



By email: dpresponses@theiirc.org

Professor Mervyn King
INTERNATIONAL INTEGRATED
REPORTING COMMITTEE
c/o The Prince's Accounting
for Sustainability Project
Clarence House
LONDON SW1A 1BA

14 December 2011

Dear Professor King,

**DISCUSSION PAPER:
TOWARDS INTEGRATED REPORTING: COMMUNICATING VALUE IN THE 21ST CENTURY**

The European Round Table (ERT) is a forum of around 45 European industrial leaders whose companies represent a combined annual turnover exceeding €1,600 billion, thereby sustaining around 6.6 million jobs in Europe. Companies behind ERT Members, whose individual market capitalisation represent a significant proportion of the various European stock exchanges, cover a wide range of industry and technology sectors, with headquarters situated in 18 European countries.

ERT monitors and responds to significant issues, seeking to promote the competitiveness and growth of Europe's economy and to influence and support meaningful and value added regulatory developments.

Overview

The ERT welcomes the IIRC's proposals in respect of improving reporting – this is a very topical and much needed area for improvement.

We commend the IIRC for taking the initiative to table proposals and welcome the chance to comment. The ERT believes that on the whole the IIRC document is a helpful development to allow debate on improving reporting.

The ERT would note that this is but one of several initiatives that are currently looking at the future of reporting. The large number of organisations involved with the IIRC is to be commended – the ERT trusts that the IIRC will seek to be the umbrella organisation that brings all of these initiatives together and it would be more productive if it can receive a mandate from its relevant parties for its efforts.

Current practice

Reporting seems to have developed over the recent years as a reactive mechanism to drive compliance. The seemingly haphazard nature of financial reporting, governance, remuneration, and other standard development in isolation to the holistic view undermines the usefulness of corporate reporting.

“Reporting” is becoming less and less valuable to shareholders and other users as meaningful messages are swamped by numerous regulatory driven requirements. As reporting trends towards compliance, starts to lose its effectiveness.

As such, the IIRC proposals come at a time when reporting is in need of change to be more relevant and useful.

Regulator support

The ERT welcomes regulators playing a role within the IIRC. Without regulators embracing improvement and be a party to the IIRC mandate, it is difficult to foresee how integrated reporting will improve current reporting which as noted above seems to be driven more and more by bespoke regulatory requirements in isolation to a more holistic approach.

Compliance reporting – as opposed to communication - is somewhat flawed as the current state of reporting requirements has more recently unfortunately led to excessively long annual financial reports full of boilerplate language. The reporting regime should support the valid attempts by the IIRC to lift reporting into a meaningful communication tool, a principle the ERT would wholeheartedly endorse.

As such, it is vitally important that regulators are supportive of changes in reporting and are seen to be facilitators of change. The IIRC needs to be supported by the regulatory community and, if so, the ERT believes the IIRC initiative will be highly beneficial.

Better quality information rather than more quantity

The ERT would strongly support an additional reporting framework if all stakeholders accept that it alleviates some of the current reporting overload.

The ERT has concerns that the IIRC Discussion Paper implies that information currently required in annual and other regulatory reports may ‘simply’ be shown as part of a corporates website. The ERT does not believe that the goal of better, more informed reporting is achieved by simply disclosing current information requirements in a different place. The IIRC goal should be to cut, not add, to the endless drift of information requests - especially where such information is not used with the business - placed on corporates.

Ongoing reporting developments

The IIRC document begins to establish a sound integrated reporting framework. The maintenance of that framework needs to be carefully considered as part of the IIRC’s next stage of thinking; what may start as a sensible statement of principles will be quickly undermined if incremental changes occur thereafter in an unstructured manner. Whilst the ERT acknowledges that the IIRC cannot foresee every circumstance that may arise, the framework should be robust enough to be able to cater for change. There has been very limited discussion of how the IIRC foresees integrated reporting developing over time in the Discussion Paper which is an important point to address for the next stage of discussions.

Forward looking statements

The guiding principles refer to future orientation and the paper says that it should be applied by making the interconnections apparent.

