



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS  
ACCOUNTANTS: MANAGERS OF VALUE

14 December 2011

Professor Mervyn King  
Chairman  
The International Integrated Reporting Committee

Dear Sir,

**Comments on the International Integrated Reporting Committee (IIRC)'s Discussion Paper "Towards Integrated Reporting, Communicating Value in the 21<sup>st</sup> Century"**

The Malaysian Institute of Accountants (the Institute) wishes to commend the IIRC's effort in developing the Discussion Paper, "Towards Integrated Reporting, Communicating Value in the 21<sup>st</sup> Century". The Institute is pleased to provide comment on the Discussion Paper, which is segregated into "General Comment" and "Comment to Specific Questions" requested in the Discussion Paper.

**General Comment**

On an overall basis, the Institute agrees with the initiative of this paper. The premise under which the IIRC has produced this paper is that reporting needs to keep pace with a changing world; focus on a broader range of "capitals"; and reduce the complexity and clutter of the multitude of the existing reports being produced. It is difficult to disagree with any of this context for the proposals. While the objective of this paper is commendable, the proposal suffers from a lack of clarity on a number of matters that are fundamental to any "general purpose reporting". These include (i) who are the users? (ii) what is the scope of the Integrated Reporting? (iii) how are the complexities involved in building connections between concepts of financial performance, governance, sustainability, strategy risks and etc that are going to be addressed at a "standards" level with sufficient clarity? Otherwise the resulting reports would not be better than the existing reports.

The paper envisages the Integrated Report replacing all existing reporting, such that investors, regulators, the public and etc, will have all of their information needs met by the Integrated Report. This could be costly and a cost benefit analysis should be carried out. It is more likely that different user needs will be met by "disaggregating" information, rather than through "integrating" it. The proposal is commendable, however, the scope of Integrated Reporting needs to be clearly define taking into consideration of the cost and benefits.

## General Comment (cont'd)

Whether integrated reporting will provide management with information to make good business decision, as well as provide investors and stakeholders with good information for which to base their decision is debatable.

The Institute believes that more thought needs to be given to financial information being provided in the context of long-term performance (future orientated), resource sustainability, governance and etc. taking into consideration of the level of assurance that could be provided. Companies may not necessary carry out strategies as defined by them. In addition, companies require the appropriate resources and investment such as technology and knowledge to generate and prepare integrated report.

Questions exist with respect to time line and the cost and benefit of the proposal. Integrated reporting will come with a cost, and will that cost be worth the benefits? In addition, integrated reporting requires a change in systems and processes that companies would need to invest in and take appropriate time to implement; otherwise, the report will only contain statements of policies and intentions without real substance.

In the short term, it would be better to focus on the framework as a way of improving the understandability of the different reports, through the development of common terms and principles. Given the length of time likely to get to a single integrated report, it would be more important, to work on a framework that seeks to create linkages between the different concepts of capital and develop common language, definitions and measurement principles.

## Comments to Specific Questions

**Q.1(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?**

The core existence of organizations is about value-creation and for this reason the Institute believes it appropriate to help organizations improve in representing their value-creation process. However, as mentioned in our general comment, the paper lacks clarity on the users to which the value-creation is intended for. It is vital that the intended users are clearly defined as “value-creation” could be perceived differently by a broad range of stakeholders.

The Institute agrees that the action should be international in its scope. However, it should be noted the social context of each jurisdiction and potential local implementation issues should not be neglected.



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

The proposed definition of Integrated Reporting on page 6 brings in a holistic concept of integrating information, from business strategy, governance, performance to other focus areas such as human, social, and environmental and how are they inter-connected. The Institute supports the idea of establishing connectivity and integration of financial and non-financial information in a single report to obtain a more inclusive view of how organizations are being managed and its strategy to address potential resilience. However, the proposed definition is ambiguous as to who the organization creates and sustains value for. This has been a topic for debate ever since the introduction of integrated reporting. The Institute suggests to include the targeted group of people, i.e. shareholders, organization itself or stakeholders, of which the organization creates and sustains value for, in the definition of integrated reporting.

**Q3: Do you support the development of an international Integrated Reporting Framework? Why/Why not?**

Due to increase in cross-border transactions and globalization, there is greater demand from stakeholders to apply a globally accepted high quality standard. The convergence of financial reporting standards and auditing standards are gaining its significance in recent years. These initiatives and developments are encouraging in restoring confidence of investors and have garnered positive feedback from regulators and other stakeholders. The Institute supports the establishment of a universally accepted framework for integrated reporting to promote consistency and uniformity.

