

**ICGN**

International Corporate Governance Network

By Email: dpresponses@theiirc.org

14 December 2011

Dear Sirs and Madams,

Re: Towards Integrated Reporting

The International Corporate Governance Network (ICGN) is a global membership organisation of over 500 institutional and private investors, corporations and advisors from 50 countries. Our investor members are responsible for global assets of US\$12 trillion. The mission of the ICGN is to contribute meaningfully to the continuous improvement of corporate governance best practices through the exchange of ideas and information across borders. Information about the ICGN, its members, and its activities is available on our website: www.icgn.org. We are pleased to comment on *Towards Integrated Reporting*.

We welcome the publication of *Towards Integrated Reporting* and note that the principles set out in it are consistent with those underlying ICGN's philosophy as outlined in the ICGN Corporate Governance Principles and the ICGN's 2008 Statement and Guidance on Non-Financial Business Reporting. By way of demonstrating the alignment the Chair of the ICGN has also agreed to act as the Deputy Chair of the IIRC.

Our detailed responses to the questions posed in the IIRC discussion paper are set out in an appendix to this letter.

We think it is vital for IIRC to be clear about its overall objectives and to ensure it has the necessary support to pursue those it outlines. Is the primary objective to provide voluntary guidance on integrated reporting which companies can follow or does it see itself, as it clearly seems to, as having a leadership role in bringing together those responsible for developing corporate reporting requirements across a range of areas: financial, management commentary, corporate governance, remuneration disclosures and sustainability? Moreover, with regards to any leadership role vis-à-vis other organisations, how does it obtain its mandate for that role? Do key standard-setting and other relevant organisations developing requirements accept such a role for IIRC?

If it is not to be a purely voluntary organisation for companies and their investors, how does IIRC see its role progressing with regards to setting out requirements in the future? Does it see itself as just providing an overarching framework with which key bodies can be aligned whilst continuing to develop their own requirements, and/ or how does the IIRC see itself in the debate about ultimately the setting of globally mandatory standards on integrated reporting? In our view, fundamentally corporate disclosures need to be consolidated by cutting the clutter and getting greater focus rather than adding piecemeal.

We note the current membership has a strong representation from accountancy firms and accountancy bodies. In our view it is essential that financial standard-setters remain committed and actively involved with the IIRC process. It will be important to ensure that there is also full representation from investors and companies going forward; and that the IIRC engages both with investors who use accounts to take investment decisions as well as the sell side to ensure that the framework and its output add value for them.

We consider the IIRC pilot programme to be of great value in advancing the developing of the framework, and as the large take-up by companies suggest that they do, too.

We hope our comments are helpful to IIRC and wish to remain actively involved in the dialogue. If you would like to discuss any of these points, please do not hesitate to contact Carl Rosén, our Executive Director, at +44 (0)207 612 7098 or Carl.rosen@icgn.org, or Claudia Kruse, Chair of the Integrated Business Reporting Committee, at +31 20 60 48144 or Claudia.kruse@apg-am.nl.

Yours faithfully



Claudia Kruse
Chairman, ICGN Integrated Business Reporting Committee



Christianna Wood
Chairman, ICGN Board of Governors

Appendix - Response to detailed questions

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

We agree that action is needed to help improve how organisations represent their value-creation process. Until now the overwhelming emphasis has been on the financial statements, which reveal only a small part of the value creation process. We therefore welcome this initiative which is wider in scope.

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

We share the view that action should be on an international scale as the business community and especially the capital markets operate globally. Securing legitimacy and support for development and implementation of international initiatives is however difficult to achieve.

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

We are broadly supportive of the definition of Integrated Reporting. We believe the definition should include discussion of for whom the Integrated Report is prepared; and if for stakeholders whether there is any distinction between primary stakeholders such as the providers of risk capital with a strong direct interest in the company and some other stakeholders whose interest may be different or less direct. It cannot be assumed that an Integrated Report can meet everyone's demands at all times, and we would expect that companies by way of building strong stakeholder relationships meet their stakeholders' needs as appropriate.

From a drafting perspective it may be preferable to have a concise definition such as that contained in the first paragraph of page 6 supported by Explanatory Information.

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

We support the development of an Integrated International Reporting Framework but do not underestimate the magnitude of this task. As discussed above, it is vital for the organisation undertaking this task to have the support of all key players with a role in corporate reporting including investors, corporates, stock exchanges and accounting bodies, as well as financial auditors, governments, regulators, standard-setters, and others. Not only is the group very broad so too is the range of information covered- financial, that in management commentary together with governance, remuneration and sustainability information. In developing the Framework one also needs a clear view of the end goal and the route by which one will move from the current situation to the desired one over a presumably relatively long period – say a decade or more.

