

14th December, 2011

International Integrated Reporting Committee
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Dear IIRC,

This letter outlines NAB's comments on the International Integrated Reporting Committee (IIRC) Discussion Paper published in September, 2011.

The discussion paper provides a good foundation for future conversations on the challenges and opportunities associated with developing an integrated reporting framework. As a member of the IIRC pilot program, we look forward to being part of these innovations.

Comments summary

- We welcome the development of guidance from IIRC on practical ways companies can integrate their reports. However we note that Australian organisations are already subject to extensive and complex reporting requirements, and meeting additional obligations will not necessarily lead to better disclosure.
- IIRC discussions should further clarify the identity of the intended audience and beneficiaries of integrated reporting as a priority.
- IIRC should produce clear guidance on the bottom-line benefits of having an integrated strategy, recognising that an integrated strategy is central to the development of an integrated report - the output of an integrated strategy. IIRC should also provide direction on how to develop an integrated strategy within organisations.
- The forward looking nature of the information contemplated by the integrated reporting discussion paper is of concern, particularly directors' personal liability, and the ability to audit the information.
- IIRC should explore the process for the handling and verification of information included in integrated reporting, including forward looking content, at the same time as the development of any guidance on integrated reporting.
- IIRC should explore and gather good practice examples, lessons, and recommendations. Good practice examples should include direction on printed vs online format and include a mix of small/medium and large organisations.

Q1: Do you believe that action is needed to help improve how organisations represent their value-creation process? Why? Why not?

- I. Australia currently has a robust reporting regime. We agree that organisations' presentation of the value they create may be improved. Existing efforts to do this are ad hoc both within and across industries, and more guidance on how to articulate this, with common language where possible, would be useful. However, any guidance that is provided should not be mandatory and should recognise reporting standards cannot be imposed on a 'one size fits all' basis.

Q2: Do you agree with the definition of integrated reporting on page 6 [of the paper]? Why/why not?

Yes, we agree with the definition of integrated reporting in the paper with a few additional comments:

- I. The definition needs to be more specific about who benefits from integrated reporting (the output of "integrated thinking") based on research findings. Failing to clarify who the intended beneficiaries are and what the purported benefit is will lead to ambiguity in the longer term and will create challenges for companies in recommending integrated reporting to management.
- II. More discussion is needed on who the primary audience is for an integrated report and why they are the primary audience.
- III. The appetite for economic and social governance (ESG) information among the Australian investor community is still limited. The IIRC needs to provide evidence based research on the appetite of the investor community for integrated reporting.
- IV. It would be useful for IIRC to clarify how integrated reporting will impact existing company reports including both the Annual Financial Report and an integrated Annual/Shareholder Review.

Q3: Do you support the development of an international integrated reporting framework? Why? Why not?

- I. The key factor in the development of the integrated reporting framework is that organisations cover the issues that are material for them. This will depend on where their core operations and impacts reside.
- II. As a large organisation committed to high quality disclosure, we allocate significant time and resources to reporting against international frameworks such as the Global Reporting Initiative (G3) framework or United Nations Global Compact in addition to the mandatory disclosure regime as a listed public company. The development of any integrated reporting framework needs to articulate how new reporting structures will work with existing frameworks to avoid double up, wasted resources, added complexity in reports and reporting 'fatigue' for organisations.

Q4.

(a) Do you agree that the initial focus of integrated reporting should be on reporting by larger companies and on the needs of investors? Why? Why not?

- I. Large organisations have more resources available to support innovation in their reporting and can use knowledge and learning gained from more mature reporting processes. They also face a greater challenge in most instances in capturing data that is spread across the organisation.

- II. Any integrated reporting framework would need to define what is meant by a 'large' organisation.
- III. The decision to focus on the needs of investors will result in a reporting framework focused on shareholder value, rather than a broad-based, stakeholder value. As outlined elsewhere in this paper, IIRC should provide evidence based findings on the needs and expectations of investors around integrated reporting. Unpacking the definition of 'investors' is important in acknowledging the diversity of interests and information needs, in addition to defining the parameters of a 'large' company in this context.
- IV. The focus should be on providing guidance rather than imposing mandatory integrated reporting requirements.

(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 organisations?

