JOHANNESBURG STOCK EXCHANGE

7 December 2011

The International Integrated Reporting Committee
Email: dpresponses@theiirc.org

Dear Sir/Madam

COMMENTS ON DISCUSSION PAPER ("DP") ISSUED BY THE INTERNATIONAL INTEGRATED REPORTING COMMITTEE ("IIRC")

We refer to the International DP on Integrated Reporting that was released for public comment in September 2011. We applaud the international support for the evolution towards integrated reporting, a development which we believe is a critical one, and thank you for the opportunity to provide input into the guidance to be provided in this regard.

Background

The JSE Limited ("JSE") is licensed as an exchange in South Africa under the Securities Services Act 36 of 2004. The JSE takes its commitment to strive towards an integrated view of sustainability and financial performance and demonstrating leadership to our clients in this regard, very seriously. This commitment also informs our involvement in the local and global debates around these topics.

Over the last number of years, the JSE has initiated and been party to a wide array of initiatives and projects promoting a focus on this integrated view of sustainability and finance. These efforts have taken a multi-pronged approach and include:

- mandatory listing requirements on (amongst other things) financial reporting, corporate governance structures and the use of accredited advisors for IFRS reporting;
- listing requirements for companies to report, on an "apply or explain" basis, the extent to which they apply the Third King Code on Corporate Governance ("King III"), which includes a recommendation for companies to move towards integrated reporting;
- structural facilitation of standardised, comparable financial reporting through the positioning of the JSE as a hub for using XBRL for IFRS-aligned reporting;
- the launch of the pioneering Socially Responsible Investment (SRI) Index as a first in emerging markets and the first to be owned by a stock exchange, which has aided significantly in the crystallisation of environmental, social and governance (ESG) imperatives, particularly in the South African context.

role in promoting high quality reporting by issuers, which will provide investors and other stakeholders with relevant information.

It is within this context that we wish to raise some concerns that we have about the direction which the integrated reporting discussion seems to be taking internationally. These concerns are raised in the first section of our comment letter. The second section of our comment letter deals with the more detailed questions set out in your DP.

You will note that some of our comments may seem divergent from those expressed in the comment letter submitted by the Integrated Reporting Committee of South Africa ("IRC of South Africa"), of which we are a member. As set out in that comments letter, the IRC of South Africa reflects a broad spectrum of organisations who are involved in working towards providing guidance on integrated reporting in the local context. We support many of the comments submitted on behalf of the IRC of South Africa, and will continue to work together in developing an approach that would be appropriate for the local context and aligned internationally to the extent possible. However, there were some issues of principle on which the JSE felt differently to the broader IRC, and it was therefore deemed necessary for the JSE to submit separate comments, which we do with the support of the IRC of South Africa.

SECTION 1- CONCERNS OVER DIRECTION OF THE DISCUSSION

Vision expressed by the International DP

It is evident from the international DP that it views the integrated report as -

- a separate reporting pillar (separate for example from the likes of management commentary)
- resulting from a separate reporting process;
- becoming the primary document.

Two other noteworthy points from the international DP are that it:

- focuses on an integrated reporting model for large companies and assumes the concepts will naturally flow for smaller entities; and
- seemingly contrary to a vision of a separate additional reporting process and resulting report, states that the integrated report will reduce the reporting burden and build on existing reports.

The international DP does much to promote the concept of integrated thinking, which we applaud, however, this approach is not reflected in the diagrams, which seems to perpetuate a silo approach to reporting – and introduces yet another process alongside those already in place, rather than one that encompasses all current reporting processes.

Concerns with this approach

The JSE is concerned about the vision that is being promoted for the following reasons:

- Integrated reporting is a journey and while guidance is necessary, it would be premature to dictate one final view of the end product – this will stifle natural evolution of the process.
- Similarly it is premature to try to impose regulation thereon.
- It may also be premature to believe that the integrated report will or even should be comparable, especially in the initial phases of progression. Integrated reporting, by nature, intends for entities to report on the specifics of their business, how value is earned, what significant issues are, how risks are managed, etc. By design, this implies that the integrated report of one entity will be different to that of the next. Comparability therefore is not an inherent benefit of integrated reporting and any guidance or framework in this regard cannot promote a "one size fits all" template approach.
- Further, since price formation in the capital markets is mainly driven by quantitative and financial information, with the proposed vision of an integrated report with limited financial information, it would be unsound capital market practice to promote the concept that the primary communication to investors should be unregulated and presented outside of the context of other entity information.