**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 organization?**

The Institute agrees with the proposal of the initial focus of Integrated Reporting on reporting by larger companies, as operations of the larger companies are likely to be more sophisticated and largely driven by various resources to focus on creation of sustainable value and its impact on society is expected to be more significant than small and medium enterprises. However, we noted that the initial focus of Integrated Reporting on the needs of investors would be inconsistent with the concept underlying Integrated Reporting in the Discussion Paper, which is designed to create and sustain value to the society as a whole.

We believe that it is good practice for small and medium enterprises to embrace the value of integrated reporting. For this reason, the concepts underlying Integrated Reporting should also be equally applicable to small and medium enterprises, and other types of organizations, but the disclosure and reporting requirements for small and medium enterprises are expected to be relatively straightforward than larger companies. It would then be our recommendation to have sub-sections in the framework stating the basic disclosure and reporting requirements for small and medium enterprises.



**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?**

Traditionally, financial information has always been the focus of organization in reporting, therefore there is a need to emphasize that creation of sustainable value is equally important in a reporting model, the central themes focusing on organisation's business model and its ability to create sustainable value in the short, medium and long-term is well-suited for future direction of reporting as the critical information required of stakeholders and investors to evaluate performance and prospect of an organization revolves around the operation of the business and its risks and potential opportunities.

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

The Institute finds the concept of multiple capitals, such as financial, manufacture, human, intellectual, natural and social, to be helpful in describing creation of sustainable value by organization. It is important for enterprise to dissect its form of capital and determine the connection and contribution of the respective elements in sustaining value to the business and the society as a whole. The methodology provides a systematic way for enterprise to perform a proper evaluation on its resources utilization and their interrelation with the other elements.

**Q7: Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added? Why/Why not?**

The Institute generally agrees that the Guiding Principles would provide a sound foundation for preparing Integrated Reporting. However, the guiding principles need clarity on some core concepts on consistency, measurability and verifiability.

The Institute foresees potential application problem when applying the concept of materiality over qualitative information. Customarily, the term materiality is closely associated with financial information. The identification of information which is material for the purpose of Integrated Reporting is likely to be subjective due to the high level of judgment required by senior management and those charged with governance and may be subject to selective reporting. As such, the proposed concept of materiality might not cover the interest of stakeholders. The Institute therefore urges that further study to be conducted to develop a robust basis to elaborate the concept of materiality for Integrated Reporting to facilitate application and understanding.



**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 Institute agrees that the Content Elements would provide a sound foundation for preparing an Integrated Report and it works better collectively as these Content Elements cover every aspects of the organization and are consistent with the Guiding Principles discussed above.

**Q9(a): From your perspective, do you agree with the main benefits as presented in the Discussion Paper? Why/Why not? (b): From your perspective, do you agree with the main challenges as presented in the Discussion Paper? Why/Why not?**

There are certainly merits attained from the proposal as mentioned in the Discussion Paper. The tone at the top is important as the involvement of top management i.e. board of directors and key management personnel is inevitable to integrate high level information such as business strategy and risk as this information may not be readily available to middle management who are the person ordinarily involve in preparing reports. We fully agree that the feasibility of this project is very much reliant on the state of development of a jurisdiction, the availability of infrastructure and the regulations governing the respective jurisdictions which may differ from one to another.

**Q10(a): Do you agree that the action listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/Why not? Are there other significant action that should be added? (b): What priority should be afforded to each action? Why?**

The Institute agrees with the proposed action listed in the Discussion Paper, especially running a two-year Pilot Programme. The Institute believes that the practical experience gained from the Pilot Programme would definitely help towards formation of a robust framework for Integrated Reporting. Much of what is stated in the paper is sensible, and the adoption of this thinking by companies would likely improve their external communication to stakeholders. However, the IIRC needs to reckon the differences between jurisdictions, in particular, between the current 'owners' of the different disciplines involved in external reports, regulatory requirements, readiness of different economies etc. in relation to the project.

We hope the IIRC finds this letter helpful. The Malaysian Institute of Accountants looks forward to strengthening the dialogue between both organizations.

Yours faithfully,

**MALAYSIAN INSTITUTE OF ACCOUNTANTS**



**DATUK MOHD NASIR AHMAD**

President