



The Chairman
International Integrated Reporting Committee
c/o The Prince's Accounting for Sustainability Project
Clarence House London
SW1A 1BA

14 December 2011

Dear Sir

Towards integrated reporting – communicating value in the 21st century

ACCA (Association of Chartered Certified Accountants) is pleased to have this opportunity to respond to the above Discussion Paper (DP) issued by the IIRC. The matters raised in the DP have been considered widely within ACCA including by the Global Forums of our members and other experts dealing with sustainability, corporate reporting and the public sector. We have also discussed the issues with panels of investors and of people closely involved with IR.

Strength of support for the initiative

ACCA supports the further development of a framework for integrated reporting (IR) which provides:

- a more holistic picture of a company's performance and prospects
- a view over both the shorter and longer term
- a clearer and more concise report that focuses on the most material issues

There seems to be broad support for the concept of IR on the part of key stakeholders as demonstrated by two recent surveys conducted by ACCA which canvassed the views of investors and larger companies.

In August 2011 ACCA conducted a survey of 163 senior executives in the US, Europe, the Middle East and Asia on the subject of global standards. As part of that survey they were asked whether IR would help investors and the

companies. The principal findings were that 45% of the investors thought that IR would encourage better decision-making by companies and 37% of CFOs thought IR would provide users with a truer and clearer picture of the company's overall performance. The report can be found at the following link http://www2.accaglobal.com/pubs/af/reporting/new/cfo_investor.pdf

In another ACCA survey of 500 users (including equity investors and credit providers) in the US, Canada and the UK, 59% viewed IR as 'potentially' a useful development. 56% of respondents said that, since the financial crisis began, they were increasingly scrutinising the annual report in respect of matters of strategy, governance and risk.

Overall comments on this document

We would like to make the following general comments, most of which are elaborated further in our responses to the questions raised in the DP.

- While the DP has promoted the concept of IR, it has not provided sufficient "flesh on the bones" for there to be more than general support for IIRC to develop the concept further.
- There is much emphasis in the DP on the failings of current reporting in general – lack of strategic focus, clutter with immaterial items etc. There is disappointingly little emphasis on sustainability in the DP, or even explicit reference to it. In our view, if there is not to be any significant emphasis on sustainability reporting, improvements to corporate reporting could be made within existing frameworks. A commitment to improve the reporting of sustainability issues IR must therefore be at the heart of the concept of IR.
- IR will be useful in terms of enhancing understanding of the significance of sustainability issues for companies and for investors; it will also provide an important opportunity to change 'hearts and minds'.
- By itself, reporting, even IR, can only form part of the process of encouraging corporate commitment to the cause of sustainable development. Action is needed on all sorts of levels – carbon pricing, internalisation of environmental costs etc. – to slow down or stop further environmental deterioration and to start to remedy matters.
- We support the DP's focus on meeting the information needs of investors as the primary users, and therefore agree with the proposal to concentrate initially on listed companies.

- However SMEs (making up the bulk of unlisted companies), not-for-profit (NFP), and the public sector face the same issues giving rise to IR and so the development of the concept for these other entities needs also to be addressed and this process should begin with the pilot study phase (including a suitable range of SMEs and other entities).
- There must be more research undertaken to assess whether investors want IR and what elements they would value seeing in integrated reports. In particular, IIRC needs to establish an investor group to guide the development of the framework and any other guidance
- Given the lack of ‘flesh on the bones’ of the proposals in the DP, the pilot studies should offer a good indication of how the principles and content of IR should be developed; the IIRC should also learn from the experience of countries such as South Africa which have already adopted IR.
- The DP lacks clarity as regards the vision for the ultimate future of IR. In particular there is a lack of clarity in respect of the relationship between integrated reports and the current primary and secondary statements. At this stage we do not see IR as replacing existing forms of reporting, such as the financial statements and environmental, social responsibility and governance (ESG) reporting. We envisage instead that the integrated report would be the top level summary statement which would build on and cross-refer to those other forms of reporting.
- Like other forms of narrative reporting, IR, especially where it has a forward-looking component, is likely to face the challenge of companies wishing to restrict reporting where it might infringe commercial confidentiality and where it raises the risks of legal actions. Safe harbour clauses may be needed in some jurisdictions to allow IR to develop.
- While the DP does not address at any length the question of assurance on an integrated report, the degree of external assurance and what form of assurance, is an issue which needs to be tackled in the next phase of the development of IR. If IR is to achieve comparable status to the current financial statements, it will need to assured to a similar degree.

