

14 December 2011

Mr. Paul Druckman
Chief Executive Officer
International Integrated Reporting Committee (IIRC)
c/o The Prince's Accounting for Sustainability Project
Clarence House
London SW1A 1BA
United Kingdom

Dear Mr. Druckman:

Discussion Paper: Towards Integrated Reporting – Communicating Value in the 21st Century

Ernst & Young Global Limited, the central entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the discussion paper *Towards Integrated Reporting – Communicating Value in the 21st Century* (Discussion Paper) issued by the International Integrated Reporting Committee (IIRC).

Overall comments

We support the goal of the IIRC to create a globally accepted Integrated Reporting Framework (the Framework) to help with the development of more comprehensive and comprehensible information about organizations, to support the transition to a sustainable global economy.

We view Integrated Reporting acting as a catalyst to simplify and harmonize current reporting regimes. However, we expect that this process will take some time, as IIRC explains the value of Integrated Reporting to preparers and the benefits of Integrated Reporting to business leaders, investors, regulators, policy-makers and others stakeholders. As a result, until such time as Integrated Reporting gains general acceptance, it will have to co-exist with financial, sustainability and other forms of reporting. This is because investors and other stakeholders will need to understand information being provided in the context of long-term performance, resource sustainability and governance. For that reason, we wonder if, initially, IIRC should focus on developing common language, definitions and consistent measurement principles, as well as creating linkages between the different concepts of capital, with the ultimate goal of bringing together the different reports into a single report.

We believe that it is important for the IIRC to work closely with the International Accounting Standards Board (IASB) in an effort to promote consistent reporting principles since there is an obvious interconnection with the IASB's Phase E of its Conceptual Framework project about "Presentation and Disclosures, including financial reporting boundaries". It also is important that the IIRC works closely with the Global Reporting Initiative (GRI) as GRI develops the next generation of its sustainability guidelines.

Integrated Reporting is a new concept and therefore not yet well known or understood. There is therefore a need for the IIRC to educate and engage stakeholders and preparers on the concept of Integrated Reporting. Technology (e.g., the internet, social media platforms, discussion forums, blogs, etc.) is likely to assist in that regard with user generated contents and suggestions.

Specific comments

Our views on the Consultation Questions on which the IIRC is seeking answers are set out in the appendix to this letter.

Should you have any questions, please contact Karen M. Golz, Global Vice Chair, Professional Practice (karen.golz@ey.com) or Denise Esdon (denise.esdon@ca.ey.com).

Yours sincerely,

Ernst & Young Global Limited

Appendix – Responses to the Consultation Questions

The world has changed – Reporting must too

1. (a) Do you believe that action is needed to help improve how organizations represent their value creation process?

The global financial crisis has undermined the confidence of global market participants and other stakeholders in the current corporate reporting regime. We believe now is an opportune time to challenge current corporate reporting practices and explore whether and how a new reporting model could be developed to streamline information while at the same time providing a more balanced and comprehensive view of an organization's value creation and performance.

- (b) Do you agree that this action should be international in scope?

Yes. The issues are global in nature and should be addressed internationally. However, the Framework would need to be flexible so as to take into account cultural differences in various jurisdictions.

Towards Integrated Reporting

2. Do you agree with the definition of Integrated Reporting on page 6?

The proposed definition of Integrated Reporting focuses on the objective of the process. In our view, the definition should clearly explain the nature of Integrated Reporting and what it concretely entails (for example, the integration of past and future performance, the monetization of externalities, etc.) as well as the Integrated Report (the outcome). The definition also needs to cover the following concepts, as they appear to be at the core of Integrated Reporting:

- Value, value creation and value sustainability (including the time horizon) and the relationship to organizational value
- Performance
- Governance and stewardship

An international Integrated Reporting Framework

3. Do you support the development of an International Integrated Reporting Framework?

We support the development of an International Integrated Reporting Framework that reflects the integration of the sustainability aspects into the reporting process, including management reporting, so as to provide management with information to make good business decisions, as well as providing investors and other stakeholders with information on which to base their decisions. However, we wonder if, initially, the outcome of the

Framework should be the Integrated Report, or whether the focus of the Framework should be to improve the understandability of the various reports produced by an organization through the development of common language and definitions, as well as consistent measurement principles and metrics, and the creation of linkages between the different concepts of capital. The knowledge gained from the Pilot Programme would provide useful input into that process.

