14 December 2011

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The International Integrated Reporting Committee
Clarence House
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By email: dpresponses@theiirc.org

Dear Committee and Taskforce Members

Re: Discussion Paper: Towards Integrated Reporting

CPA Australia welcomes the opportunity to comment on the Discussion Paper *Towards Integrated Reporting – Communicating Value in the 21st Century*. CPA Australia is one of the world's largest accounting bodies and represents the diverse interests of more than 132,000 members in finance, accounting and business in 111 countries throughout the world. Our vision is to make CPA Australia the global professional accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest. CPA Australia is particularly well placed to provide informed and impartial comment on the proposed developments. Aside from our core interests in financial reporting, we have been actively involved in the emergence of non-financial reporting from the perspective of developing applied research, public policy and business practice; the latter as evidenced by preparation for each of the past three years a GRI compliant, independently assured, sustainability report

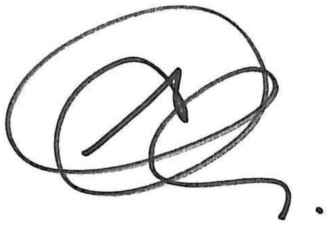
CPA Australia supports developments towards integrated reporting which reflect contemporary, and informed, views on the nature of corporate disclosure and is consistent with changing expectations around the role of business and the corporation within society. We see the current broad scheme of development as consistent with the imperative to move towards a more sustainable and equitable basis of wealth creation. CPA Australia's detailed responses to the consultation questions are contained in the following, key aspects of which are highlighted here:

- Critical to the development of integrated reporting will be an understanding of the boundaries and threshold between integrated reporting content and the other principal pillars of corporate disclosure – the Discussion Paper, in our view, does not fully address this threshold.
- There is a need for caution in recognising different jurisdictional/ cultural settings which shape different aspects of the firm in such fundamental areas as nature of ownership, board powers, stakeholder expectations and so forth. We see these as significant issues for both determining content, assessing information utility and identifying appropriate regulatory settings to encourage uptake. Each of these aspects should be better developed in any subsequent exposure draft.
- Related to the above, the Discussion Paper and the integrated reporting concept, might be strengthened by better reference to changes in underlying measurement methodology, for example in environmental externalities, and advances in report mediums, for example through web-based tools.
- The initial focus should primarily be on larger organisations. Concepts underlying integrated reporting are in many regards equally applicable to SMEs, the public sector and not-for-profit organisations. Nonetheless, there is danger in drawing too close an analogy between distinctive groups.

- There is potential for supply-chain pressure to encourage wider uptake of integrated reporting – this driver could be better articulated in the Discussion Paper.
- The use of multiple capitals, whilst plausible, would benefit from some discussion around contrasting ownership and control over each.
- Reference to investors is certainly pertinent. However, it must be recognised that stakeholders have different needs. This again, could be better articulated in the Discussion Paper, potentially around the boundaries between integrated reporting and the other primary forms of corporate disclosure.
- It is of concern whether companies would be willing to disclose within an integrated report what might be sensitive or uncertain information on future wealth creation. To this end, some fuller consideration ought be given to 'safe-harbour' arrangements, perhaps in allowing recognition of prejudicial information that may be validly omitted.
- There are evident challenges around decisions of materiality and the possible use of KPIs which help bridge the gap between internal business operations and external reporting.
- On the matter of comparability, it might be beneficial to explain how integrated reporting might be differentially used to compare between companies, between industries/ sectors and longitudinally within companies over time.

If you have any questions concerning our response, please contact Mr John Purcell CPA Australia's Policy Adviser ESG on 61 3 9606 9826 or at john.purcell@cpaaustralia.com.au.

Yours sincerely



Alex Malley FCPA
Chief Executive Officer

cc: J Purcell

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

Some commentators emphasise as a deficiency in financial reporting, the fact that value as reported in general purpose financial statements does not correspond and reflect the market value of an organisation. Consequently, the traditional net asset position is significantly different to the market value of the enterprise. An alternative view is that general purpose financial statements are not designed to show the value of an entity; but they provide information to help existing and potential investors, lenders, and other creditors to estimate the value of the entity. This is the view of the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB).