Answers and comments on IIRC’s specific questions

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

Yes, on the basis that value creation is driven and influenced by a wider range of factors. We agree that entities should be providing

- a more holistic picture of a company's performance including both financial and non-financial measures
- A view over the shorter and longer term about their strategy, risks and prospects for continuing to generate value given likely constraints
- Clearer and more concise reporting by including only the most material issues

The value creation process means that companies will have to talk about their strategy, the risks they face and how these are managed. In this context we recognise

- the existing reluctance of some companies to talk about strategy and risks on the grounds of commercial confidentiality
- that if the report is to be a coherent picture of the value creation process, the strategy to achieve that and the concomitant risks, it will also need greater input from the highest levels of management than perhaps other current forms of reporting.

These sorts of issues will emerge more clearly from the pilot studies.

The issue of the gap between balance sheet values of financial and tangible assets and stock market capitalisations which is set out on page 4 does not seem directly relevant to the need or otherwise for integrated reporting. This gap relates to intangible items recognised or unrecognised, albeit that IR might include reporting on some of the factors that lie behind this difference.

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

Yes. Globalisation of business operations and of investment means that reporting needs to be done according to a global model. If corporate reporting is to develop in a new direction then it would be best that this is on a co-ordinated basis from the beginning and that convergence of different systems does not need to be built in at a later stage.

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

While the main strands of the concept are included in the definition, the wording should be more succinct, and there are a number of matters that are unclear:

- Stewardship is mentioned but it is not clear to whom this responsibility refers – shareholders or wider society?
- Similarly, as regards value creation – for whose benefit is value created?

- Should not IR assess and measure value creation? Currently the definition refers to a demonstration of how the business model does create value and will continue to do so
- The definition does not make clear whether the intention is that IR should amount to a single integrated report or whether it is intended to amount to an approach which involves applying integrated thinking in the preparation of existing reports, such as the financial statements, management commentary, sustainability report etc. This aspect has implications for the additional issues of cost and length of reporting.
- It contains aspirational language – for example the reference to “clear and concise” reporting – that are not about what IR is but how it should be presented and delivered

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

Yes, a reporting framework should give a globally consistent basis for corporate reporting to develop. Reporting does tend to influence behaviour and IR is likely to help encourage the development of integrated thinking and attitudes in the management of companies.

There is much already in place for the IIRC to use, in particular the framework for Management Commentary developed by IASB and similar requirements in national jurisdictions. However, given that this is attempting to be a new direction with new emphasis on longer term sustainability, the framework should develop from the practical experience of the pilot studies.

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?

We agree that the initial focus should be on the needs of investors, and therefore on companies with listed equity or debt. This would not necessarily include all larger companies, some of which will be owner-managed. Investors form a broad and varied group with differing priorities and perspectives and there are therefore likely to be issues for IR in deciding among these differing needs of investors.

The reasons why the focus should be on investors include the following:

- Ultimately they own the reporting entity and it is in their interests that it is run efficiently, profitably and with regard to all material risks

- Investors are a source of pressure for change in listed companies
- It would put the IR framework on the same basis as financial reporting and corporate governance reporting
- The elements of stewardship and value creation would be clearer
- It is the most realistic option for now or initially.

A focus on investors would, however, create some problems or inconsistencies with regard to the concerns of a wider range of stakeholders which need to be addressed in developing the framework.

- The elements of sustainability, and the entity's social impacts, might only be considered to the extent that they affected the shorter or longer term financial interests of the investors and that might be too narrow.
- Of the "capitals" identified (see Q6 below), human, environmental and social factors are not directly the responsibility of the investors and companies have a wider accountability

(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?

Clearly SMEs, NFP entities and public sector bodies, for example, also face the longer term issues of sustainability. However, the investor focus is not a very helpful model for any of them in other ways as they may not have investors in the same way. Setting the initial focus may then be difficult to alter once begun, especially as this determines the whole nature of the reporting.

The pilot programme should include some of these other entities so that the investigation into the application to those contexts can progress.

We have set out some specific concerns about the application to the public sector under Q11 below.

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?

The business model is the way that value is created, but an emphasis on it will tend to reduce comparability between entities and tend to provide a view which is more subjective and "through the eyes of management". This can be helpful to investors nonetheless, as is recognised in the Management Commentary guidance from IASB.

As noted in answer to Q1 above, value creation, strategy and risk reporting need to be all linked together. It is significant to note that it is this sort of issue that analysts and investors are often probing at face-to-face meetings with company management because they are often not well explained in current reporting.

