

INDIANA CPA SOCIETY

Response to IIRC Discussion Paper

TOWARDS INTEGRATED REPORTING
Communicating Value in the 21st Century

INCPAS IIRC Task Force

12/14/2011

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These comments are submitted by the Integrated International Reporting Task Force of the Indiana CPA Society. However, the comments have no official status, and do not represent either the approval or disapproval of the exposure drafts by the Society or its board of directors.

Question 1(a). Do you believe that action is needed to help improve how organizations represent their value creation process? Why, why not?

We agree that companies should improve their reporting practices related to how their organizations create value. The adoption of a globally accepted report would be welcomed by investors, shareholders, regulators, etc.

Given that the value companies create can no longer be clearly correlated with physical and financial assets on the firm's books, we support the continued efforts to provide the market with pertinent information regarding the firm's value creation process. The marketplace now attempts to obtain this information from multiple sources in order to place a value on the individual firms.

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

Absolutely agree! It is imperative that this integrated reporting standard is developed globally. It will be extremely difficult to adopt such reporting practices under one standard; however, multiple jurisdictions determining the appropriate manner to report will render this process hopeless. The world does not need another IFRS versus each country's respective GAAP match.

Question 2. Do you agree with the definition of Integrated Reporting on page 6? Why, why not?

We agree with the definition of integrated reporting. We believe the integrated report would provide all the elements to gain a comprehensive understanding of a firm. Much of this information is available to interested stakeholders in various reports and other public information. However, the development of a comprehensive integrated report will provide the detail in one concise format.

While we support the concept, we recognize that substantial work must be accomplished in order to effectively implement such a new reporting paradigm. Safe harbors must be developed for companies, their board of directors, and the CPA firms opining on the reports. CPA firms will be forced to not only opine on whether or not past financial events were accounted for properly, but also determine that strategies and the value creation process are properly described. In addition, substantial work will be required to ensure that information on sustainability is accurate.

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

We support the development of an International Integrated Reporting Framework. We strongly believe that this is a natural extension of work that should fall within the boundaries of the public accounting profession.

We also recognize that for this process to be effective and efficient, public accounting firms will need to increase skill sets within their firms in several areas. We believe that firms can obtain individuals with the necessary training and skills given the anticipated timelines established in the discussion paper.

Question 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?

The initial focus should be on large publically-traded companies. These companies typically have more resources to obtain, analyze, and verify the pertinent information. More importantly, given that a publicly traded firm's value is determined primarily outside of physical and financial assets in today's markets, these firms have more incentive to provide additional information to their investors. Many public companies already compile this information in separate reports, thus consolidating the reports into one concise and useful way will provide value and transparency for investors. This concise, comprehensive reporting will allow investors to better assess the company's strategies and performance.

Question 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 organizations?

We do not believe that the integrated reporting requirements will have nearly the value to non-publicly traded companies as compared to publicly traded firms. Public companies will be able to highlight their value creation process which should justify their market valuations. In addition to this major issue, we believe that requiring small and medium-sized enterprises and non-profits to prepare a comprehensive integrated report would be difficult for the following reasons:

1. Insufficient data to prepare such reporting
2. Lack of staff to properly obtain, analyze, and prepare such reports
3. Costs to prepare could greatly outweigh any potential benefits associated with integrated reporting

While recognizing the difficulties that this type of reporting would necessitate for many of these entities, we also acknowledge that some of these firms will be required to adopt some form of integrated reporting by larger customers or donors. However, we would strongly encourage the IIRC to consider the fundamental differences among the large, medium, and small enterprises and not-for-profit organizations prior to adopting any final standards.

Question 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? Why, why not?

We agree that identifying the business model and the creation and sustainability of value are appropriate themes for future reporting.

Question 6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why, why not?

We agree with the concept of multiple capitals; however, we would request the International Integrated Reporting Committee to consider the following items in your discussions.