The market value of an entity contains a range of factors impounded into security price, including elements both contained and not contained in traditional accounting measurement, and will reflect also the cumulative impact of market expectations as to future returns. Market value can thus be highly variable and impacted by aspects of market efficiency - some attributes of which, particularly in the short term, may not be fully rational. It is imperative therefore to adopt measurement and disclosure methodologies which are relatively stable, though capable of responding to changing operating and market conditions.

Critical to the development of integrated reporting will be an understanding of the boundaries and threshold between integrated reporting content and the other principal pillars of corporate disclosure.

If integrated reporting can be developed so that organisations can reflect in their reports by means of integrating general purpose financial reporting with future focused value creation activity reporting, then both organisations and users of reports will benefit.

With the heightened emphasis on sustainability disclosures, companies are seeking inclusion in ESG type indices, and thus provide increased volumes of separate information on ESG practices. Some companies are selective as to the data they choose to disclose and much of it lacks materiality and can thus be dismissed as “green wash”. Existing reporting models (including those of finance, sustainability and governance) do not provide sufficient insights about factors such as risk, strategy, governance and sustainability of business plans, particularly in terms of interrelationships and interdependencies. There is therefore clear need to address the scope and quality of information disclosed.

The above said, it needs to be kept in mind that today’s organisations face significant compliance requirements related to year end reporting, legislative requirements along with satisfying a variety of stakeholder needs. Little however is made available to stakeholders which demonstrates the nature of value added and the prospects for generating into the future sustainable wealth.

It is acknowledged that corporate annual reporting is not meeting developing expectations around communication of the social, environmental and intergenerational impact of business, along with the need for companies themselves to better manage a diverse array of stakeholder expectations. Whilst integrated reporting seeks to address these challenges, it is important that there not be eroded current vital roles played by existing reporting frameworks and methodologies – be they financial reporting, sustainability reporting or governance reporting. Many of these have a strong regulatory basis and bear directly on directors’ duties and responsibilities.

Q1. (b) Do you agree that this action should be international in scope? Why/ why not?

Any action taken on reporting should be international in scope as an internationally standardized reporting framework would, for example, facilitate global investment and broader market understanding of how companies across borders report on ESG in a manner similar to the operation of IFRS for financial reporting.

Nonetheless, beyond a generic framework, there is a need for caution in recognising different jurisdictional/ cultural settings which shape different aspects of the firm in such fundamental areas as nature of ownership, board powers, stakeholder expectations and so forth. Moreover, any framework needs to be sensitive to local reporting and regulatory structures which impact in such vital areas as environmental regulations and director M,D&A commentaries; all of which will either underpin or be reflected in local integrated reporting practices. An integrated reporting framework must, on the one hand, be capable of international standardisation, whilst on the other, be flexible enough to accommodate national regulation and practice which determine the context within which a company operates and reports.

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

Given the present early conceptual development, it is difficult to disagree with the proffered definition in general terms. The definition might however be strengthened through inclusion of reference to "the organisation's net value creation impacts and the connectivity of its activities - - - ". It is further added that there may be some difficulty with either achieving, or even the merit of, the aspirational objective that the Integrated Report be the primary report until such time as issues of boundary and interaction are fully resolved.

Presently, there does not seem to be precisely addressed the interaction with other key components of both existing external corporate reporting nor formal internal corporate planning which may function on three, five, ten year, or even longer, time horizons.

The definition should demarcate clear boundaries for reporting which it presently does not seem to do. For instance, it refers to combining material information on separate reporting strands of organisations in a coherent whole to demonstrate how organisations create and sustain value over the short, medium, and long term. On the other hand, it also refers to combining organisation's strategy, governance, performance, and prospects to reflect commercial, social, and environmental contexts in which it operates. These are two contrasting approaches, the first connoting to combining information from existing reports, and second connoting to pursuing an organisational vision. They set two different reporting boundaries.

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

Conceptually, this is a significant initiative, that will require substantial thought and work to achieve its development. Overall, the concept behind integrated reporting offers organisations the opportunity to present their value creating – and value depleting – activities in a context useful to users of financial reports. This has significant societal benefits and contributes to the "social license" to operate. Further, it is vital that the emphasis be on meeting the needs of users, rather than those of preparers. Likewise, any framework which emerges will need to have rigor and credibility, in so doing, addressing the tendencies in annual reporting of both complexity and excessive brand/ reputation management.