We would reiterate the need for regulators to be aligned to the proposals set out in the Discussion Paper not least in respect of corporates providing forward looking statements. In the absence of appropriate mechanisms to manage the risk of making such statements (for example, acknowledgement of the need and creation of a safe harbour regulatory regime), the proposals are unlikely to be adopted as widely or as usefully as intended.

Whilst we acknowledge corporates already disclose some information about their business prospects, the IIRC should balance the benefits of integrated reporting with the risk – which is currently not fully acknowledged - of corporates actually being able to meet the requirements.

Summary

In principle, ERT is in favour of measures that improve communication and help growth by allocating capital efficiently.

ERT is opposed to measures that increase cost or the regulatory burden for corporates without extensive studies to show that the measures do indeed benefit the wider stakeholder community and economy.

As such, the ERT is supportive of:

- a voluntary framework and the direction of the IIRC proposals;
- the IIRC making a commitment that integrated reporting is about better information not more and as such, corporates should be able to reduce the volume of information collected;
- the IIRC seeking commitments from regulators that forward looking information can only be supplied if adequate legal protection are in place; and
- a strategy that included IIRC obtaining a strong public statement of support from the regulators involved to support less boilerplate, less prescribed disclosures.

We would be open to have a discussion on the position taken by ERT on this matter.

Yours sincerely,



James Singh
Chairman, ERT CFO Task Force
CFO, Nestlé

CC : Mr. Leif Johansson, Chairman, European Round Table, Chairman Ericsson

Encl.: Answers to the DP questions

ANSWERS TO THE DP QUESTIONS

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

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

(a) The ERT is supportive of a greater emphasis of the value creation process in financial reporting especially if accompanied by a recognition that compliance based boilerplate disclosure undermines effective, clear communication.

We would note that the IIRC proposals focus on “what” rather than on “how” such reporting should be undertaken. The ERT believes it would be helpful for the IIRC to provide more concrete proposals in terms of presentation, types of KPIs, etc. Value creation can have several meanings depending on its context; the IIRC should therefore strive to find a common definition.

The ERT welcomes the recognition that the IIRC has of the disconnect arising from disclosures between management discussion & analysis, financial statements, governance and sustainability reports to name but a few.

The ERT is supportive of measures that would allow corporates to present less but more pertinent information in a more meaningful manner for stakeholders. Reporting requirements should be aimed principally at those stakeholders with real interaction in their dealings with the corporate (for example, shareholders, creditors, tax authorities).

The ERT does not subscribe to a view that integrated reporting should try to be “all things to all people” and the ERT support is predicated on the basis that the IIRC’s principle stakeholder is the shareholder/investor in the corporate.

(b) The action should certainly be international in scope. Divergence of integrated reporting requirements around the world will weaken its effectiveness, add confusion to stakeholders and add unnecessary cost to corporates who have presence in multiple jurisdictions.

It should be noted that integrated reporting proposals will have to be drafted in a way that allows the proposals to be adapted to address local sovereignty requirements to achieve a high degree of comparability.

The ERT notes that there are a number of bodies in other jurisdictions looking at aspects of integrated reporting and it would be very helpful if the regulators in those jurisdictions aligned the local requirements to allow compatibility with the requirements of integrated reporting. There seems limited joined up thinking at present; whilst it is recognised the IIRC cannot necessarily dictate terms, the IIRC does appear to have the ability to be very influential in helping drive better reporting - part of better reporting requires far better alignment between the wide disparity of consultations being undertaken around the world.

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

We would agree with the definition of Integrated Reporting.

We note that the proposals may in certain instances conflict with existing requirements of the regulators concerning management’s discussion and analysis (for example, as promulgated by the SEC or the EU Transparency Directive), corporate governance and country by country reporting.

There are a number of bodies who have made recommendations for Corporate Social Responsibility disclosure. The IIRC will face a considerable task of pulling together all these requirements.

