



INSTITUTO DE
CENSORES JURADOS
DE CUENTAS DE ESPAÑA

Directora General

Professor Mervyn E. King
The International Integrated Reporting Committee (IIRC)

By email: dpresponses@theiirc.org

14 December 2011

**Re: IIRC Discussion Paper “Towards Integrated Reporting” –
Communicating Value in the 21st Century**

Dear Professor King,

- (1) ICJCE (the Instituto de Censores Jurados de Cuentas de España) is pleased to provide you below with its comments on the IIRC Discussion Paper “Towards Integrated Reporting” – Communicating Value in the 21st Century (the “Discussion Paper”). As members of FEE we have actively participated in the preparation of its comment letter to the Discussion Paper and we endorse its comments. However we wish to contribute to this debate highlighting issues of special relevance for us which you will find as an Appendix to this letter.
- (2) We **strongly support an action addressed to improve the information provided by the entities** so that this information is more useful to a wider range of stakeholders in their decision making processes and at the same time discloses, in a comprehensive and comparable way, information which may already be available but which is published in different and disconnected reports. We believe that Integrated Reporting, as it is described in the Discussion Paper, addresses this need.
- (3) The ICJCE is of the opinion that the **Integrated Report should be the main source of information regarding the performance of the entity**. We believe that not only investors but markets and the public in general may benefit from this information hence the significance of the project, which will have impact at a global level. The financial crisis has demonstrated that in several occasions not even the investors had the appropriate and sufficient information to take the correct decisions while they were receiving a lot of information without added value. Both the financial and the environmental crisis give us the lesson that there are more groups with a legitimate interest to receive information from the entities, a part of the investors which rightly remain the primary focus.
- (4) **The ICJCE advocates for an international approach for Integrated Reporting**. The objective of the project is the presentation of useful information in a global environment, hence the significance of international harmonization. We are of the opinion that the development of a common international framework is needed to facilitate the coordination and coherence in Integrated Reporting. Markets for capital, goods and services are

increasingly global and to take correct decisions and avoid distortion of markets, stakeholders will need homogeneous information on a global level.

- (5) **The audit profession can be of crucial importance to provide confidence in the information provided.** The provision of independent assurance on the information is a key factor, materiality, the level of assurance and the nature of the work to be performed should be studied due to the significance of the information. The audit profession is the best placed to provide such confidence.
- (6) The ICJCE is of the opinion that **in a first stage the largest companies should be enforced to publish an Integrated Report and therefore they are in the focus of developing the standard.** However, SMEs should also be taken into account and encouraged to think about the possibility to publish Integrated Reports in the future.
- (7) **The development of enforceable standards will be needed in order to reflect the financial and non-financial information in the integrated report.** These standards should be developed following the principles-based approach since this is the best way to achieve comparability.
- (8) Regarding **Governance of IIRC**, the ICJCE considers that the proper Governance is crucial for the credibility and success of the project; we support and contribute to this development.

For further information on this letter please contact Stefan Mundorf, ICJCE representative to FEE Auditing Working Party and to the Integrated Reporting Task Force at internacional@icjce.es.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'L. Iglesias', with a horizontal line underneath.

Leticia Iglesias
CEO

Appendix Answers to specific questions:

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

Yes. The financial crisis has demonstrated that in several occasions not even the investors had the appropriate and sufficient information to take the correct decisions while they were receiving a lot of information without added value. Both the financial and the environmental crisis give us the lesson that there are more groups with a legitimate interest to receive information from the entities, a part of the investors which rightly remain the primary focus.

The ICJCE is of the opinion that Integrated Reporting following the principles outlined in the Discussion Paper addresses the current need of information from investors and other stakeholders. The Integrated Report will put value on all the strategic, financial and non-financial information as well as sustainability and corporate governance information. We also believe that auditors can play a prominent role providing reliability to this information. The expertise of auditors may also help to achieve a more comparable and useful information and better risk management. We foresee, in this regard an important change on the role of the auditor.