We believe that the key focus of integrated reporting should be on the evolution process rather than the end product, working towards developing integrating thinking throughout the organisation. The aim should be to evolve the current reporting approach such that it reflects the various linkages between the multiple capitals, rather than a number of separate reports, which may remain unlinked.

Creating a separate report through a separate reporting process, potentially away from traditional reporting -

- does not promote integrating thinking across the business;
- reinforces a silo approach to reporting;
- detracts from a vision of reporting becoming less voluminous but more relevant.

Reporting is often viewed as a compliance process. To require a separate additional document:

- stifles the ability of companies to tackle integrated reporting through expanding their existing reporting;
- perpetuates the compliance approach to reporting;
- is an additional burden for smaller and medium-sized entities (which arguably comprises more than half of the JSE-listed companies which have a market capitalisation of less than ZAR1 billion and a third of which are less than ZAR300 million in size).

Unlike many other jurisdictions, South Africa does not have detailed mandatory management commentary requirements. We support the approach set out in King III which envisages the integrated report as being a new way to present the traditional annual report, resulting from a process of integration that should already be taking place at the grassroots levels of reporting.

This also presents an opportunity to encourage (particularly smaller) entities to improve their current reporting by adding integrated management commentary to the annual financial statements, and may arguably be the most appropriate context to explain to stakeholders how strategies have impacted the past results and why future strategies are being implemented.

The international approach has the potential of leading to another voluminous corporate document, the creation of which may become outsourced and may not necessarily deliver any meaningful information to stakeholders, instead of evolving from a true process of introspection.

Regulators are often first to see and understand the benefits of collecting and exchanging information in an integrated and interactive data format. The JSE envisions a process whereby disclosures across the various areas of strategy, sustainability and finance are expanded where necessary, but also become more focused on material relevant information which is then reflected in an integrated (and potentially web-based) format, providing key stakeholders with access to all relevant detail that they may require. It may be possible, and in fact desirable, to produce a "summarised" (abridged/condensed) version of this integrated report (as may be deemed necessary in relation to certain key stakeholders).

SECTION 2- RESPONSE TO DETAILED QUESTIONS

The world has changed - reporting must too (Question 1)

We agree that there is a value proposition for entities to report in a more integrated manner.

Given the historical development of accounting frameworks it seems to be logical to aim for international convergence. We note however that one of the criticisms levelled at current reporting is that it is compliance driven. The objective of trying to have an international framework on integrated reporting could lead into the same trap of compliance reporting. Specifically, despite the statements made around the importance of integrated thinking, the DP then focuses extensively on the report and lacks a focus on the integrated reporting process.

One of the big challenges with an international framework will be the manner in which data is collected. An international framework might not necessarily lead to comparability between entities. Also see our comment in this regard in Section 1 of this comment letter.

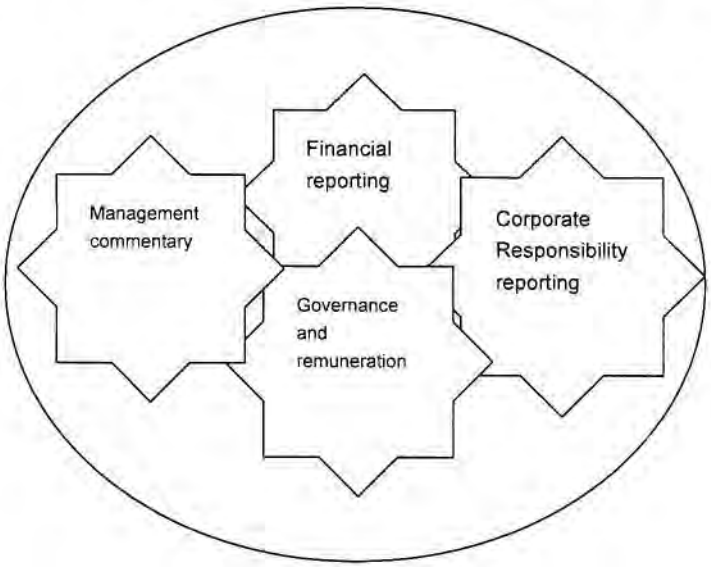
Towards Integrated reporting (Question 2)

With reference to the diagrams of the evolution of corporate reporting, we disagree with your 2020 vision as set detailed below:

International DP vision	The concern/inherent contradiction
The integrated report will reduce the reporting burden.	Requiring entities to produce a separate additional report increases the reporting burden rather than reducing it.
It brings together material information currently reported and reflects integrated thinking.	If the material currently reported does not reflect integrated thinking, one cannot just bring existing information together to form an integrated report. . Instead, the integrated report should reflect existing information that has already been integrated at the process level, i.e. the focus should be on Integrated thinking (the process), not purely on what the final report looks like.

