14 December 2011

Dear Professor King

Towards Integrated Reporting: Communicating Value in the 21st Century

We appreciate the opportunity to comment on the above document. We have consulted within the KPMG network in respect of this letter, which represents the views of the KPMG network.

There are many calls for corporate annual reporting to move beyond its traditional historical financial focus as a response to the financial crisis. We believe that current corporate annual reporting plays an essential role in supporting assessments of corporate stewardship and past financial performance but this is not enough to address investors’ needs. Therefore we believe that the IIRC’s initiative is important, timely and constructive initiative with the potential to make a step change in corporate reporting.

Increased reporting focus on the business model, strategy, performance, and prospects of the business can provide more relevant information that supports better capital allocation decisions. In particular:

• We strongly support the focus of integrating reporting around the platform of the business model as a means of overcoming existing siloed reporting requirements.

• We believe that extending the scope of corporate reporting has the potential to better support investors’ own assessment of business value and performance prospects, and to enable investors to make judgements about the sensitivity of their assessments to key risks and opportunities. We understand that providing future-oriented information on the basis of clearly stated assumptions is an important part of this, whilst recognising the legitimate concerns that companies may have in providing forecasts (albeit that these are only one component of forward-oriented information).

We support the approach of integrating financial reporting with broader measures of performance and inputs consumed. In particular, we agree that the success and viability of a
business depends on more than financial inputs, and believe that a broader definition of capital provides a means to address this.

We welcome a structured, international approach to improving corporate reporting

Corporate communication has been evolving to support more effective communication with investors, for example, in the content of investor road shows and in the formalisation of sustainability reporting. Integrated Reporting has the potential to provide a better structure for reporting and provide more relevant information and in doing so:

- Help to ensure that the disclosure of information is made on a ‘level playing field’ to all interested parties.

- Provide a framework to support the comparability, completeness, and accuracy of both financial and non-financial information.

Today’s globally integrated capital markets demand a consistent approach as investment decisions are made on an international basis. We support the international approach adopted by the IIRC.

We believe that the voluntary approach adopted by the IIRC is appropriate at this stage of development. As the Integrated Reporting model evolves towards the point at which it may be mandated by regulators, the voluntary approach together with the governance role of the IIRC will need to be reassessed.

In the near term, the greatest potential for change lies in narrative (rather than financial) reporting. We encourage the IIRC to continue to work with key regulatory organisations (eg IOSCO) in these areas.

We reiterate our support for the IASB / IFRSs as the appropriate single framework for financial reporting and ISAs / IAASB as the appropriate single framework for auditing.

Investors should remain the focus for corporate reporting but we expect that other users will benefit from the wider range of information proposed

We support the IIRC’s decision to focus on investors as the primary users of corporate reporting information. We believe that this approach is important to enable a focused approach to the development of the Integrated Reporting framework that aligns with the principles of materiality and conciseness.

We expect that the information presented to the owners of the business – particularly in respect of the long-term availability of the capitals needed to support the business model – will to a large extent be useful in satisfying the information needs of other stakeholders.
The role of the auditor depends on both the scope of information being reported and investor needs for assurance. However, we believe that Integrated Reporting could be a fundamental step in enhancing the relevance of the audit to investors as auditors’ assurance skills are applied to a wider range of relevant information.

Central role of the Business Model

We agree that the entity’s business model is an important basis for determining report content and structure. The business model and strategy is at the heart of the business. It is the promise that business makes to its providers of capital. Report users must be able to evaluate this promise and make decisions about the capacity of management to implement it.

By focusing on the Business Model, corporate reporting can provide users with a perspective on the business through management’s eyes. We welcome the potential for alignment of external reporting with internal reporting, management and remuneration structures.

Within the objective of providing investors with a clear understanding built around the business model, the IIRC will need to balance the need for comparability of information within Integrated Reports across entities. The opportunities and challenges for achieving this within an Integrated Reporting framework may be different to traditional financial reporting, and will need to be monitored.

