



**The Institute of
Chartered Accountants
in Australia**

12 December 2011

The Secretary
The International Integrated Reporting Committee
c/o Clarence House
London
SW1A 1BA
United Kingdom

Dear Sir/Madam,

The Institute of Chartered Accountants in Australia (the Institute) welcomes the opportunity to make a submission to the International Integrated Reporting Committee (the IIRC) in relation to its discussion paper 'Towards Integrated Reporting: Communicating Value in the 21st Century.'

The Institute is the professional body representing Chartered Accountants in Australia. Our reach extends to more than 66,000 of today's and tomorrow's business leaders, representing some 54,000 Chartered Accountants and 12,000 of Australia's best accounting graduates who are currently enrolled in our world-class postgraduate program. Our members work in diverse roles across commerce and industry, academia, government and public practice throughout Australia and in 109 countries around the world.

The Institute is a founding member of the international accounting coalition called the Global Accounting Alliance (GAA), which provides reciprocal arrangements with ten of the other leading accounting bodies in the world. The Institute is the only Australian accounting body within the alliance. The GAA represents more than 778,000 members world-wide and includes professional accounting organisations from America, Canada, Hong Kong, England/Wales, Ireland, Scotland, Japan, Germany, New Zealand and South Africa.

The Institute has been a long standing advocate of integrated reporting. We have produced several thought leadership publications on integrated reporting. Our first publication on integrated reporting, '*Broad Based Business Reporting: The complete reporting tool*', was released in 2008. The Institute annual report to its members has been done on an integrated report basis for several years. We have included copies of our publications with this submission.

We have addressed each of the questions contained in the discussion paper within Appendix A.

If you would like to discuss any aspect of this submission or require any further information, please contact Geraldine Magarey on 612 9290 5597.

Yours faithfully,

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Appendix A

Question 1

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

The Institute agrees that action is required to improve the way organizations report. The emphasis is presently focused heavily on financial performance. It is important that organizations communicate on their strategy and value drivers. This is critical so that investors and other stakeholders understand what creates and sustains value within the organization.

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

The Institute believes a common approach would be helpful as markets are global. An international framework would provide a common approach particularly in terms of concepts, principles and terminology. In time, this could lead to the development of common indicators globally and improve comparison between organisations. A common approach is important, however, it needs to be supplemented with consistent application. This is crucial for establishing and maintaining the credibility of Integrated Reporting.

Question 2

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

The Institute supports the definition of Integrated Reporting. It is important that the definition includes not just the output of an Integrated Report i.e. the actual report but also the process of Integrated Reporting. In producing the Institute's annual report, integrated thinking has been an important component.

Although the long-term goal of an Integrated Report is to produce a single report that becomes an organization's primary report, the Institute does not believe this should be the initial focus of the IIRC. It is a difficult task to accomplish with the differing requirements in many jurisdictions of regulators, standard setters and key stakeholders. Initially, it should be the decision of any organization as to how they report on an integrated basis. The development of a single Integrated Report maybe a costly initiative in the short-term when balanced with the existing regulatory requirements.

We recommend that the IIRC should focus primarily on helping organizations to integrate their reporting within the existing external reporting frameworks and legislation as well as for internal purposes.

Question 3

Do you support the development of an International Integrated Reporting Framework?

The Institute supports the development of an International Integrated Reporting Framework. However, it is crucial the learnings from the pilot programme are utilised to not only form the basis of the framework but to also base the decision of whether to proceed with the development of a framework.



The Institute has received feedback from different stakeholders in the reporting supply chain who have raised questions about the cost of Integrated Reporting versus the benefits gained. The learnings from the pilot programme should be used to provide a cost/benefit analysis which should guide the development of any framework.

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 Institute agrees the initial focus should be reporting by larger, listed companies. However, there is nothing prohibiting an organization from reporting on an integrated basis now so all organizations large or small, in theory, should be able to apply the concepts of Integrated Reporting if they can derive some benefit.