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? Why/ why not?

We believe on practical grounds that the initial focus should be on reporting by larger companies and the needs of their investors. The reason is that this is the area where the interest of companies and investors is traditionally greatest and relatively well-understood, and where the greatest resources are available to undertake pilot projects. Also, the materiality principle is easier to apply for the investor category of report users rather than for all the many other stakeholder categories.

4(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 organisations?

Whilst we would expect that the concepts underlying Integrated Reporting are equally applicable to small and medium size enterprises this is not really the core issue. The main issue is how they are to be applied in practice and the changes that are necessary to take account of differences in scale. There is much support for a 'think small first' approach when developing requirements for small and medium enterprises and care would need to be taken that by predominantly working with larger companies first one did not fail to take account properly of the needs of smaller enterprises. It is essential to have proper regard to materiality when applying requirements especially to smaller organisations.

5. 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?

The concepts of an organisation's business model and its ability to create and sustain value in the short, medium and long-term are appropriate central themes for the future direction of reporting but equally important is the extent to which it actually creates capital, i.e. the extent to which its performance realises its full potential for value creation.

6. Do you find the concept of multiple capitals helpful in explaining how an organisation creates and sustained values? Why/ why not?

While the concept of multiple capitals is not new as set out is provides both pointers and raises some issues at the same time. A number of different types of capital are identified: financial, manufactured, human, intellectual, natural and social. Firstly, it is important to recognise the interdependencies between the different types of capital, for example the ability to develop a brand to its full extent (intellectual capital) will depend on the abilities of the workforce (human capital). Secondly, the different nature of the different types of capital needs to be recognised: an organisation may have created substantial social capital but if it has not generated sufficient financial capital to meet its liabilities as they fall due it will not survive. Thirdly, is one looking at capital generation from the perspective of the company or more widely from society's perspective? Thus it may be that an organisation causes environmental problems thereby consuming society's capital but due to externalities it does not pay the full cost of its actions. Is this to be reflected in the Integrated Reporting Framework or not? While metrics for financial performance are well developed they are less so for other capitals. In order to gain more credibility

the development of more widely accepted and rigorous metrics is clearly needed. How would the IIRC intend to address such demands?

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. Why/why not?

The Guiding Principles would seem to provide a sound foundation for the development of an Integrated Report. An issue to consider is whether the principles are applicable to the development of the Integrated Reporting Framework or directly to the development by an individual organisation of its Integrated Report or most likely both. There would also seem to be merit in considering the inclusion of a principle that indicates the overall report should be 'fair and balanced' or its equivalent. This applies to both directors preparing the report and subsequent assurance. Moreover, the principles are written at a very high level and much further work will be needed to identify issues in making them operationally applicable. For instance, through whose eyes is materiality to be judged, those of the organisation and its investors or other stakeholders who may have a very different perception of what is material?

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. Why/why not?

The Content Elements identified appear reasonable but, in line with our comment in relation to some previous questions, they are currently only set out at a very high level and the challenge will come in making the decisions on the balance between principles and specific requirements in developing them further.

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

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

9(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?

From an investor perspective the benefits set out generally seem reasonable but the overarching one must be the last one mentioned, which results from the others, namely that it will lead to more effective decisions, better investment returns and more effective capital allocation. In terms of key challenges one not mentioned is that proper weight will be given to each part of the Integrated Report and that poor and unsustainable financial performance needs to be fully disclosed and not be masked by detailed information on more positive performance in other areas. Similar comments would of course apply to good financial performance not being used to under-discuss weaker areas of performance.

10(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?

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

If *'Towards Integrated Reporting'* is to have substantial impact on reporting practices around the world it is essential that it have the full support of key governments, standard- setters and regulators as well as companies. This will involve greater clarity on how the Integrated Reporting Project will dovetail with bodies such as the IASB in the shorter and longer term as well as widespread acceptance that the leadership team of the project is truly international and broad-based. This would seem to be a far tougher task than setting up pilot projects with individual companies. A bottom-up approach is unlikely to be ultimately successful. Greater clarity on how the project will achieve its ambitious goals would be valuable. On a separate issue, the paper does not discuss the assurance to be provided on different elements of the Integrated Report and this will have a crucial bearing on the perceived quality of the information provided. While assurance in our view is important, we recognise that the development of relevant metrics and reporting against them is more urgent and meaningful assurance may only be feasible at a later stage of development.

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

We have no further detailed comments. Our overall comments are set out in our covering letter.

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