An opportunity that should be welcomed by both report preparers and users

The success of this initiative will depend on the level of support received from investors as the primary report users and companies as report preparers. Both should recognise the opportunity provided to bridge the information gap between capital providers and the consumers of capital.

We believe that a framework which presents an organisation’s story in a manner that is consistent with the way in which the business operates should be welcomed by preparers, and Integrated Reporting may provide the encouragement for companies to be more considered in their approach to reporting. Companies should be able to streamline reporting processes and realise cost efficiencies.

Nevertheless, there are potential obstacles. We believe that it is particularly important that the IIRC:

1. Makes its case effectively with the investor community and ensures the active involvement of investor groups in developing the detailed requirements of the Framework. The corporate response may be passive unless the demand from investors is clear.

2. Ensures that the initiative remains focused on a re-examination of the totality of corporate reporting rather than imposing further additive disclosure requirements on report preparers that potentially undermine the understandability of the report. It is important that Integrated
Reporting can demonstrate to early adopters the potential to simplify and rationalize discussion and analysis in their narrative reporting.

3. Remains cognisant of the regulatory and legal issues in different jurisdictions which might delay implementation

4. Recognizes that overcoming the change management challenges will require at least as much focus from the IIRC as the definition of an Integrated Report

Our responses to the specific questions posed in the discussion paper are attached as an appendix to this letter. We would welcome the opportunity to discuss any of the matters raised in our response with you. If you have any questions then please contact either David Matthews (email: david.matthews@kpmg.co.uk or by phone at +44 (0) 207 311 8572) or Mary Tokar (email: mary.tokar@kpmgtifry.com or by phone at +44 (0) 207 694 8871).

Yours sincerely

[Signature]

Alan Buckle
Appendix 1

The World has Changed – Reporting Must Too

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

- Yes, we agree that action is needed. Current reporting plays an essential role in supporting assessments of corporate stewardship and past financial performance, but this is not enough to meet investors’ needs in today’s market.

- The current financial crisis illustrates the importance of providing information that enables users to make their own independent assessments of underlying value and risk exposures.

- The current financial crisis also demonstrates that focusing just on past performance of an organization does not adequately address future risks and opportunities of an organization, which are important considerations in making sound investment decisions, including:
  (i) the short/medium term impact on value of management’s strategy; and
  (ii) the long-term impact of changes in the business environment.

- The historical orientation of existing reporting tends to encourage valuation models based on rolling forward past performance. The resulting consequence may be that value-creation strategies are not being recognised by the capital markets. Integrated reporting tries to address this by incorporating future-oriented information and insight to complement the reporting of the entity’s strategy and business model in the integrated report.

- The current financial crisis also highlighted that there is an information gap over impact and connectivity that customers, legislators, regulators, and others have on the long term viability of a business. The threat of these challenges may be long term, (for example growing regulatory concerns) but investors need to understand their potential impact and how they are being managed.

- We have seen attempts to bridge this gap, most notably in the form of information that is additional to regulatory requirements being included in investor roadshows and sustainability reporting. However, these approaches lack a consistent framework and limit the access of all available information to certain users. We believe the time is right to move towards a more coherent approach.
Q1. (b) Do you agree that this action should be international in scope? Why/why not?

- Yes. Business and capital markets operate on a global basis and their reporting should be global too.

- The experience of financial reporting is relevant to Integrated Reporting, with the desire of investors to have one set of global financial reporting standards supporting the need for the action to be international in scope. Prior to the adoption of IFRS, organisations faced significant inefficiencies from using multiple accounting “languages” and formats, while investors struggled to compare performance of different organizations. The fact that over 100 countries now require or permit the use of IFRS is evidence that investors want to have reporting with an international focus in order to achieve comparability in the global market place.

- Conversely, not having an international focus may deter the IIRC’s goal of creating a single primary report to be utilized for multiple reporting needs.

