December 15 2011

To: International Integrated Reporting Committee
From: APG, CalPERS, NBIM.

Joint Submission to the IIRC re Discussion Paper on Integrated Reporting

We, the undersigned representatives of Algemene Pensioen Groep ("APG"), the California Public Employees' Retirement System ("CalPERS"), and Norges Bank Investment Management ("NBIM") write with reference to the public consultation period undertaken by the International Integrated Reporting Committee (IIRC) in conjunction with its discussion paper, "Towards Integrated Reporting – Communicating Value in the 21st Century." In addition to presenting our views on Integrated Reporting, we wish to emphasize the importance of involving long-term investors and financial standard-setters in the work of the IIRC.

With collectively over one trillion dollars under management, much of it invested in global equity markets, we rely on corporate financial and non-financial disclosures to make informed investment decisions. Our general view is that the scope and quality of corporate disclosures on financial, governance and sustainability performance varies greatly across companies, sectors, and geographic markets and should be strengthened.

With regards to non-financial reporting, the value of the disclosed information as an input into investment analysis is often limited. Given that environmental and social risks may be material to the (future) financial performance of companies, poor reporting standards and practices compromise our ability to accurately value companies and their assets, and ultimately, generate long-term financial returns.

There are still a large number of listed companies that do not provide any reporting on non-financial risks, particularly emerging market companies and small companies. We would hope that the IIRC also considers how Integrated Reporting may trigger such companies to disclose their environmental and social risk exposures and develop strategies for managing them.

The letter is organized into four sections, each of which outlines our perspective on a key issue related to Integrated Reporting. Where relevant, we have included direct references to the numbered questions posed by IIRC in the discussion paper. (e.g Q1, Q2 etc.)

1. Ensure Board Commitment

The concept of Integrated Reporting should be defined in such a way that it speaks directly to the context of corporate disclosures and serves to strengthen the accountability relationship that exists between boards and shareholders. [Q4] We argue that Integrated Reporting should reinforce support for the principles of corporate governance that underpin our interests as long-term investors. Boards of directors are responsible for the establishment of a strategy and policies securing business practices that are consistent with sustainable development and communicating all matters material to the understanding of how a company creates and sustains value. [Q8] They have a choice as to how transparently and consistently they inform investors. However, as shareholders, we will hold boards accountable for the choices they make. We expect boards to communicate strategy and material risks and rewards to investors in an adequate and timely manner that permits the strategy and performance to be understood. This includes the material risks and rewards that are associated with environmental, social, and governance (ESG) risk factors. We believe Integrated Reporting can help boards in carrying out these responsibilities, and providing a more comprehensive picture of all aspects of company strategy and performance.

2. Provide Better Explanations of Value

We view positively the aim of drafting an international framework for Integrated Reporting that is built on a broad consensus between international standard-setters, investors, companies, regulators, and civil society representatives. [Q1b] We believe this can give purpose and clarity to the concept of Integrated Reporting, and corporate financial and non-financial reporting more generally. Coordinated efforts to improve market transparency by promoting international harmonization of corporate accounting and reporting standards remains an important objective for long-term investors. As such, it would be important for the IIRC to ensure that the resulting framework retains broad support among relevant international standard-setting organizations, such as the IASB.

We expect corporate reporting to explain how companies generate value through their business models and the material risks they are exposed to. Under current reporting standards and practices, material information is oftentimes omitted or under-communicated. We would encourage companies to draw connections between financial and non-financial risk factors and performance data to provide a more accurate and clear explanation of their financial performance and future prospects for generating value. Hence, Integrated Reporting should remain driven by the central concerns of investors; how does the company generate and sustain value, what are the future risks to value generation, and how is the company managing these risks. [Q5a,b]

3. Act as a Catalyst

Integrated Reporting should be guided by an objective to provide better, simpler, and more focused reporting that can be used by investors to value companies. If implemented with this aim, Integrated Reporting can potentially strengthen the quality and usefulness of *both* financial and non-financial reporting. [Q9c] We expect companies to build good relationships with their key stakeholders, and as part of that satisfy their information needs where appropriate.

The discussion paper states that the “the main output of Integrated Reporting is an Integrated Report: a single report that the IIRC anticipates will become an organization’s primary report, replacing rather than adding to existing requirements.” (p.6) We regard this as a sensible long-term ambition. In the near to medium term, we suggest that the IIRC stimulate relevant expert organisations to develop a set of key performance indicators (KPI) that are verifiable, combine financial- and non-financial performance data, and that are of material relevance to the valuation of the company. For example, an integrated metric could combine measures of either energy, carbon, water, or resource use with a financial metric such as output, sales, or revenues. In turn, the disclosure of such metrics should be supplemented by qualitative information that explains their material relevance to the valuation of the company and outlines the company's strategy and action plan for improving performance over time.

4. Promote Forward-Looking Reporting

We expect boards to recognize the long-term nature of value creation processes and provide information to investors that enable them to understand the future risks and opportunities associated with the company's strategy. Integrated Reporting should help advance long-term risk management around environmental and social issues as a strategic concern within companies, and corporate reporting that more clearly assesses the material impact of ethical, environmental and social risks on the future value of the company. Adopting a long-term perspective is necessary to fully capture the material impact that climate change-related risks may pose to the long-term value of carbon-intensive assets. The greater use of scenario analysis and other long-term risk assessment methodologies may be necessary to estimate the long-term value of particular assets under different assumptions about future risks and opportunities produced by regulation, technological developments, and physical changes to the environment.

In conclusion, we are supportive of the concept of Integrated Reporting as set out in the high-level Discussion Paper.[Q3] As the project enters its next phase, the challenge will no doubt lie in making the framework more concrete and actionable so as to identify for relevant stakeholders how they can contribute to its implementation.

Yours Sincerely,

Claudia Kruse
Head of Governance &
Sustainability
APG

Anne Simpson
Senior Portfolio Manager
Investment Office
Head of Corporate Governance
CalPERS

Anne Kvam
Global Head of
Corporate Governance
Norges Bank Investment
Management - NBIM