Different time horizons are important, as short-term profits may create longer-term adverse consequences for an entity and IR needs to bring out those issues. Undoubtedly the longer term horizons are needed for the impact of the social and environmental factors in a company's prospects to be fully appreciated. However entities are likely to need some guidance on the horizon involved and users will need to provide input on what sort of time period is needed by them.

Forward-looking reporting, whether as part of IR or in other current forms of reporting, often runs into problems of a general reluctance by management to issue very specific projections of future performance and also of legal exposure of the company, but also to perhaps personal liability for the directors, in the event of underperformance.

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

The multiple "capitals" are helpful in thinking about the constraints and needs of the business model of value creation and whether all of the key KPIs and KRIs have been identified.

It is not so clear how much further the "capital" concept can be taken. Current financial reporting already includes two and a half of them (that is financial, manufactured and some part of the intellectual capital), because the companies (and therefore their investors) own them and their activities may add or subtract to their capital. The others (human, social and environmental) are not owned by the entities and so while their reporting on the factors represented by those "capitals" is needed it may have to be done in a different way. It may also not be practical to quantify some of these factors or "capitals" in quite the same way as financial capital is in existing financial reporting model. In addition these different capitals are likely to raise issues about the boundary of the reporting entity as the scope of the company's social "capital" is likely to be wider than that of its financial "capital". In an integrated report can there be different boundaries of the entity for different "capitals"?

Investors are likely to be interested in non-financial factors/capitals only to the extent that that they influence or could influence the entity's financial position.

We would expect that social capital encompasses reputational factors.

Human capital is one that is, in part, within a company's control because of the latter's ability to choose employees, develop their skills and manage them in a more or less efficient and effective way. This is a "capital" that is often referred to in annual reports with such phrases as "our workforce is our greatest asset". There seems a considerable interest among some analysts in having more explanation of this. It is also an area where there are connections to be made, for example between incentives, KPIs and the governance of an entity. Some of these connections are difficult to explain because of the problems of (a) timing differences between when a corporate plan/strategy is actioned versus when the employees are remunerated; and (b) the strong assumption that full attribution is even possible in the first place. Misleading attribution risks people being wrongly rewarded or castigated and IR serving as a device to legitimate actions of managers unfairly.

We also note that significant problems of trying to report on the maintenance of capitals other than financial ones arose in the experiments with inflation accounting in the 1970's and 1980's.

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?

Page 13 explains the five guiding principles of

- Strategic focus
- Connectivity of information
- Future orientation
- Responsiveness and stakeholder inclusiveness
- Conciseness, reliability and materiality

In developing IR more use could be made of the considerable thought that has gone into the financial reporting conceptual framework.

We agree with the first three of these principles.

Responsiveness and stakeholder inclusiveness would be better replaced by 'relevance'. For IR, an organization needs to show it has identified and addressed the relevant social, environmental, financial and economic issues that impact the organization, and that these issues have been integrated into the organisation's strategy and are being measured with appropriate KPIs (and KRIs). Relevance should also ensure that only material issues are covered and

reports would be as concise as consistent with covering relevant issues. Stakeholder inclusiveness as a guiding principle would raise issues about the consistency with the focus on investors (see Q4 above).

Reliability would then merit being a separate principle. Its component elements – perhaps completeness, neutrality and freedom from error – might need to be spelt out clearly. Certainly a major issue with current non-financial and narrative reporting is the perceived lack of neutrality – there is an over-emphasis on good news and a lack of reporting of failure or prospective difficulties.

The conceptual framework of the IASB also includes ‘enhancing’ characteristics of good financial reporting – comparability, timeliness, verifiability and understandability. All of these seem appropriate for IR and we would see conciseness as another such enhancing characteristic.

The pilot studies will probably yield useful insights into both the principles that were useful in guiding content of the IR.

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?

We think the content elements seem comprehensive and they compare very much with the elements in the Management Commentary statement from IASB and comparable national guidance for explaining further and more fully a company’s performance and prospects.

As with the guiding principles the pilot studies will be useful in refining or adding to the content elements.

Q9. From your perspective:

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

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

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

We broadly agree with the issues of benefits and challenges identified in the DP for the different groups.

It is vital that IIRC works closely with investors to identify more fully the benefits of IR to them. The main benefits to companies will flow from those.