Some concern has been expressed about how an investor is defined. Although their needs are mostly the same, there are differences between the investors and the agents of the investors.

(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, the Institute believes the concepts underlying Integrated Reporting are equally applicable to small and medium enterprises, the public sector and not-for-profit organizations. However, the needs of the user of the report may vary. This is where the importance of materiality as well as understanding the needs of an organization's stakeholders is crucial. It is important that small and medium enterprises are not impacted by increased reporting obligations. Similarly it is important that any proposed Integrated Reporting framework is not compromised by the needs of small and medium enterprises. This is why the Institute supports the initial focus on reporting by larger companies.

The different needs of stakeholders will involve challenges and may lead to an organization having to make trade-offs. Transparency in explaining how these trade-offs are managed is an important factor that needs to be included in an Integrated Report.

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?

The Institute supports the themes of reporting on an organization's business model and how it creates and sustains value. However, some concerns have been raised in reporting on these areas when not all organisations are required to report on this basis. It is possible that an organization may have a public reporting obligation but its competitors are not required to report publicly. The issue of confidentiality, although often overstated by management, is a concern that will need to be considered in the development of a reporting framework.



Although it is appropriate to look at short, medium and long term time frames, in the event of the development of a reporting framework, consideration will need to be given to forward looking statements and legal obligations. Unlike in some other jurisdictions, Australia does not have 'safe harbour provisions' for its directors. Any reporting framework, whilst emphasising the importance of providing information about long-term risks and prospects, should not be too prescriptive given the different regulatory requirements in different jurisdictions.

Information on long term value drivers and risks can also be difficult as the time frames involved can be very lengthy and an organization's actions may take decades for any benefit to be realised. This is in conflict with market driven investment decisions which involve much shorter time frames. It is important that reporting on long term value drivers does not create a disincentive for a listed organization in terms of its share price.

Question 6

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 capitals may be helpful, however, in its present form it appears too abstract and theoretical. There is also an issue about how the capitals, other than financial capital, are measured. Widely accepted measurement standards need to exist to make the use of different capitals reliable and comparable.

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?

The principles do not include scope and boundary. These are important fundamentals in any form of reporting to ensure comparability between organizations in respect of measurement and disclosure. There are also other issues of importance to users of business reports, which are not mentioned in either the guiding principles or proposed content, such as timeliness and verifiability.

Question 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?

Although the content elements do provide a sound foundation, the concept of materiality will need further guidance. This is a concept that many report preparers struggle with and has been a challenge in many of the early integrated reporting attempts. The correct application of materiality will be a key driver in whether an organization's attempt to report on an integrated basis is successful. This is particularly important as the materiality of some aspects of integrated reporting will differ between user groups.



Question 9

From your perspective:

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

While the Institute agrees with the main benefits, it would appear from stakeholder feedback that the benefits for the reporting organisation still need to be articulated further. The crucial missing piece is a cost/benefit analysis. It is only after this analysis is performed that an organization will be able to truly understand the benefits.

Consideration should be given to the ordering of the benefits presented in the Discussion Paper. Lower cost of capital and better access to capital is an important benefit, however, it is listed towards the end of the benefits. The Discussion Paper is initially focused on listed entities so this is an important benefit for organizations that report on an integrated basis.

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

The Institute agrees with the challenges presented. However, there is no mention of the need for additional resources. There will be challenges in terms of resources around people and systems. An organization may have to review its systems to be able to collect, measure and report data that it has not previously reported. There may be a need for additional human resources to analyse and report the data, possibly with specific expertise in some of the non-financial areas.

(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?

The Institute believes that Integrated Reporting will assist in driving the disclosure of useful information needed for a comprehensive analysis by investors.

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

The Institute supports the next steps in the Discussion Paper. The IIRC has an important role to play in ensuring any move toward Integrated Reporting is done in a coordinated and harmonised way internationally. In a global environment it is important that Integrated Reporting adheres to many of the current principles of financial reporting in terms of comparability, consistency, common methodologies, measures and metrics.