It is worth observing that there is a reporting dilemma inherent in that which is being proposed. This will require significant thought. Some organisations that now report as "profitable" are likely to report as "depletors" of net value within an integrated reporting framework. Some types of industry will as such not function with a business model which is sustainable. In the longer term, this will help shape investment decisions and capital allocations - again, with societal benefits. In the short term however, this may create significant resistance to moving to integrated reporting.

Looking more broadly to both regulatory contexts and integrated reporting's interaction with existing reporting frameworks, it is suggested that some benefit would be gained in articulating how integrated reporting will (or will not) supersede, or alternatively dovetail with current reporting practices. This description should extend to some foreshadowing where integrated reporting will sit within the suite of reporting practices (for example, management reviews) along with identifying possible regulatory mechanisms which support its application (for example, stock exchange listing requirements).

As a further remark, it is suggested that the Discussion Paper, and any subsequent Exposure Draft, more clearly articulate the expected benefits around the information utility of emerging disclosure practices.

Q4. (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and the needs of investors? Why/ why not?

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

The initial focus should primarily be on larger organisations. A multitude of factors point to this initial approach – these range from impact and reach, stakeholder complexity, through to existence of regulatory and reporting frameworks that with give underpinning or are a precursor to integrated reporting.

The integrated reporting initiative will potentially fail if there is adopted an overly ambitious scope. This said, it is emphasised that the concepts underlying integrated reporting are in many regards equally applicable to SMEs, the public sector and not-for-profit organisations. Nonetheless, there is danger in drawing too close an analogy between distinctive groups. Specific challenges will be around measuring value creation and describing the business model appropriate to the public and not-for-profit sectors, along with identification of relevant stakeholder groupings. In time, there may be a case for some stratification of integrated reporting so as to reduce the likelihood that there is created an undue burden of required disclosure. Noteworthy also, is the potential for supply-chain pressure to encourage some wider uptake of integrated reporting, as has been the case with sustainability reporting.

Concerning the focus on the needs of investors, there is some clear basis for caution and careful deliberation. Reference to investors is certainly pertinent. However, it must be recognised that stakeholders have different needs. Indeed, annual, financial and sustainability reporting are designed to meet a wider set of stakeholders and assumption around information utility. If, as seems to be the case, integrated reporting should form the primary source of external reporting, potential negative outcomes may arise in terms of servicing the full gamut of interest in corporate performance and conduct.

The IASB position on the purpose of financial reporting is that it can assist decision making by existing and potential investors about buying, selling, or holding equity and debt instruments; existing and potential lenders and other creditors about providing or settling loans and other forms of credit. However, general purpose financial reports do not, and cannot, provide all of the information that existing and potential investors, lenders, and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks. Integrated reporting can be seen as a response to some of these needs. While the management of a reporting entity is also interested in financial information about the entity, management need not rely on general purpose financial reports because it is able to obtain the financial information it needs internally – hence, integrated reporting's endeavour to bridge some of the gaps between internal information and that which forms external disclosure.

Other parties, such as regulators and members of the public other than investors, lenders, and other creditors, also may find general purpose financial reports useful. However, general purpose financial statements are not primarily directed to these other groups. Two observations are made - first, this focus on financial reporting is broader than investors. Second, this focus is considered by some commentators as too narrow for the financial reporting of public sector and not for profit entities. Both observations have implications for integrated reporting and should be reflected, particularly in the longer term when dealing with the threshold between different types of user needs.

Q5. Are: (a) the organisation'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?

A full understanding of the business model will give a representation of the inputs, the transformation process and end value created, and this has merit as the basis of a reporting system. Over time, businesses innovate and transform; this dynamic needs also to be reflected in reporting innovation. Clearly, there are challenges to be resolved around reconciling both the measurement and structure of existing components of corporate reporting, with that which is envisaged as underpinning the concept of integrated reporting.

Whilst what is laid out seems highly plausible at a relatively abstract level, it is asked whether companies would be willing to disclose what might be sensitive or uncertain information on future wealth creation. Potentially, companies will report nothing more than what is publically known and that which meets brand and reputation management purposes. Unless appropriately addressed, this challenge will undermine both the quality of reporting innovation and the capacity to provide assurance type opinion. One form of 'safe-harbour' arrangement worthy of consideration is provision under Australian corporate legislation(Corporations Act 2011 s 299 Annual Directors' Report Pt 2M.3 – Div 1 – Annual financial reports and directors' reports) which allows for the omission of prejudicial information.

