

August 6, 2013

Professor Mervyn E. King
Chairman
International Integrated Reporting Council

via online submission

Dear Professor King,

**COMMENTS ON IIRC CONSULTATION DRAFT
INTERNATIONAL INTEGRATED REPORTING <IR> FRAMEWORK**

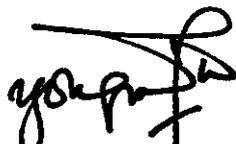
We refer to the Consultation Draft, *International Integrated Reporting <IR> Framework*, issued by the International Integrated Reporting Council ("IIRC").

In this regard, we are pleased to attach the Institute's comments as set out in **Appendix I** for your consideration.

Please do not hesitate to contact the undersigned or the Institute's Senior Technical Manager, Ms Hoh Kim Hyan, at 603-2698 9622 should you require any clarification.

Thank you.

Yours faithfully,



FOO YOKE PIN (Mr)
Executive Director

THE MALAYSIAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
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Comments from
Accounting and Auditing Technical Committee
International Integrated Reporting Council (IIRC)
Consultation Draft of the
International Integrated Reporting <IR> Framework

CHAPTER 1: OVERVIEW

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (Paras 1.11-1.12).

Question 1

Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.

MICPA Response:

MICPA recommends that analysis of the strengths and weaknesses of the organisation should be included as an additional principles-based requirement.

Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (Paras 1.18-1.20).

Question 2

Do you agree with how Paras 1.18-1.20 characterise the interaction with other reports and communications?

MICPA Response:

Agree.

MICPA also supports Para 1.18 of the Consultation Draft which explains that it is anticipated that a stand-alone integrated report will be prepared annually in line with the statutory financial reporting cycle.

However, MICPA is of the view that the Integrated Report should not be restricted to annual reporting, and that the Integrated Report should also be prepared on an “as and when necessary basis”. This recommendation stems from the following considerations:

- (i) Other information, particularly financial information, is shared at least 4 times a year.
- (ii) Circumstances and economic conditions can change drastically during the year.

On this basis, MICPA is of the view that it would be advisable to issue an Integrated Report annually, at a minimum, to be followed by an updated Integrated Report as and when necessary, particularly with regard to consideration (ii).

Nevertheless, MICPA is mindful of the potential costs involved in the production of such report, and recommends that IIRC consider the possibility of dissemination of the aforementioned updates via the organisation’s website as an alternative medium of communication.

Question 3

If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?

MICPA Response:

MICPA is of the view that only references that are sanctioned by the IIRC should be included in the online database; and that this should be explicitly stated in the database.

However, in order to prevent references from being limited only to those sanctioned by the IIRC, MICPA further recommends that preparers of the Integrated Reports be required to specifically disclose any references which were made to any sources that had not been sanctioned by the IIRC. This requirement would thus allow for more references to be made.

Other

Question 4

Please provide any other comments you have about Chapter 1.

MICPA Response:

Para 1.6 of the Consultation Draft states that an integrated report should be prepared primarily for providers of financial capital in order to support their financial capital allocation assessments.

However, MICPA notes that the Consultation Draft, in its current form, appears to be rather general and catering more to the masses. With this generality, MICPA is concerned as to how beneficial the information disclosed would be to the readers of the Integrated Report, in particular the providers of financial capital which had been identified as the primary stakeholders of the organisation.

In view of this, MICPA recommends that the contents of the Consultation Draft should be tailored more to the needs of the providers of financial capital and that the current generalisation of information should be reduced.

Chapter 2: Fundamental concepts

The capitals (Section 2B)

The Framework describes six categories of capital (Para 2.17). An organisation is to use these categories as a benchmark when preparing an integrated report (Paras 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (Para 4.5).

Question 5

Do you agree with this approach to the capitals? Why / why not?

MICPA Response:

Agree, particularly in view that the Integrated Report is intended to provide information on the effective and efficient use of capital.

Question 6

Please provide any other comments you have about Section 2B?

MICPA Response:

Para 2.17 of the Consultation Draft has, for the purpose of this Framework, identified “human capital” as one of the categories of capital, which is explained as follows:

“People’s competencies, capabilities and experience, and their motivations to innovate, including their:

- Alignment with and support for an organisation’s governance framework, risk management approach, and ethical values
- Ability to understand, develop and implement an organisation’s strategy
- Loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.”

In this regard, MICPA wishes to highlight that human capital is also improved with the length of service of the employees, and not only when employees become better trained. As such, MICPA recommends that information on the length of service of employees, employee retention policies, etc. should also be disclosed.

Business model (Section 2C)

A business model is defined as an organisation’s chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (Para 2.26).

Question 7

Do you agree with this definition? Why / why not?

MICPA Response:

MICPA wishes to highlight that a business model also encompasses the organising and the combination of the efficient and effective use of the resources available to the entity.

Question 8

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organisation’s business activities and outputs (Paras 2.35-2.36).

Do you agree with this definition? Why / why not?

MICPA Response:

Agree. However, MICPA wishes to highlight that legislation and environmental changes as well as economic vagaries can also contribute significantly to the outcome.

Question 9

Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (Section 4E).

MICPA Response:

No comment.

Other

Question 10

Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.

MICPA Response:

MICPA recommends that Chapter 2 should be expanded to include the effective and efficient use of financial capital and how the other five (5) categories of capital affect financial capital. This recommendation is in view that the current presentation and emphasis appear to give equal emphasis and weightage to all six (6) categories of capital.