4. (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?

We agree that the initial focus of Integrated Reporting should be on reporting by larger companies, as those companies will have the capacity to put an infrastructure in place to address the requirements of Integrated Reporting. However, the initial focus on the needs of investors may be too narrow, given the remit of the IIRC. As a minimum, the IIRC should clearly explain why it views investors (as providers of debt and equity) as its primary constituents (as opposed to, for example, economic stakeholders).

- (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. Ultimately, as the Framework is meant to be principles-based, it should be applicable to all organizations, irrespective of size or sector.

Business model and value creation

5. 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?

Yes. However, the Discussion Paper appears to overlook the organization's own values and how those contribute to its performance and value creation. In addition, the Discussion Paper seems to suggest that Integrated Reporting and building a business model (which gives the appropriate prioritization to the full breath of drivers of organizational value) as one and the same. This is most apparent in the definition of Integrated Reporting (page 6) and in discussion of the benefits (page 20). We suggest that this be clarified.

6. Do you find the concept of multiple capitals helpful in explaining how an organization creates value and sustains value?

The concept of multiple capitals is helpful in explaining how an organization creates value and sustains value; however, from an implementation standpoint, it appears to be complex. For example, some capitals are at the macro-economic level (e.g., natural capital) and others at the organizational level (e.g., human and financial capital). In addition, some capitals appear to have been excluded (e.g., reputational capital).

It may be worthwhile exploring whether there are other alternatives to reporting on a static capital concept, such as reporting on an organization's dynamic contribution (positive/negative value created), for example how an organization's investment in energy efficiency has an added value for the environment and also impacts financial performance.

Guiding principles

7. 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?

The Guiding Principles identified in the Discussion Paper are collectively appropriate, although there appears to be a slight tension between completeness of reporting on the key influencers of value in the business and the need for concise reporting. This may suggest the need for further work on building a consistent approach to determining what is sufficiently material and should be disclosed.

The Guiding Principle of materiality will likely be the most difficult to apply in practice, especially as it applies to qualitative information. Consideration should be given for organizations to disclose in the Integrated Report the process they followed in determining what is material in their own circumstances.

The Guiding Principles also miss some core concepts such as consistency, measurability and verifiability.

Content Elements

8. 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?

It is difficult to individually or collectively assess the appropriateness of the Content Elements without having a definition of value.

What will Integrated Reporting mean for me?

9. From your perspective:
 - (a) Do you agree with the main benefits as presented in the Discussion Paper?
 - (b) Do you agree with the main challenges as presented in the Discussion Paper?

We are in general agreement with the main benefits and the main challenges presented in the Discussion Paper.

- (c) Do you agree that Integrated Reporting will drive the disclosure of information that is useful for integrated analysis (from the perspective of investors)?

The completion and general acceptance of the Framework should contribute to the disclosure of information that is useful, from the perspective of investors, as long as such information is focused, concise and comparable. It is difficult at present to determine whether different user needs will be entirely met with an Integrated Report or whether there will be a need for them to “disaggregate” information (using technology to allow users to create their own reports). It is therefore important for the IIRC, in developing the Framework, to obtain as much insight as possible into the needs of various investor groups.

Future Direction

10. (a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Are there other significant actions that should be added?

The responses from this Discussion Paper as well as the input from the Pilot Programme should inform the development of an Exposure Draft of the Framework that should address the complexities involved in building connections between the concepts of financial performance, governance, sustainability, strategy, and risk.

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

Harmonization should be one of the most important actions.

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

The independent audit of financial statements currently plays a critical role in the global capital markets, and independent assurance of sustainability reports is recognized as a best practice. It is therefore reasonable to expect that when the Integrated Report becomes an organization’s primary report, investors and other stakeholders will want that report to be subject to independent assurance. IIRC should work closely with the International Auditing and Assurance Standards Board to identify and resolve potential auditability issues before the Framework is finalized.