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

Yes. The project for Integrated Reporting is the consequence of a market- and technology-driven globalization that produced, amongst others, two issues: the environmental and the financial crisis.

One of the responses to this evolution is a change in the communication of companies with its stakeholders, which since more than a century remains essentially unchanged. The final goal is the presentation of useful information in a global environment, hence the significance of international harmonization.

We are of the opinion that the development of a common international framework is needed to facilitate the coordination and coherence in Integrated Reporting. Markets for capital, goods and services are increasingly global and to take correct decisions and avoid distortion of markets, stakeholders will need homogeneous information on a global level.

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

The definition included in the Discussion Paper is a description of the objectives of IR rather than a definition of which Integrated Reporting is. Nonetheless, the ICJCE is of the opinion that the idea of integrated reporting is appropriate and workable, until the project is in a more advanced phase where the Integrated Report itself can be clearly defined.

Integrated Reporting deals primarily with communication of financial and non-financial, historical and prospective relevant data to stakeholders so that the

stakeholders should draw up their own conclusions. As this has come up in some discussions, we understand that it may be helpful to clarify that Integrated Reporting is not about giving evaluation criteria, but only about establishing which information should be included in the Integrated Report.

Because of the need for homogenous, reliable and useful information, a materiality will have to be determined, above which is the information to be disclosed; whether it is financial or nonfinancial. There will be various levels of materiality and thresholds necessary to adequately reflect the different elements of an Integrated Report. When developing the standard, the future oversight of its implementation should be contemplated, both by independent third parties and regulators

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

Yes, the ICJCE supports the development of an International Integrated Reporting Framework. The development of a common standard is needed in order to establish the financial and non-financial information in to be included in the Integrated Report, which will mitigate some of the issues that have resulted in the financial and environmental crisis.

These standards should be developed following a principles-based approach since this is the best way to achieve comparability. To our understanding, the IIRC should not develop a hierarchy of values since the users of the information must draw their own conclusions. The standards should state which information should be disclosed to the different stakeholders allowing them a comprehensive understanding of the entity, and under which circumstances such information is deemed relevant or material.

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

Q4. (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?

The ICJCE is of the opinion that in a first stage the largest companies should be enforced to publish an Integrated Report and therefore they are in the focus of developing the standard. However, SMEs should also be taken into account and encouraged to think about the possibility to publish Integrated Reports in the future.

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 ICJCE agrees with the core aspects included in the Paper: the business model and ability of the entity to create and sustain value in the short, medium and long term. The entity should explain those aspects and the stakeholders can take their decisions and react to the information provided.

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

The ICJCE considers that the concept of multiple capitals is useful to explain how is the entity creating and sustaining value, however we are of the opinion that these need to be tested in practice regarding relevance and practicability. Also, the standard itself needs to be open to allow in the future seamless integration of new elements that may then be relevant.

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 ICJCE believes that, in general terms, the principles identified in this document are appropriate though:

- The principle of comparability should be a goal in itself
- Before issuing a final document, it will have to be assessed whether it is feasible to put principles into practice.

Q.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?

We believe the Content Elements are individually and collectively adequate.

Q9. From your perspective as a key stakeholder:

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

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

The ICJCE considers benefits and challenges identified appropriate but would like to add as challenges:

- From the point of view of the entity: Changing the mindset of the organization and those that interact with it.
- From the viewpoint of the auditor: The regulation and liability as issues to be analyzed.

Additionally, since the document itself states on page 13 "Reliability is enhanced by mechanisms such as robust stakeholder engagement and independent, external assurance" we consider that the assurance issue should be considered in developing the framework, how to integrate assurance, through one or more separate or integrated reports, and to determine the structure of the report as well.

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?

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

The ICJCE considers of special relevance the analysis of practices and developments in the public reporting of entities of the information relevant to Integrated Reporting and the Governance of the IIRC, so that the standard can be implemented at a global level.

Q11. Do you have any other comments that you would like the IIRC to consider?

The ICJCE is of the opinion that in order to make the Integrated Information useful and timely the use of the new information technologies should be considered.