The report enables both market driven and regulatory requirements to be organised in a coherent narrative, providing a clear reference point for other information.	One criticism of current reporting is that it is compliance driven. The integrated report has the danger of falling into the same trap if it is to be linked into regulatory requirements.
Management commentary is still a separate cog.	In the body of the international DP we noted that at least 5 of the key points for the IASB practice statement "management commentary" are noted as being the key elements for the integrated report (see par 24(a)(b)(c)(e) of the IASB paper). With this in mind it is strange to ask for a separate, additional management commentary report
It will become an organisation's primary report.	It would be unsound regulatory practice for the primary report of an organisation to be unregulated. If it is to become the primary document then it must be regulated, and then falls back into the same trap of current reporting.
The IIRC wants to forge consensus on the direction of reporting and is collaborating with the various reporting organisations, yet want the integrated report to be a separate report.	If it is cast as a separate report the integrated report could fall victim to being another compliance document, outsourced to someone to prepare. An integrated reporting process should be driven by the governing body of the organisation, take place across the entire organisation and be reflected in the manner in which all reports of the entity are generated.

We believe that the international DP's 2020 picture of corporate reporting is perhaps just a step in the evolution process and not the final picture. The final picture should rather look like this:



The concept of what should be included in an integrated report generally, and specifically for every organisation, will evolve over time. We therefore do not believe that it is appropriate to issue and enforce detailed regulation on integrated reports at this time. At its best, integrated reporting practice will be aspirational. We therefore have serious concerns with the suggestion that the primary report of entities will be a separate and entirely unregulated report.

If the integrated report is the primary reporting mechanism, we do not believe that a reduction of information can be justified. Our concern is mostly around the reduction of financial information, but also extends to non-financial information. Assessing materiality will be very difficult and certain issues may be immaterial to investors, but would be important for other stakeholders. The decision regarding what to exclude from the integrated report will therefore be very difficult and could potentially result in a misled market.

Proper price formation of securities traded on an exchange occurs primarily based on the financial results of the issuer and there is no doubt that analysts require the IFRS information. We therefore do not support the suggestion of a reduced and unregulated approach to financial reporting in the integrated report. Our concern is compounded by the proposal that the integrated report is to be the primary report for the focus of the user. We do not believe that relegating the annual financial statements to a separate annexure (accessible for example at the user's request) is the correct approach.

It is important not to create another layer of reporting and therefore increasing the burden on issuers. This relates to all entitities, but specifically smaller entities who lack the capacity to do more than just one single report. The suggestion that the integrated report should be a new, separate report is therefore of concern to us. To create a separate report would also encourage issuers to continue reporting in silos where there is financial reporting in one block, environmental and social in another, and governance and compliance in another block. We are not advocating that issuers merely lump financial, environmental and social information together. Instead, we believe that by using the annual report as the anchor for reflecting disclosure of material issues resulting from a broader (and integrated) reporting process across financial and sustainability matters, issuers will be better able to connect sustainability matters to financial performance over the longer term. The integrated report should be used by management to provide focused relevant "stories" which help guide the reader through the more detailed information. Those focused messages would inform the reader how management has applied its mind to the questions of sustainability within the context of the organisation.

Furthermore with technology, the focus should be more on the substance and accessibility of material information and less on the form of the integrated report..

An International Integrated Reporting Framework (Questions 3 and 4)

We support the process of integrated reporting, one which should be internalised and embedded in the entity's strategy.

The danger of creating an international framework is however that organisations focus on a report, the form, and not the reporting process which is the substance of what they should do. Specifically because of the 2020 vision set out in this paper, the silo approach is likely to become even more entrenched and to be expanded

through an additional silo for the integrated report. On page 9 the DP states that integrated reporting reflects and supports integrated thinking, demonstrating the extent to which it is occurring. The proposal in this DP could lead integrated reporting into becoming another regulatory obligation for entities. Entities will prepare integrated reports to comply with the form thereof, irrespective of whether they are applying integrated thinking.

