepted and brought into the mainstream of corporate reporting. The actions listed will all have to be undertaken and the output of the pilot programme will be extremely important in providing information that integrated reporting can be achieved and is of value to companies, investors and other stakeholders. It may be worth considering extending the pilot programme, at some time, to smaller entities as part of the work that will have to be done to prove this applies to them as much as large entities. (See previous comments about a framework that can be adapted to entities of different size, complexity and maturity.) The IIRC may need to consider its proposed timetable. Given the amount of information that is likely to be generated by this consultation and the pilot programme, the second half of 2012 may be too early to move to the stage of an exposure draft.

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

All steps will need to be progressed at pretty much the same time. The pilot programme is already underway – necessarily so due to the time before results will be available. Outreach is also vital – there needs to be a lot of educational work done to ease the concepts of integrated reporting into the everyday thinking of all stakeholders.

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

No further specific comments. Please see the covering letter for some general comments and to clarify the context in which the questions above have been answered.

~ End ~