- We recognise that the different business environments across geographies may mean that some countries recognise the benefits of Integrated Reporting sooner than others. However, companies that don’t respond to the challenge of Integrated Reporting may find it increasingly difficult to attract international capital if expectations of corporate reporting increase.

- Finally, we believe that it would be more efficient to have a top-down approach to developing a core global framework than a bottom up (jurisdictional) approach.

Towards Integrated Reporting

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

- We agree the current definition is a suitable aspiration for an Integrated Report. However, we believe that the characterisation of Integrated Reporting as being limited to information currently reported is too restricted; we believe that Integrated Reporting will require the provision of new information not currently reported to external stakeholders.

- This definition provides an opportunity for management to tell the organisation’s story in a way that addresses investors’ questions over stewardship (whether they should support management’s strategy) and value (whether they should hold their investment).

- The definition of Integrated Reporting is necessarily broad and open to interpretation at this stage. As the IIRC develops its framework, and as examples of good practice evolve, we believe that will be important to maintain focus on relevance to investors as described in our
response to question 4 below. If the initiative does not capture the hearts and minds of mainstream investors, then it will not succeed. This means:

- Recognising that the focus on the business model if applied rigorously will help align investors' understanding with managers' basis for decision making.

- Developing an agreed-upon definition as to what constitutes material information. The issue of materiality is an important aspect as it may have a significant impact on the depth, quality, and completeness of information contained in the report.

- Retaining the essential quality of comparability is central to effective use of corporate reporting.

- Demonstrating that an Integrated Report provides more relevant information to support an informed assessment of fundamental value.

- Demonstrating that Integrated Reporting will streamline the reporting process and add value to reporting and is not simply additive.

- Demonstrating that future-oriented and non-financial information can be provided on a sufficiently reliable basis to be used in these assessments. The temptation to write the Integrated Report from a purely marketing perspective must be avoided.

- We recognise that there is a danger that this broader objective for corporate reporting could lead to the layering of additional reporting requirements for businesses that already struggle with the volume and complexity of their reporting obligations. However, this is an opportunity for more relevant reporting, not more reporting. If implemented well, an Integrated Report could streamline the reporting process, and reduce the need for multiple types of reports.

- A key challenge to meet the proposed definition of Integrated Reporting will be to develop the framework in a manner that allows companies to balance the capital allocation benefits to be obtained from strategic reporting, with the risk of reporting market-sensitive information.

An International Integrated Reporting Framework

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

- Yes, we support the development of an International Integrated Reporting Framework. However, the framework must be developed further and provide more specific details. Furthermore, the framework should be supported by implementation tools and guidance if it is to be utilised by entities other than those participating in the pilots.
• We encourage the IIRC to continue to work with key regulatory organisations (eg IOSCO) in developing a framework.

• If such a framework is to be developed, then a key question is who will be responsible for governance of the IIRC if and when it becomes a standard-setting body.

• The future development of the framework is a useful and necessary step to determining the level of assurance that ultimately will be demanded from users. The degree of assurance to be provided may be a key factor to the success and acceptability of Integrated Reporting.

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?

• Yes, we agree that the initial focus should be on larger companies and their respective investors.

• We believe that unless Integrated Reporting satisfies their needs it will not become relevant and will not succeed.

• We believe that this approach is needed in order to focus efforts to develop a single framework for Integrated Reporting meeting the goals set forth in the IIRC’s discussion paper. We believe that a wider initial focus would be too broad a challenge to address in the initial development.

• We also believe that the reporting gap is at its most acute for this group and as such they have the most to gain from Integrated Reporting.

• We believe that if the framework is adopted by larger companies and their investors, then there may be greater acceptance among other organisations and capital providers as noted in our response to question 4 (b) below.

• See also our comments regarding stakeholder inclusiveness in response to Question 6.

Q4. (b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?