Insofar as it relates to Q4(a), while the concept of integrated thinking must be applicable to entities of all sizes and types, the problem with focusing a framework on large organisations is that this leads to the assumption that the information is in fact all there and that there may even be excess information. The focus in this approach is therefore to make information more concise. For a smaller organisation, many of the separate reports referred to may in fact not be prepared. For small owner/managed businesses, the reporting of this level of information to themselves would be meaningless. The focus should be on integrated thinking and the resultant integrated reporting and not merely on the integrated report itself.

By looking at the narrow needs of investors, the integrated report does assist in achieving the DP's objective of a single separate report. The needs of investors are however not the same as those of other stakeholders. Materiality in the context of different users is very different. Again, this is where we are of the view that the DP is deficient. If the integrated report is a holistic presentation of the entity's information in an integrated manner, with the correct technology interface any user can find the exact information that they need and would therefore not need a separate report to be prepared for them. The facts should all talk to each other.

Question 4(b) is contradictory to Q4(a). If the IIRC believes that the concepts apply equally across all entities irrespective of size and across all types of organisations as implied by this question, the focus is in fact not only on large organisations and the needs of investors.

Business Model and Value Creation (Questions 5 and 6)

We believe that the concept of multiple capitals and the inter-connectivity between them is an extremely helpful tool in getting an entity to explain how it creates and sustains value. In our view this should form the basis of an integrated reporting framework.

A criticism of financial reporting is that entities prepare information to ensure regulatory compliance, but might not value the information themselves. More especially, it is meaningless to stakeholders who lack financial training. From an external stakeholder perspective, the criticism with the existing reporting model is that the narrow financial focus distorts the view of what is important and it allows management to put "a spin" on the figures to give credibility to their own actions. A focus on the business model and getting entities to present information through the eyes of management would seem to be a good alternative reporting model.

Getting organisations to merely report on how they do things will however not necessarily move them to focus on scarce natural resources. An integrated reporting process needs to be embedded in the organisation in order to prompt a deeper thought process about what drives their business strategy and that the value chain is, dependent on aspects such as natural resources. The integrated reporting model should therefore not merely rely on reporting through the eyes of management, but should give clear guidance to ensure an explanation of the inter-connectivity between financial and other aspects of the business. The DP states that the resources and relationships are different forms of capital and that their availability and strength support

the long term viability of the organisation. We believe that the concept of multiple capitals could prove to be very useful.

There is one danger with regards to the concept of "through the eyes of management". Regrettably, we have found that this concept has not been fully embraced by entities. IFRS 8 attempts to achieve the goal of reporting through the eyes of management, but we have found that many organisations are very concerned about its implications in terms of the strategic information they make available to competitors. A drive for integrated reporting to be through the eyes of management could exacerbate this concern. Management might focus on profits derived from a product, without necessarily disclosing to stakeholders the impact of that product on society. Therefore, a strong focus on the idea of multiple capitals is crucial to the success of integrated reporting.

Furthermore, in terms of the work we have done with our SRI Index, we have found that disclosure of quantitative information and performance against sustainability metrics remain a challenge for even larger entities, given the complexity of this area, and so any approach towards integrated reporting must leave room for evolution of these matters.

As a comment on the detail set out in this section - we found the definition of intellectual capital confusing, as it is also used to refer to human capital. The term intellectual capital often refers to the difference in value between tangible assets and market value. Perhaps intangible capital would be a better term to used in the context of these definitions. Furthermore, infrastructure is not manufactured by the entity itself.. In this context it would be better to split out public capital. Public capital is the body of government-owned assets that are used to promote private industry, including roads, railways, airports, water treatment facilities, telecommunications, electric grids, energy utilities, etc.

Guiding Principles (Question 7)

Principles should be the fundamental underlying rule or code of conduct. From a corporate governance perspective (for example in the context of King III) entities must either explain how they have applied the principles or why they have not applied a principle. The principles create a vision of what is being aspired to. From an accounting perspective, principles-based standard setting gives a vision of direction and what the morally desired outcome should be. With this in mind, we are concerned that the DP does not focus on the correct principles. We believe that the focus on an integrated process is the core principle, with a framework laying the foundation and providing transitional steps for achieving broad-based integration, instead of focusing on the content of a single report. A focus on multiple capitals and their inter-connectivity should be a sub-principle of the core process.