The ERT believes that for integrated reporting to be successful, the IIRC will have to convince regulators that the integrated reporting is compliant with their rules and regulations. Given the rule based approach of certain regulators, we have concerns whether this would be possible in practice.

The ERT would particularly like to emphasise the inclusion of the words materiality and proportionality in the definition of integrated reporting. The volume of data flows that occur in the world today are unprecedented; reporting demands that only significant information is conveyed – this is by nature, judgmental. Integrated reporting will fail if the IIRC and regulators fail to grasp that “less is more” and to achieve better reporting, a degree of judgment not boilerplate standards will be required. In turn, there needs to be an acceptance across all stakeholders that integrated reports may not always get the balance right.

The suggestion that one can have an integrated report and file a significant amount of supplemental information on a website seriously undermines the benefits of integrated reporting. If integrated reporting is predicated on compiling the same (or more?) information as corporates currently have to collate today, it is extremely unattractive and undermines the definition proposed.

The ERT is supportive of more concise, more meaningful and understandable reporting – this means that the volume of information disclosed will reduce, regulators will need to accept a less objective reporting framework and be prepared to be proportionate in their dealings given the increased subjectivity.

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

We would support the development of integrated reporting and would trust that initially, the IIRC would be promoting adoption on a voluntary basis with a very clear message that those who choose not to adopt integrated reporting should explain why.

Our reservations are set out in Q2 above. We would reiterate the need for judgment as opposed to a ticklist of requirements.

The IIRC discussion paper is at times quite vague. For instance, it does not explain “how” integrated reporting could look; the discussion paper limits itself to generic statements such as “a broader explanation of performance than traditional reporting” and “the Framework will be a focal point for the harmonisation of companies”. While we understand the use of such generic statements, it is not immediately obvious what they are going to mean in practice.

The ERT would hope that the IIRC would promote the fact that it is not only in corporates interest to provide concise, meaningful & understandable information but also it is only corporates that can really decide what information meets these criteria.

The ERT recognises that there will be naysayers who would question whether corporates will ever be transparent unless strict guidelines and criteria are laid out for reporting; in practice, a carefully drafted framework will provide greater transparency not less. The IIRC should not seek to catch the sinners by drafting more prescriptive criteria but rather provide the opportunity to allow corporates to tell their story.

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?

(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?

(a) We agree with the initial focus on larger listed companies on a voluntary basis. If integrated reporting is genuinely beneficial – we are supportive but can foresee that regulatory intervention could render it impotent – then corporates will embrace it notwithstanding there is a set up cost associated with any reporting change. It makes sense that the initial focus should be on large corporates given the overwhelming focus on reporting appears to centre on such corporates.

(b) The application of better, more integrated reporting for all entities makes sense; we would note that all reporting has a time and often economic, cost and the IIRC would need to think carefully about the requirement and availability of resources for these companies. A voluntary code would allow organisations to assess whether integrated reporting is beneficial; one would hope that if it is, such organisations will readily adopt integrated reporting.

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?

We agree with the focus on the business model and the ability to create and sustain value as that is a central goal for any business.

An overview of any business describing:

- its model;
- the value it seeks to deliver;
- the objectives laid out for the inputs required to deliver the value (covering wider performance metrics than just financial KPIs); and
- associated risks in achieving the value;

is a very good building block to assess an organisation’s performance.

Integrated reporting should help refine existing reporting, which often contains most if not all of these elements, by focussing on the holistic story and not on compliance.

The ERT would note that historical financial performance continues to be an important information tool as it provides evidence of actual, rather than just aspirational performance. As such, stakeholders need to be able to assess management’s ability to manage the assets at their disposal (stewardship) and is a very important part of communication. Whilst past performance is no guarantee of future performance, it does provide better evidence of what has been achieved.

Regulators need to be aligned to the proposals set out in the Discussion Paper not least in respect of corporates providing forward looking statements. In the absence of appropriate mechanisms to manage the risk of making such statements (for example, acknowledgement of the need of a safe harbour regulatory regime), the proposals are unlikely to be adopted as widely or as usefully as intended.