• Yes, we expect that Integrated Reporting would be relevant to any organisation that needs to communicate its story beyond the internal management of the business. Any company dependent or potentially dependent on external providers of capital should be interested in this.
To be relevant to smaller organisations, the requirements of an Integrated Report should be scalable and proportionate. For Integrated Reporting to be effective it must have flexibility to allow an entity to apply its principles in a way that integrates strategy, capital and performance measures based on its unique business model, and that this should not be hindered by other prescriptive compliance requirements.

We also believe that Integrated Reporting would be relevant for governments, which also allocate capital to departments in budgets. An Integrated Report can guide this and recognise the broader base on which these capital allocation decisions are made.

**Business Model and Value Creation**

**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?**

Yes, we agree that the entity’s business model is an important basis for determining report content and structure. The business model and strategy is at the heart of the business. It is the promise that business makes to its providers of capital. Report users must be able to evaluate this promise and make decisions about the capacity of management to implement it.

We welcome the potential for alignment of external reporting with internal reporting, management goals, and remuneration structures. By focusing on the business model, corporate reporting can better provide users with a perspective on the business through management’s eyes.

Providing investors with an understanding of an entity’s business model and strategy is a core objective for integrated reporting; we support this objective. We note that currently there are active discussions with respect to financial reporting about how to deliver the most meaningful balance of comparability with flexibility to reflect an entity’s business model. As noted in our response to question 1(b), comparability is a key characteristic of all reporting for investors. As such, we emphasise that those responsible for establishing the Integrated Reporting framework and more detailed requirements need to consider how to achieve meaningful comparability while focusing on reporting how an entity’s business model and strategy are performing.

Such consistency could be achieved through the final Integrated Reporting framework having a common approach to reporting a business model and determining key performance indicators (KPIs), including indicators measuring governance and risk management performance.
Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?

- Yes, we agree that the concept is helpful in recognising the full breadth of an organisation’s value creation process and provides valuable focus in assessing the risks and opportunities inherent in this. The focus on the integration of multiple capitals is at the heart of Integrated Reporting. In practice we would expect that reports addressing a “continued capital availability” principle would cover most if not all reasonable stakeholder reporting needs. In this context the principle of ‘stakeholder inclusiveness’ could be represented as a principle of ‘continued capital availability’.

- We believe that it would be helpful for the IIRC to clarify the basis on which the six capitals (Financial, Manufactured, Human, Intellectual, Natural, and Social) should be applied. In particular we believe it is important to clarify that:

(i) All capitals may not carry equal weight in an Integrated Report. The relative importance to be placed on each specific capital will be determined by an entity’s particular business model. As such, users will have to apply their own judgement about the meaningfulness of each capital on a case-by-case basis.

(ii) There is no requirement to monetise, aggregate or otherwise compare the business’ impact or reliance across the different capitals. It would not be practical to have a common unit of measurement across all six capitals identified above. Furthermore, we believe that such an approach would undermine the neutrality of corporate reporting and provide limited value to report users who need greater transparency.

Guiding Principles

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?

- We agree with the principles-based approach adopted in the Discussion Paper and broadly support the specific principles identified subject to the following comments.

Strategic Focus

- We agree with this principle as there should be a strong linkage between strategic objectives, KPIs and risks.

- A key challenge the framework must address is the completeness and accuracy of qualitative and future-oriented information. An Integrated Report should be objective and balanced in scope. It should not be solely a marketing publication.
Companies may be hesitant to provide sensitive internal data showing strengths and weakness in an organisation’s strategy and business model.

Connectivity of Information

While the connectivity of information is key to the concept of Integrated Reporting, it may be difficult to achieve complete and accurate documentation of this in practice.

Future orientation

We agree with this principle but believe that:

(i) It would be helpful to clarify that material information on past performance and stewardship will continue to have an important place in an Integrated Report. Current financial reporting provides an important (and objective) context for assessing accountability and reliability of the organisation, the underlying prospects of the business, and management’s actions in implementing business strategy.