Q5. Are: (a) the organisation'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?

- I. As with current reporting practices, any integrated reporting organisation would still have to consider carefully how their disclosures position the business, including market interest, timeliness and confidentiality and commercial sensitivity.
- II. A significant challenge with more forward looking content in reports will be the assurance of this information given their subjectivity and the potential exposure of directors to personal liability under the existing statutory regime. The development of an assurance framework for integrated reporting at the same time as the reporting framework will bring to the fore issues with how forward looking information is handled and verified. However, further consideration is necessary to explore the issues of directors' personal liability.
- III. Reporting of some forward-looking information is likely to be considered sensitive in nature for various companies, including financial services/ banking organisations. IIRC will need to address issues around confidentiality and Directors' responsibility, including engaging with the government to review and amend existing legislation during the development of the integrated reporting framework.
- IV. IIRC should also provide guidance as to exactly which forward looking information is central to the format of an integrated report. What is the role of an online presence for information provision, for example, that is interactive and accessible to different stakeholders in different formats? There needs to be a focus on keeping reports concise, relevant and material. In some instances legislated integration, for example in South Africa, has produced integrated reports running into hundreds of pages. More guidance would be welcomed on whether IIRC anticipates that financial reporting is included in integrated reporting in an AFR format, rather than just as part of wider reporting using the framework.

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

- I. Yes, the concept of multiple capitals is valuable and in fact most organisations will already consider inputs and outputs across the areas referred to as multiple capitals.

- II. However, while the concept of multiple capitals is valuable, it may at times be appropriate to present the information in a different reporting format, for example by business unit or across a matrix as shown below:

Business Unit Capital				
	BU 1	BU 2	BU 3	BU 4
Social				
Human				
Manufactured				
Reputational				

- III. Capitals will also differ slightly for each organisation and by industry. The framework therefore needs to allow for flexibility to make them relevant to their business model.

Q.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?

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 Guiding Principles that should be added? Why/why not?

- I. The guiding principles and content elements broadly include the core areas that provide a foundation for preparing an integrated report although one suggestion is for responsiveness and stakeholder inclusiveness to be a content element in reporting as well as a guiding principle.
- II. Once again, this links back to the clarification of the intended audience for integrated reporting. Many investors take a much more limited view of 'value' and are interested in more short-term information with a financial focus. Integrated reporting aimed at stakeholders, not just shareholders or 'investors', is about taking a more long-term view and considering a broader value than many investors will consider.
- III. Once the audience for integrated reporting has been clarified, IIRC should provide guidance on connectivity for companies and how financial and non-financial elements are linked.
- IV. IIRC should also produce guidance for organisations on how to better integrate their strategy before they attempt to integrate their reporting.
- V. Case studies are always a useful point of reference and IIRC should work to provide a number of these.

Q9. From your perspective as a reporting organisation:

(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?

- I. Yes, NAB broadly agrees with the benefits presented in the Discussion Paper however there is very little discussion of real challenges in the paper.

(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?

- I. There is a recurring tendency to lump ‘investors’ into one group. There are actually a diverse range of investors and subsequently a variety of information interests. Some will be more long-term, some very short-term but they will more frequently be focused on financial value as reflected on a balance sheet. Ultimately, if integrated reporting is developed with investors in mind, can we really be sure they will be using it?
- II. Integrated reporting could be considered more useful for the reporting organisations themselves, akin to a management framework for organisations to make connections between and across units.

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 undertaken?

- I. Development of technology that enables integrated reporting should be an ongoing focus through all stages of the development of the framework. It will be an important part of making it practical for organisations to implement. It could also prevent unnecessary duplication or waste of resources.
- II. It would also be useful for IIRC to provide additional guidance on the role of an organisation’s online presence in the development of an integrated reporting framework, perhaps in relation to interactive and tailored/ stakeholder specific presentation of information.
- III. There should be careful consideration of how information included in integrated reports would be verified or assured, and this should be explored at the same time as any framework is developed.
- IV. Guidance on reporting is welcome however we do not endorse new mandatory reporting obligations.
- V. Mapping how integrated reporting will align with existing frameworks – again to prevent duplication and waste.

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

- I. Defining the audience for integrated reporting is the most important first step.