1. We believe that a clear definition of what is meant by value is needed. In our group, we had some questions on exactly what is intended by this term in the discussion paper.
2. We are concerned about the level of currently proprietary information that will be disclosed under this proposed framework. We believe that management is generally in the best position to determine the appropriate level of disclosure on items such as strategy and value creation. Most firms (with good business reasons) are reluctant to publicly share all aspects of their strategic plan and future directions. Will this proposal place public accounting firms in the position of determining what level of detail is appropriate?
3. We are concerned that areas such as natural and social capital will require a substantial amount of professional judgment from a reporting perspective. Given the increasing oversight and regulation of all businesses, including public accounting firms, we are concerned that a professional’s judgment will be heavily scrutinized in these key areas. This may be an area where intelligent, experienced individuals can reach very different decisions based on their life experiences, etc.
4. We again urge the International Integrated Reporting Committee to ensure that sufficient time is allowed prior to implementation. This will allow both reporting entities and public accounting firms to ensure that appropriate systems and personnel are in place.

Question 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?

We agree that guiding principles provide a sound foundation for beginning this integrated reporting process. We offer the following comments for your consideration.

1. Completeness is a matter of utility to the reader. When evaluating overall business condition and environment, there are potentially thousands of academic paradigms that could argue for their superior approach. While the five principles are arguably complete in a generic sense, the user and issuer would both likely wish to go beyond the principles for any particular client. Hence, the word “guiding” over these principles is a critical piece of the term.
2. We are concerned with the potential expansion of information that a public accounting firm could be responsible for auditing and expressing an opinion thereon. Clear guidance will be necessary on what aspects of this integrated report were audited, versus reviewed for accuracy, etc. We would anticipate that many aspects of this integrated report would be treated in a manner similar to the Management Discussion and Analysis section of public company annual reports.

Question 8. Do the Control 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 agree with the control elements contained in the discussion paper. All of the control elements could stand alone and seemed necessary for comprehensive integrated report.

Question 9. From our perspective:

(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?

We agree with the majority of the benefits and challenges presented in the discussion paper. We offer the following comments for your review and consideration.

1. We do not believe that all the benefits are of equal importance to the various stakeholders. We encourage the IIRC to consider the relative value of the various reporting components prior to the issuance of a standard.
2. We strongly encourage the IIRC to ensure that investor viewpoints are obtained and seriously considered in the early stages of this process. While the accounting profession is excited about expanding the type and quality of information available, it is imperative that the information is needed/desired by the investor community.

3. International regulatory acceptance and endorsement is critical to a company's ability to respond and prepare integrated reports. We can't overstate the importance that this standard is developed with the unanimous support of the participating countries. We acknowledge that this represents a large obstacle to moving integrated reporting forward; however, it is a necessary step for both the reporting organizations and the investing community.
4. Given the litigious nature of most societies today, the IIRC must work with the various governments to ensure the necessary safe harbors are legally recognized and appreciated. Without substantial improvements in the current laws, companies (board members, management, and employees), CPA firms, general counsels, etc., will be very resistant to this process.
5. The most challenging aspect of this process, in our opinion, will be the transformation necessary to encourage companies to share strategies and future directions in the public arena. While we recognize the importance that this type of disclosure has on determining value, we see this as a potentially insurmountable obstacle for most companies operating in highly-competitive marketplaces.

Question 9(c). Do you agree that IR will drive the disclosure of information that is useful for integrated analysis (from the perspective of investors)?

Yes, but we believe that it is critical to have an open dialogue with the investor community (both large and small) to ensure that the information contemplated in this document will actually be used in performing their analyses.

Question 10(a). Do you agree the actions listed in the Discussion Paper should be the next steps undertaken by the IRC? Why/why not? Are there other significant actions that should be added?

We agree with the actions listed in the discussion paper. In addition, we recommend that such actions occur in the prioritization and sequence.

1. Pilot Program
2. Framework
3. Measurement and reporting practices
4. Outreach
5. Governance
6. Harmonization

What is the evaluations criteria and process for deciding on full implementation? Especially considering the cost/benefit and the scope of the organizations impacted.

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

We would once again encourage the IIRC to work diligently to gain international acceptance on key points prior to adopting final standards. We are very supportive of the concepts contained in the exposure draft; however, we do not support a piecemeal approach that will result in large companies preparing different types of integrated reports for various countries around the world.

We also believe that the IIRC should carefully consider the costs/benefits before smaller firms and nonprofits are required to adopt integrated reporting. Most of these types of firms do not have the professional resources in-house to prepare these types of reports, and to obtain such resources could be cost prohibitive.