(ii) The principle does not imply that management should be burdened with responsibility for publishing and meeting forecast performance targets or assigning monetary values to capital assets. We believe that the value of a future-oriented approach lies in the opportunity for users to make their own judgements about how future events may affect business value. The publication of forecast information may assist this but it is not the only way to provide users with the information to make these judgements.

Responsiveness and stakeholder inclusiveness

- As noted above we believe that in this context the principle of ‘stakeholder inclusiveness’ could be represented as a principle of ‘continued capital availability’; see our comments in response to Question 6.

- As noted above, the target of integrated reporting should focus on investors; see our comments in response to Question 4(a).

Conciseness, reliability, and materiality

- We agree that these are important principles. However, both preparers and assurers of an Integrated Report will need clarity over who the users of the report are if they are to make judgements over materiality of issues to those users.

- While we agree that it should not be addressed in the Discussion Paper, the principle of reliability will require significant work to establish a meaningful, comparable basis for the measurement of non-financial information. We encourage the IIRC to work with the relevant organisations to establish approaches that are appropriate and relevant to investors.
• As noted in Q2 a key challenge in the future development of the framework will be reaching agreement on materiality among preparers, users, regulators and governing bodies.

• Another key challenge will be balancing conciseness of the reporting with the completeness and accuracy of both quantitative and qualitative information. The length of current financial reporting requirements and the challenges of understanding the risks that led to the financial crisis show how complex today’s businesses and their reporting is. We believe that the goal of conciseness, while important, should never outweigh the need for completeness.

Content Elements

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?

• Yes, we agree that the elements identified (business model, risks and opportunities, strategic objectives, governance and remuneration, performance and future outlook) provide a solid foundation on which to build an integrated report.

• Preparers should welcome greater clarity over how to apply each of the elements to their business model as the Integrated Reporting framework develops.

What Will Integrated Reporting Mean for Me?

Q9. From your perspective:

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

Yes, we agree. See below for further discussion.

Preparers:

• Provides a better basis to tell the organisation’s story and engage with investors on a more constructive basis that naturally aligns the internal management approach with the external reporting. The potential reward is a shift in focus from short-term value implications towards the creation of long-term value, and the opportunity to address investor assumptions about risks, including discounts that arise from uncertainty over whether risks are managed adequately.

• Provides an opportunity for the alignment of internal and external reporting and the creation of a single set of targets and measures.
• Provides an opportunity to communicate the long term rationale and benefit of value creation strategies when often only the cost side (eg CSR investment) has been apparent to investors.

• Provides an opportunity to cut clutter and increase the clarity of existing reporting by building content around the business model.

• Provides an opportunity to streamline the reporting process by reducing duplication and volume. This should increase the efficiency of the reporting process and provide cost savings.

**Investors:**

• Provides a better basis to understand the organisation’s story and engage with management on a more constructive basis that addresses the most important business valuation assumptions.

• Provides a basis for valuation assessments, in particular by enabling investors to better:
  
  – Assess the management and value impact of exposures affecting the long-term viability of the business model and hence better understand long-term business value.


  – Understand the sensitivity of business value to changes or potential changes in the operating environment of the business.

**Governments and regulators:**

• Provides for a more efficient basis to regulate capital markets.

• Provides stronger underpinning of financial stability.

• Provides greater relevance and hence value from assurance providers.

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

• Yes, we agree. We believe that the key challenges that could restrict the development of Integrated Reporting are those affecting the preparers of the report (businesses) and the primary users (investors).
• With respect to the preparers, we believe that the key challenge will be ensuring that in the long term Integrated Reporting is not additive to the reporting burden. Integrated Reporting has the potential to simplify and refocus current reporting providing the reporting framework remains focused on its primary users.

• Another key challenge for preparers will be to balance the capital allocation benefits to be obtained from strategic reporting, with the risk of reporting market-sensitive information.

• With respect to investors, we believe that the IIRC together with entities participating in its pilot programme will need to demonstrate the nature and reliability of the additional information that Integrated Reporting can provide for fundamental valuation assessments.