CHAPTER 3: GUIDING PRINCIPLES

Materiality and conciseness (Section 3D)

Materiality is determined by reference to assessments made by the primary intended report users (Paras 3.23-3.24). The primary intended report users are providers of financial capital (Paras 1.6-1.8).

Question 11

Do you agree with this approach to materiality? If not, how would you change it?

MICPA Response:

Agree.

Question 12

Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).

MICPA Response:

No comment.

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (Para 3.31).

Question 13

How should the reliability of an integrated report be demonstrated?

MICPA Response:

MICPA recommends that the Integrated Report should include comments from the external auditors as to whether the external auditors have any major disagreements with the disclosures within the Integrated Report. In the event that there are none, the Integrated Report should then specifically disclose that the external auditors do not have any material disagreements with the disclosures in the Integrated Report.

MICPA further recommends that the Integrated Report should also disclose disagreements with any part of the Integrated Report by any third parties.

Question 14

Please provide any other comments you have about Section 3E.

MICPA Response:

Section 3E of the Consultation Draft explains the guiding principle on reliability and completeness. In this regard, MICPA recommends that this section should be expanded to further remind that the information in the Integrated Report should be faithfully represented.

Other

Question 15

Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

MICPA Response:

Section 3C of the Consultation Draft explains the guiding principle on stakeholder responsiveness. In view that Para 1.6 of the Consultation Draft states that an integrated report should be prepared primarily for providers of financial capital in order to support their financial capital allocation assessments, MICPA recommends that responsiveness to providers of financial capital should be given more emphasis than to other stakeholders. This would also be in line with MICPA's response to Question 4.

MICPA also wishes to emphasise that the Integrated Report should be faithfully represented, including disclosure of major differences of opinion from any third parties. In particular, the Integrated Report should specifically state whether it has been vetted by a third party.

CHAPTER 4: CONTENT ELEMENTS

Question 16

Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).

MICPA Response:

MICPA recommends that the Integrated Report should also identify the strengths and weaknesses of the organisation.

CHAPTER 5: PREPARATION AND PRESENTATION

Involvement of those charged with governance (Section 5D)

Section 5D discusses the involvement of those charged with governance, and Para 4.5 requires organisations to disclose the governance body with oversight responsibility for <IR>.

Question 17

Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why / why not?

MICPA Response:

Yes.

MICPA is of the view that this would improve the credibility and reliability of the Integrated Report, and ultimately allow for greater comfort to be derived from the disclosures within.

Question 18

Please provide any other comments you have about involvement of those charged with governance (Section 5D).

MICPA Response:

MICPA is of the view that the Integrated Report should be vetted by a third party prior to publishing.

Credibility (Section 5E)

The Framework provides reporting criteria against which organisations and assurance providers assess a report's adherence (Para 5.21).

Question 19

If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?

MICPA Response:

MICPA is of the view that assurance can only be obtained for certain specific aspects of the Integrated Report. This is because the disclosures in the Integrated Report may be so general with its choice of language and format as to render any assurance on the Integrated Report being too difficult or possibly even impossible to be obtained.

Question 20

Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.

MICPA Response:

No comment.

Other

Question 21

Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).

MICPA Response:

MICPA recommends that third parties, e.g. external auditors, including those charged with reviewing the integrity of reporting systems of the organisation, should specifically highlight any areas of the reporting system that is deemed to be unsatisfactory or even unreliable, which was relied upon in the preparation of the Integrated Report.

OVERALL VIEW

Question 22

Recognising that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organisations in preparing an integrated report and for providing report users with information about an organisation's ability to create value in the short, medium and long term?

MICPA Response:

MICPA recognises that the introduction of the Integrated Report would allow for the management of the organisations to formalise procedures and processes which are supposed to be, or already are, in place.

However, MICPA is concerned that the Framework would not be able to address the comparability, or potential lack of comparability, of the Integrated Reports among organisations within the same industry, among industries, and ultimately, among countries may be established.

In addition, MICPA is concerned that smaller organisations may find themselves at a disadvantage, particularly in comparison to other larger organisations on a global scale. This may inadvertently result in these organisations, and other organisations with limited areas for disclosure, to resort to boilerplate disclosures in their respective Integrated Reports.

With regard to the evolution of Integrated Reporting, MICPA is of the view that year-on-year comparisons of the Integrated Report would be able to assist in the better preparation and representation of the subsequent Integrated Reports to be prepared in the future.

DEVELOPMENT OF <IR>

Question 23

If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?

MICPA Response:

MICPA recommends priority be given to the following areas:

- (i) More precise definitions of the various categories of capital;
- (ii) Effects of each type of capital in different industries; and
- (iii) More elaboration with regard to business model.

OTHER

Question 24

Please provide any other comments not already addressed by your responses to Questions 1-23.

MICPA Response:

In addition to the concerns raised in the responses to previous questions, MICPA also wishes to highlight the following concerns:

- (i) Whether corporate organisations, in particular those from the emerging economies, are ready for the level of transparency required in producing an Integrated Report; and
- (ii) How specific the disclosures in the Integrated Report would need to be in order to be genuinely beneficial to the reader.

Last but not the least, MICPA notes that sustainability of an organisation was the original intention and the trigger behind Integrated Reporting. In view of this, MICPA wishes to recommend that Integrated Reporting should perhaps be re-focused on sustainability.