Our comments on some of the specific principles in the DP are set out below:

1) If the entity's strategic focus is not on all the capitals, the integrated reporting process will not have the desired outcome.
2) Whilst there is criticism that current reporting is often backward looking, an entirely future focused report is equally undesirable. Entities are responsible for and must be held accountable for their past actions as well as their future strategies.
3) The focus on the organisation's business model (under the heading of social capital) already addresses the issue of stakeholders in the DP. Social capital is just one aspect and as such an understanding and

focus on the various capitals is a better principle. The definition of social capital should perhaps also be expanded to include "the organisation's understanding of and response to the needs of its stakeholders".

4) Reliability and comparability are two different things. Information that is reliable at a point in time will not necessarily be comparable now or in the future. A better principle is faithfully presented. This means that the information must present an accurate an unbiased view of matters, "faithful" meaning consistent with the truth, in an honest manner.
5) As it relates to materiality and conciseness, the DP gets trapped in the confines of the form of the report and not the substance of an integrated reporting process. Conciseness can be achieved through web-based technology whereby users can extract the information needed. Conciseness can also be achieved through the preparation of a summary integrated report.
6) Materiality has different meanings within different reporting frameworks and would therefore need to be defined. It is the threshold at which an issue becomes sufficiently important that it should be reported, because the disclosure of such information might cause a stakeholder to come to a different decision. The concern seems to be to avoid providing excessive information. A more encompassing principle is that there should be a crisp message, focusing on key aspects.
7) Following from point 6 above, we believe that, with the correct use of technology, the objective of presenting information in a more user friendly manner can be achieved. This provides the opportunity to cut across different user groups for the reader to extract the information that they require. For this process to be successful it is crucial that all the information is connected and that information extracted electronically from one source does not conflict with information obtained from another. The key is a focus on substance and not the form of the report.

We therefore believe that the key principles should be:

1) Connectivity/integration of information;
2) The interaction between and inter-connectivity of all 6 capitals and the entity itself;
3) A balanced view of both future orientated information and information reflective of past actions and results;
4) Faithful presentation of key issues; and
5) A focus on the integrated reporting process and not the form of the report (which can be achieved through technology enabled for specific users needs).

The DP argues that the principles should be applied to determine the content of the integrated report. We do not see the natural link between the 5 principles in the DP and the suggested content elements. We believe that our proposed principles lead to a better flow. For example:

- In the heading of content elements it states that "explanations of material changes since prior reporting periods are particularly important. Whilst none of the proposed principles speak to this issue we believe that our proposed principle 3 does.
- The content proposed under "performance" again does not flow from any of the DP's principles, but would flow from our principle 2 and 3.
- Similarly the business model and operating context flow explicitly from our point 2, but not from the DP's principles.

Content elements (Question 8)

Some of the proposed content elements seem to replicate the content of the IASB's document on management commentary, where par 24 (a) to (e) sets out the elements of management commentary. As discussed above, this raises questions as to why an entity should, in terms of the 2020 vision, produce an integrated report in addition to and separate from management commentary. Such an approach is contradictory to the concerns raised that users are receiving too much information.

Furthermore, whilst the proposed content elements are useful, the detailed explanation of each element leads to too much of a regulatory approach and again falls into the same trap as current reporting regulation.

A potential alternative approach would be that an entity produced its management commentary using the guiding principles as discussed before. This would ensure that the stakeholder information is presented in an integrated manner. A discussion of the operating context or the strategic objectives, without focus on the 6 capitals (our proposed principle 2) will be meaningless from an integrated reporting perspective.

The only element not flowing from the management commentary document is "governance and remuneration". These aspects should automatically be covered by an entity to the extent that they are reporting on corporate governance. Furthermore, it is also part of an entity's reporting on its structures and processes. A matter such as remuneration is also covered by either IFRS requirements, on a materiality basis, or by regulatory requirements. Therefore, again there should be no duplication. Instead it is the manner in which this information is presented that needs to be guided by the integrated reporting principles.

These points all tie into our proposed final vision diagram as set out above. It is not necessary to have detailed element contents as the objective is to present the current silo information in an integrated manner.

What this content element section of the DP (together with the subsequent examples) does is to give a clear picture/example of how the various elements of the silos can be integrated.

What will integrated reporting mean for me - policy makers, regulators and standard setters (Question 9)

From a policy maker's perspective we agree with the benefits contained in the DP, but wish to comment further thereon, as set out below.

As it relates to the heading of harmonisation of approaches and reduced red tape, we believe that this area is the key direction the IIRC should be driving. This should be the focus, as opposed to merely repeating the content already contained in other standards (e.g. management commentary). The focus should be on providing clear principles that when regulators and standardsetters review or amend their legislation, regulations or standards, it is driven with these principles in mind. Both the entities producing financial reporting and regulators should be subscribing to the principles of integrated reporting. Both should be able to make positive statements to this effect. By way of example, both IFRS and GRI should be driving to the reduction of the level of excessive disclosure and complexity. This would be in line with our principle 4.