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

The concept of multiple capital might be useful but should not be a straitjacket to bind each and every corporate to have to document how each type of capital is addressed. Integrated reporting as we understand it, would imply that different corporates may have a very different mix of capital to which they should refer.

The ERT would warn that the IIRC should not slip into trying to over rationalise aspects of integrated reporting. For instance, theoretical concepts such as the valuation of social and environmental capital, may be academically interesting but would be costly to apply in practice for very little benefit.

The IIRC should seek pragmatic solutions that corporates can apply without investing an unreasonable amount of resource.

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?

There is a lot of good material included within the Discussion Paper for helping develop the Framework; we have reservations about the practicability of certain principles:

As noted in Q6, the concept of human, intellectual, natural and social capital may help a corporate consider the integrated report; mandating reporting on each of these areas would be very unhelpful and a barrier to better reporting.

The ERT is supportive of reporting of KPIs; currently, the Discussion Paper is quite abstract in what it is seeking. The IIRC should - to the extent it has not done so - seek to capitalise on existing consultations and responses (e.g. GRI) to provide better examples of what it would hope to see in practice.

The provision of forward looking statements is inevitably tied to the regulatory regime; the inclusion of targets, forecasts, projections, estimates and sensitivity analysis is not considered practical without much greater consideration and discussion of what is the purpose of providing this information is and how it can be provided given regulatory restrictions that currently exist.

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 ERT agrees with the identified elements at a high level. We would like to draw your attention to the following points:

- Organisational overview and business model as well as operating context, including risks and opportunity: the ERT believes that this should be carefully checked against the management discussion & analysis requirements of the various jurisdictions (please also see our answer to Q2 in this respect). Integrated reporting should be genuinely integrated with the existing reporting requirements as opposed to being an additional layer on top of the existing requirements. The IIRC is uniquely placed given its membership to address this fundamental issue.

- Content elements: it is unclear what the IIRC is proposing with respect to the disclosure of processes; this may in practice be of little relevance to stakeholders in the context of understanding how a corporate seeks to add value.
- Strategic objectives and strategies to achieve those objectives: the IIRC should be aware of the risks of divulging proprietary and competitive information which is illegal in certain jurisdictions. The ERT would oppose providing information that is commercially sensitive and so the concept of proportionality needs to be considered in the context of the level of disclosure that a corporate can reasonably be expected to make.
- Governance and remuneration. The ERT would note that this is often governed by compliance with the local legislation.
- Performance: it is unclear whether the IIRC is suggesting that defined KPIs for disclosure will be mandated. If so, these should be disclosed so stakeholders can comment accordingly. Fundamentally, any mandated disclosure undermines integrated reporting. KPIs have to be entity specific in our view as they have to be linked to measuring the objectives that a corporate has set to generate value.
- The IIRC could help by illustrating with some illustrative examples what it means when it says “the organisation’s view of its major external, economic, environmental and social impacts and risks up and down the value chain, with material quantitative information to the extent practicable”.
- Future outlook: this will be dependent on addressing the reporting of forward looking statements (please see our comment in the introduction and our answer to Q7).

Q9. From your perspective:

- Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?**
- Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?**
- 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?**

We would certainly agree with the benefits.

The challenge is for all stakeholders to recognise and act with regards the existing redundancy of information provided today.

The integrated reporting would add value only if current mandated reporting requirements (for instance, regarding MD&A, corporate governance and CSR) are integrated into a single report that would be accepted by the regulators.

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 key priority is progressing the introduction of a harmonised integrated reporting regime in the various jurisdictions and obtaining clear public support from regulators.

The ERT would judge the success of integrated reporting by the consistency with which it can be applied in various jurisdictions and the degree to which existing superfluous information can be reduced as well as stakeholder feedback.

The IIRC should certainly seek extensive outreach with stakeholders as it progresses towards an Exposure Draft recognising that corporates have very limited time to engage on such matters given the focus on adding and delivering value as well as the existence of numerous other consultations.

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

We do not have any additional comments.