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International Integrated Reporting Council
London,
UNITED KINGDOM

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Subject: Response to Discussion Paper 'Towards Integrated Reporting – Communicating Value in the 21st Century'

Dear Mr. King and Mr. Druckman,

We welcome the opportunity to submit our comments on the discussion paper and the integrated reporting framework published by the International Integrated Reporting Council (IIRC). By way of background and to put our comments into context: Eumedion is a representative of the institutional investors' interests in the field of corporate governance and sustainability. Our 69 Dutch and non-Dutch participants have a long term focus and represent around € 1 trillion in assets under management.

We would like to compliment the IIRC with its first effort for an international framework. With so many stakeholders and experts on either side of the reporting spectrum – financial and non-financial – it must have been difficult to take all of their do's and don'ts into account. Perhaps that is the reason the presented framework does not answer all the pressing issues of integrating financial and non-financial reporting. We favour one integrated report, but where do we find room for the annual accounts? As our investors put much value on assurance, how can that assurance be given to an integrated report when a statutory auditor is now only obliged to give an opinion concerning the consistency of the annual report with the annual financial statements? What is the role of the statutory auditor in an integrated report?

In the Netherlands we have some good examples of integrated reporting by listed companies: DSM, AkzoNobel and Philips. But those are companies already in the forefront of corporate social responsibility with their integrated sustainable strategy. Is an integrated report a tool to achieve that integration or should a company wait with an integrated report until it has reached a certain level of environmental, social and governance reporting?

In short, although we applaud the efforts of the IIRC, many questions remain to be answered. We would have liked this consultation to be less general and global. As you can see from our answers, nobody can really disagree with the general direction in which the framework is moving.

Below, you will find our answers to the questions presented in the discussion paper:

Q1

A) Do you believe that action is needed to help improve how organisations represent their value creation process? Why/ why not?

Yes and integrated reporting can also be a tool to improve the value creation process, not only in presenting that process better. It helps with “integrated thinking” in the company as a whole. An integrated report enables the reader to better understand the cause and effect relationships between financial and environmental, social and governance (ESG) performance. Reporting is not about documentation but helps changing the mindset. It works both ways as ESG performance is better documented and analysed, its contribution to the financial performance becomes clearer.

The challenge for companies will be to define which non-financial or ESG information is material in that value creation process. An IIRC framework should strive to reduce complexity but also to improve the quality of the report. It gives an opportunity for the Management Board and Supervisory Board to really inform the various stakeholders on what is important, in investor terms ‘material’, and what the challenges, financial and non-financial, are.

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

Of course. Without an international scope an integrated reporting framework would be of less value. By using the international approach, including the work of the International Accounting Standards Board (IASB) and the Global Reporting Initiative (GRI), it is possible to develop a new reporting standard that meets the challenges of the 21st century, and that fully integrates a company’s financial and non-financial information (including environmental, social, governance and intangibles). We expect from companies to present a comprehensive picture of a company’s ability to create and sustain value. Reporting is not a goal in itself but a means to improve performance and value creation.

Q2

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

[Definition: Integrated Reporting brings together the material information about an organization’s strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates value, now and in the future. Integrated Reporting combines the most material elements of information currently reported in separate reporting strands

(financial, management commentary, governance and remuneration, and sustainability) in a coherent whole, and importantly:

- *shows the connectivity between them; and*
- *explains how they affect the ability of an organization to create and sustain value in the short, medium and long term.]*

Yes. This definition is in line with ESG-approach of Eumedion, which is based on risk management, remuneration and reporting. We look at the financial and the ESG performance of Dutch listed companies and the related strategy. A broader look at risk management is a valuable part of a company's ability to assess its performance related to environmental, social and governance challenges like climate change, water shortage, labour rights and/or excellent checks and balances within the board. An integration of financial and non-financial reporting shows the direct link between ESG performance and strategy and the financial outcome. We see value creation and stewardship as an essential part of a company's license to operate.

Q3

Do you support the development of an International Integrated Reporting framework? Why/ why not?

Yes, but a framework only is perhaps not sufficient. It is also necessary to create guidelines and best practices. Comparability, relevance and fair value should remain important building blocks. The best practice of integrated reporting should be one global approach for integrated reporting.

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?

Yes. Small and medium sized companies have less capacity than large companies. At the same time larger companies have more and bigger impact on their social surroundings and on the environment. Their footprint and reliance on resources are more material. Financial reporting standards reflect that difference in size and impact as well. As institutional investors we would appreciate it if the integrated reporting framework would focus on listed companies (large *and* small) and on the largest non-listed companies.