One of the biggest challenges with regards to the integrated reporting model proposed in the DP is the concept that there will be a separate primary report. Regulators will be particularly concerned about the potential abuse of the integrated report for the creation of misleading views by an entity.

If we were to put ourselves in the shoes of a reporting organisation, we would suggest that the commercial confidentiality will be a key challenge.

From an investor perspective we agree with all the benefits, except for the content of the comparability heading. Comparability comes from detailed regulation. As mentioned before, a well established integrated reporting regime, by nature, is not designed to achieve comparability. It is also not clear, as stated in your DP, how IR will result in better comparison of bribery and corruption issues.

In terms of other perspectives, we believe that our principle 5 is crucial in order for integrated reporting to have a meaningful impact on all stakeholders. The type of information that an employee would like to see is very different to that of an investor.

Although the DP does not have a specific question thereon, we found the "alternative pathways to integrated reporting" to be extremely useful from an implementation perspective. Whilst we have concerns with the opening statement about the integrated report being the primary report, the pathway approach clearly demonstrates that integrated reporting is an evolutionary process. It is important for entities to understand where they are on that journey. By recognising where they are, they will know where they have to go. We would suggest that the section could be written in the following manner:

"Individual organisations will follow different routes over different timeframes to realise the benefits of integrated reporting. All will be bound by existing regulatory reporting requirements, but this will affect organisations in different ways, depending on the jurisdiction(s) and industry(ies) in which they operate. Alternative routes may include:

- Combining the sustainability report with the management commentary or the full annual report. While a combined report is not an integrated report, it can be a logical first step for some organisations as they explore opportunities to integrate the content of the two reports into a more concise and focused form and build understanding of how performance in one area drives value in another.
- Publishing a concise, standalone, integrated report as the only addition to a statutorily required annual report or regulatory filing. This may be particularly attractive for organisations not currently producing a separate sustainability report that their stakeholders have come to expect.
- Modifying the management commentary by tailoring it in accordance with the guiding principles and content elements of integrated reporting to the extent permitted within the organisation's regulatory environment.
- Adopting an integrated reporting process to underpin management information, thereby deriving business benefits, while liaising with regulators to either introduce integrated reporting for all organisations or introduce an environment for those who choose to innovate and experiment.

Future direction (Questions 10 and 11)

As discussed, we are concerned that the DP focuses on the integrated report itself, as opposed to the integrated reporting process underpinning the report. The integrated report should reflect how the

organisation has approached the concept of integrating sustainability issues into the fabric of its corporate existence. By definition it is a process of where the organisation is going. It would therefore be a mistake to think that an organisation, at the end of its financial year, can quickly manufacture information to include in an integrated report. The process needs to be planned at least a year in advance and should be aligned with how the organisation is managing and measuring itself up to a board level. The process will be evolving every year, as the company achieves targets and pushes for new boundaries in the following year.

The focus shouldn't be "what do we include in our integrated report", but rather "what is our process and strategy, what are we doing, how are we measuring ourselves and then to report on that". To that extend we believe that the future development should be along the lines of:

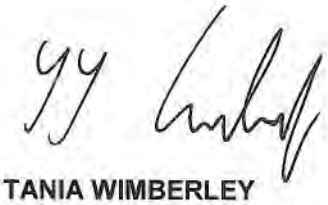
- Identifying the correct principles that can be applied by entities and regulators;
- Promoting the concept of pathways of development;
- Providing companies examples of good reporting;
- Demonstrating to regulators who the principles can be applied within their environments.

SECTION 3 - CLOSING REMARKS

In closing, we would like to emphasise that the JSE supports the move towards integrated reporting as well as international alignment in this regard. We remain committed to working with all relevant parties to promote the evolution of reporting and to provide guidance to our clients during the process. We hope to continue collaborating towards a solution that will serve the best interests of the reporting entities and those for whom they aim to create long term value, and would welcome further opportunities to discuss ways of achieving this.

The JSE espouses the view that it should be possible to set out an objective of integrated thinking, reflecting a holistic representation of the business, and then refer to a transitional path to get there. We agree that guidance is critical. However, we believe that the focus should be on integrating the thinking and processes that are already in place, rather than introducing a separate process and report.

Yours faithfully



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