We believe, however, that the challenges are understated and the following aspects need more attention:

- the question of whether it would be useful and also whether it would be practicable to develop more models of cost internalisation of many of the ESG factors or the currently unreported “capitals” into integrated reports.
- If so, to what extent should IR be trying to specify a set of ESG issues to report (if material) and ways to measure these on a more consistent and comparable basis: comparability should be seen as more of a challenge for IR than a benefit.
- There may be data that will be needed, but is not currently being well captured by companies’ information systems. Time and resources will need to be spent in changing this and developing these new systems and processes.
- The degree to which reported matters need to be verifiable and how much detail about the basis of calculation or preparation needs to be provided to satisfy both preparers and investors.

In our comments above we have already noted a number of challenges for IR including

- IR must attempt to change attitudes to sustainability issues among investors and corporates
- the specification of the time frames that will need to be considered by preparers
- the timeliness and frequency of integrated reports will need to be considered.

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?

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

We support the proposed actions.

The first priority in our view should be to conduct the pilot studies to see how informed preparers might use the IR concept and what issues it raises for them. These should cover a range of entities – listed companies in a variety of sectors, large privately held companies, smaller entities, not-for-profits and public sector. ACCA is pleased to be taking part in this exercise. Given the need to

build the credibility of the future IR framework on a global level, however, the current list of organisations taking part in the pilot exercise is not properly balanced, with an over-representation from Europe in particular.

Of equal importance is the link with investors. If they are to be the primary focus for IR, then more needs to be done to identify the information and connectivities that they are interested in and would find useful. This probably needs to be tackled firstly by way of pilot studies with them and secondly studying with them their reactions to the examples produced by the pilot preparing organisations. Investors rely heavily on analysts and other intermediary agents between the company and the investor. ESG factors may be examined by some specialists but most general analysts will not consider them. If IR is to succeed then that picture has to change and initiatives along the lines of the former Enhanced Analytics model will need to be explored.

Pilot studies would in our view also include studies of the countries (such as South Africa) where integrated reports are being prepared covering both the perspectives of the preparer and the users (who may be wider than just investors).

Guided by these studies, decisions are needed on the direction and focus of IR in terms of the intended users and the scope of entities that should be covered. However we recognise that impetus needs to be maintained in driving the issues of better reporting including sustainability issues. It may be that there could be structured updates on the progress of the pilots so that the feedback will not have to wait entirely the expected two years until their conclusion.

The extent to which IR will aim to specify the sorts of ESG factors, measures and bases of those measures would also follow from these.

Following the pilot studies it would then be possible to develop a framework for IR. Therefore in our view the proposed date of 2012 for an exposure draft of this framework looks unrealistically soon.

Convincing governments and other regulators of the need for them to endorse the key elements of IR will be vital in certain countries if progress is to be made. In some places voluntary best-practice underpinned by 'market' pressures from investors may be enough, but in others to get acceptance a lead from governments will be needed with the implication that this might lead to requirements being imposed.

The development of the IIRC itself and its governance is, in our view, secondary, but should not be neglected and will need to keep pace with these other priorities. An organisation with proper governance will be needed for two main reasons – first to collect and allocate resources to develop IR initially, and

secondly to provide legitimacy to any guidance or standards that are eventually produced. An assessment particularly of the resources needed to achieve the different steps outlined above may be a determining factor in the immediate future. The legitimacy may be vital at a later point when any guidance is being produced.

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

We are concerned with the current geographical base for the IR initiative and the take up of the pilot programme so far. The IIRC needs to ensure that the concept reflects the concerns of, and gains acceptance in, Asia, other emerging economies and the USA, not just in Europe, Australasia and certain other countries.

Whilst the framework proposed is targeted towards big business, it is important that the public sector is not forgotten in the development phases. However it should not be assumed that an integrated reporting framework developed for the private sector will necessarily meet the needs of the public sector now or in the future. There are fundamental differences that need to be understood before an integrated reporting framework can be developed which will be suitable for public sector organisations. In addition, the IIRC will need to engage with a different set and of stakeholders to get buy in/support. We have already mapped the differences between private and public sector organisations and their rationale for reporting in our publication '*Sustainability matters: what are governments doing about?*'. For example, it is important to understand the domains, mechanisms and motivations for reporting in the public sector, as well the different regulatory environments. Once these are understood one can begin to think about developing a reporting framework. We are more than happy to work with the IIRC to develop its thinking in this area.

The DP notes that IR is mentioned as technology-enabled, but it does make very clear how reporting languages such as XBRL will be able to assist with IR.



If there are any matters arising from the above please be in touch with me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Martin', with a stylized flourish at the end.

Richard Martin
Head of Corporate Reporting