And yes the initial focus of integrated reporting should be on the needs of the investors in the company as well. They have a responsibility as a shareholder or for their beneficiaries to know what the different financial and non-financial risks are and how the company implements its strategy that more and more has to focus on sustainability issues.

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, but Eumedion would like to avoid increasing the administrative burden for non-listed SMEs especially in these difficult economic times. Only if these companies would like to report on a voluntary basis because they think it can improve their business, they could be invited to start with integrated

reporting. Integrated reporting is not a goal in itself, it should help companies to create value and get a better insight in their risks and (market) opportunities.

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?

Yes. The business model determines the company's ability to generate and sustain value. From a business model stakeholders can deduct whether a company has a long-term perspective. Reporting is also important to compare performance among peers and over time. If an integrated report will improve comparability on both accounts it can help with value creation in the short, medium and long term.

Q6

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

Yes. Integrated reporting makes visible how the organisation uses different capitals (financial, manufactured, human, intellectual, natural and social), its impact on the different capitals, and their interdependence.

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?

[Five guiding principles underpin the preparation of an Integrated Report

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

Yes, it is well described and understandable. It is a continuation of the practice the investors are already familiar with from financial and sustainability reporting. Eumedium is a corporate governance forum and looks from a governance point of view to sustainability: remuneration, risk management and reporting. As remuneration and risk management are highly influenced by the strategic focus and connectivity of information, we appreciate the chosen guiding principles. Stakeholder inclusiveness is something a company cannot do without, as the stakeholders keep the company and its board abreast on its 'license to operate'. Likely there will be some reluctance by listed companies to report on "future orientation" and also "future outlook", see question 8.

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 principles should be applied in determining the content of an Integrated Report, based on the key elements summarized below. The presentation of the elements should make the interconnections between them apparent:

- Organizational overview and business model
- Operating context, including risks and opportunities
- Strategic objectives and strategies to achieve those objectives
- Governance and remuneration
- Performance
- Future outlook]

Yes, the content elements are well described and understandable and form a sound foundation for an Integrated Report. However the financial statements are not mentioned as a content element in the framework. As mentioned in the definition of Integrated Reporting also the financial statements are part of Integrated Reporting and are an important content element. So we would like to divide performance in financial and non-financial or ESG performance.

The goal of integrated reporting is to develop one report in which a company presents its performance in its entirety. But Eumedion would like to keep the annual accounts as part of an integrated report, as now is the case with the annual report and the annual accounts. As we said in our introduction, we still have some questions about the process surrounding the reliability of the data, the statutory audit and the role of the statutory auditor. The goal should be an integrated report that is really integrated with the current activities of the statutory auditor.

Q9

From your perspective as a policy-maker, regulator or standard-setter:

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

Yes, the main benefits are in line with what Eumedion sees as the main benefits. We have two reporting discussions at the moment: one on integrated reporting and one in the context of the IASB. The last one focuses also on removing clutter, which applies to both financial and sustainability reporting. IIRC could seize the opportunity to develop a reporting standard that brings out what is meaningful to investors on all aspects of a company's performance.

B) Do you agree with the main challenges as presented in the Discussion paper? Why/ why not?

Yes. There is a great need for all stakeholders to cooperate in finding a common ground. In this quest for an integrated reporting framework, one should make sure to build upon existing standards such as the IASB's, because of already existing reports/requirements. We acknowledge that especially the

management commentary need to be adapted to a more integrated approach. Removing the clutter on the financial reporting side and on the sustainability reporting side is essential in order to create a meaningful annual (integrated) report.

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?

Yes. We think that the IIRC is the best platform, discussion group to continue with the next steps towards a framework for integrated reporting.

B) What priority should be afforded to each action? Why?

An international framework, a real global approach is the highest priority for the investors. With conciseness, reliability and materiality as starting points. But we acknowledge this is a goal that will perhaps take many years to reach. For the short term we would like the IIRC to address the questions surrounding the statutory auditor and his role.

Q11

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

As many European listed companies already have an integrated report, it would be interesting to learn from their experience and perhaps compile a discussion paper on their best practices. It makes the discussion on integrated reporting more tangible and less abstract.

If you would like to discuss our views in further detail, please do not hesitate to contact us. Our contact person is Marleen Janssen Groesbeek (marleen.janssengroesbeek@eumedion.nl tel. + 31 20 7085883)

Yours sincerely,



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