• Another important hurdle will be gaining the support of regulators. Ultimately it is their endorsement that is needed to shift from a voluntary approach to one that recognises and mandates the value of Integrated Reporting.

(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?

• Yes – see (b) above.

• While we believe that this statement is accurate, we believe that there will continue to be a need for financial statements that report performance to date and report on how management and the directors have discharged their stewardship responsibilities.

Future Direction

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?

• Yes, we agree with the next steps listed in the discussion paper. However, we believe that the proposed timeline for issuing a final framework before 2013 may be optimistic. While we support the IIRC’s ambitions, we caution that the quality of the framework should not be sacrificed for timeliness. In addition, we recommend the following additional actions:

• In the short term, we believe that the focus should be on incorporating qualitative integrated information into current corporate reporting to enhance current narrative reporting (such as management discussion and analysis (MD&A), OFR, Financial reviews, Sustainability reporting, etc) and at the same time removing unnecessary detail. We believe that this would provide the biggest increase in value in the short term, while not significantly increasing (and possibly decreasing) the volume of current corporate reporting. This will provide a basis for organisations to begin linking their strategy to current financial reporting and incorporating future-oriented data.
- Given the greater emphasis that is expected to be placed on KPIs under the IIRC framework we encourage efforts to develop guidance on their use. The IIRC should develop a common methodology for individual businesses to determine such KPIs, and guidance on when and how to report them in their integrated report (i.e. by including basis of calculation), and also for investors and key stakeholders so that they are able to incorporate them in capital allocation models. We believe that the IIRC’s objective should be for the potential advantages of reporting the KPIs to outweigh the risks of providing commercially sensitive information.

- We encourage the IIRC to work with and utilise research performed by other organisations in similar areas, such as the Global Reporting Initiative (GRI), and the World Intellectual Capital Initiative (WICl). For example, some of the work done by WICl to develop a three-level hierarchy of KPIs, including industry-tailored approaches that integrate input from investors and preparers, may be useful.

- We believe that an additional, expanded pilot programme would be useful in order to incorporate any modifications to the Framework based on the results of the first pilot programme before the Framework can be implemented on a wide-scale basis.

- Once agreement of the framework has been achieved, the level of assurance to be provided over integrated reporting should be addressed, as the degree of reliability of information may impact investor support.

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

- We see two key priorities. The first priority is to address one of the most commonly asked questions and to 'illustrate what an integrated report looks like'. This could be achieved by seeking to identify real examples of Integrated Reports or elements of reports demonstrating Integrated Reporting principles (for example drawing on the experience of South Africa), by publicising the results of the pilot experience, or by creating a hypothetical example.

- Second is the need to finalise the comprehensive exposure draft for the Integrated Reporting Framework.

- We believe that addressing these priorities is vital to build support among potential preparers and users and that such support is essential to the success of Integrated Reporting.

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

- In addition to the above discussion, we would also like the IIRC to consider the following items:
1. IIRC should consider who will be responsible for governance over its Framework.

2. In addition, the IIRC should also consider what resources (both monetary and participation) will be needed and what, if any, standard-setting responsibility such an organisation would have.

- It also will be important to ensure that compliance obligations are not introduced prematurely as the framework evolves in order to enable flexibility and growth during the development stage.

- In order for Integrated Reporting to gain momentum with the business community, especially in the voluntary phase, the IIRC should emphasise potential costs and benefits arising from the streamlining of internal reporting, external reporting, investment/regulatory reporting, and reporting for business decisions and policy making into a single reporting process.

- International Standards on Auditing as issued by the International Auditing and Assurance Standards Board provide an appropriate single framework for auditing integrated reports. However, providing assurance over a broader range of information would require enhancements to be made to certain aspects of Integrated Reporting, especially regarding future-oriented data and the determination of materiality as proposed in the discussion paper. Please refer to our comments in response to question 2.