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

For integrated reporting to be useful, a reporter needs to analyse and disclose three linked aspects to explain how the organisation creates and sustains value: (a) the company's ownership, control and influence on various forms of capital; (b) changes in the stock of each form of capital from one reporting period to the next; and (c) **how** change in each form of capital affects change in the others (connectivity). On this basis, the concept of multiple capitals in helpful.

The 'how' question might best be addressed through an assessment of interrelationships between internal processes and structure, and how these are used to create and maintain competitive advantage. This internal focus should emphasis the discrete sustainability characteristics of the firm concerned.

An important challenge arising out of the proposed multiple capitals approach centres of differing respective measurement methodologies. Likewise, the legal rights which a company holds in relation to each type of capital needs to be better understood and articulated within any more formalised integrated reporting framework.

It is accepted that the Pilot Programme will enable the more practical exploration of the nature of connectivity between respective capitals, or holistically within an articulation of an entity's business model. Evident challenges will be around decisions of materiality and the possible use of KPIs which help bridge the gap between internal business operations and external reporting. It would be beneficial also if government could in some way be involved in the piloting process.

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?

The conventional view of corporate reporting is that it serves the economic interests of two key stakeholders above others, primarily the owners who need to understand corporate performance and stewardship in order to make and manage their investments; and secondly, companies themselves, who avail of the reporting process to better manage and understand their own strengths and weaknesses. Public regulation exists to ensure that information is sufficient and suitable for its purposes. The attributes outlined for guiding preparation of an Integrated Report, seem a suitable commencement point broadly developed from those used to guide existing corporate reporting.

Although the Guiding Principles provide a sound basis for the preparation of an Integrated Report, it might be worthwhile breaking down the strategic objectives into short, medium and long term. This could assist stakeholders compare organisations of similar size across jurisdictions. Again, such detail would be subject to considerations of commercial sensitivity and the potential exposure to litigation around claims of reliance on information disclosed.

On the matter of comparability, it might be beneficial to explain how integrated reporting might be differentially used to compare between companies, between industries/ sectors and longitudinally within companies over time.

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?

The Content Elements as discussed are all relevant and necessary. The additional attribute which might be covered as part of an individual company's commentary on its integrated report is some reference to how the integrated report links to discrete and detailed financial, sustainability, governance and other reporting.

Q9. From your perspective:

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

The benefits of integrated reporting is that it provides a coherent, consistent and integrated message to both shareholders and other stakeholders. Their insight and decision-making should thus be enhanced with wider positive societal consequences.

Companies are increasingly making the claim that sustainability is good for business. Integrated reporting is an opportunity for them to provide a more coherent and specific explanation as to why this is the case. Applied properly, integrated reporting should lower reputational risk and improve engagement with shareholders. As a form of discipline, a company that is producing an integrated report will, by definition, need to have more integrated management of its entire range of performance variables; physical, financial, environmental, social and governance. The significant challenge is to achieve this transformation in management, particularly within existing hierarchic and bureaucratic structures.

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

The further main challenge of integrated reporting is that it calls into question the efficiency of markets based around current reporting standards, and it also calls into question the fundamental efficiency of markets in serving society. It cannot merely be assumed that the interests of investors, corporations and society will converge, and that they are static, – people themselves have to achieve these outcomes, otherwise the transformation which is at the heart of the initiative will remain illusory. If integrated reporting is to facilitate the achievement of these goals, the integrity and integration of information in many companies will need significant enhancement. Finally, the challenge for identifying appropriate policy settings looms crucial.

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

It is difficult to generalize on this specific point given that “investors” are by no means a homogonous group having the same levels of awareness and sympathy for non-financial attributes of a business. Similarly, institutional investors will be subject to different types and scope of mandate. Many, in turn, will have access to specific forms and sources of briefing, and will have in many instances developed their own fairly sophisticated methodologies for screening potential investments. In this context, integrated reporting may be beneficial in redressing information asymmetries within the wider market. To repeat our remarks made elsewhere in this response, a perspective on investors does not, without more, ensure the meeting of reasonable expectations of the full range of stakeholders, nor should it infer any substituting of directors’ duties either generally or in relation to matters of disclosure.

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?

Q10. (b) What priorities should be afforded to each action? Why?

No specific comment is made in relation these essentially developmental matters.

Q11. Do you have any comments that you would like the IIRC to consider?
No further comments.