



Michael Nugent
The International Integrated Reporting Committee (IIRC)
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Dear Michael

IIRC Discussion Paper – “Towards Integrated Reporting” – Communicating Value in the 21st Century

PwC welcomes the opportunity to respond to this discussion paper. It represents an important addition to the debate on the future of corporate reporting.

This response summarises the views of firms in the PricewaterhouseCoopers network that commented on the discussion paper. ‘PricewaterhouseCoopers’ refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Good corporate reporting is central to the effective functioning of the capital markets. In addition to reporting financial information, narrative reporting (information that is other than financial) is a critical element of the current reporting model. Narrative reporting, in highlighting important aspects of the business that contribute to the creation of value for stakeholders, including activity that occurs outside of the boundaries of legal ownership (for example suppliers), can improve the confidence of capital market participants and other key stakeholders in the quality and sustainability of a company's financial performance and its ability to create value.

Since the credit crisis, much attention has been given to the topics of corporate governance and stewardship. We believe that the reporting model is a critical foundation for the promotion of good governance and effective stewardship, and that both could be enhanced if the information focuses on the substance of business activity rather than its form. Overall, we support the objective of integrated reporting, including its principles-based reporting framework. We believe integrated reporting has the potential to enhance the depth, breadth and quality of corporate reporting. We also support the use of the pilot programme to identify information, benefits and challenges that can influence the development and adoption of the framework.

Our responses to the specific questions in the discussion paper can be found in the Appendix to this letter. In support of our views, we have drawn from over a decade of PwC research into the information needs of preparers and users.

In addition to our detailed responses, we highlight below what we believe to be the most important issues for the IIRC to consider.

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Definition of integrated reporting

The focus of the discussion paper – by referring to principles, content elements and exposure drafts – appears to be on the integrated report, yet it often refers to integrated reporting. We recommend the IIRC to expand on the concept of integrated reporting and avoid defining the integrated report. Once the principles and key content elements are clearly defined in a way that they can be understood and embedded into an organisation, each company can determine how best to communicate the information within the boundaries of an established framework. Continued technological developments will provide companies with further opportunities to experiment with how they integrate their reporting.

Encouraging adoption

- Replacement vs. additive – at a time when most preparers feel overwhelmed by the breadth, depth and complexity of reporting requirements, it is critical for the IIRC to demonstrate that the proposed reporting model will not increase the reporting burden. This includes demonstrating that the IIRC can influence regulators globally to focus reporting on what matters and reduce the clutter; but it goes further than this, as conflicting requests of different investor groups will need to be reconciled.
- Grounded in the ‘here and now’ – the concept of integrated reporting has been more readily embraced by people within the sustainability community than it has by those in the financial reporting community. In order to encourage wider adoption of the principles and content set out in the discussion paper, we encourage the IIRC to communicate the opportunities for incremental changes to enhance reporting in the short term. Providing clarity on how a new model could evolve from the existing financial reporting model is likely to lead to greater support from those in the financial reporting community. The proposed initial focus on investors would support this.
- Create a roadmap – we are encouraged by the establishment of the pilot programme as a way to help develop and refine the principles and content set out in the discussion paper. However, we believe more should be done to stress the role of the discussion paper as exactly that – a discussion paper, rather than a final output. Many companies are already viewing the framework as complete and wondering how it applies to them. We recommend the IIRC re-emphasise the role of the discussion paper as a catalyst for companies to contribute to the debate, challenging how the proposals might apply to their organisations and exploring ways to change behaviour and reporting. Additionally, if preparers are to embrace the ideas in the discussion paper in the short term, it is important to have a clear roadmap demonstrating how they can move from today’s model towards an integrated reporting model.

Incentive and challenge, not rules and regulation

- Creating the right mechanisms for change – although it is unclear who would prescribe authoritative rules on integrated reporting, in such a new and evolving area we recommend not moving too quickly towards prescriptive rules and regulations. Instead, we would support transparency over the benefits to create the right mechanisms for change. We are therefore



encouraged by the creation of the pilot programme and welcome feedback from participating companies on the actual or potential benefits from moving towards a more integrated model.

- Promoting best practice, presenting a vision – it is clear from our engagement with businesses, investors and other key stakeholders that there is ambiguity over what is meant by ‘integrated reporting’ vs ‘integrated report’ and what any output might look like in practice. While the discussion paper purports to include examples, these are no more than excerpts from various reports and do little to enhance the reader’s understanding of the broader reporting framework being proposed. We believe the IIRC should focus more effort on ensuring all those operating in the reporting process understand what constitutes best/emerging practice. We therefore encourage the IIRC to leverage the opportunities presented by the companies participating in the pilot programme and other innovators globally to actively promote emerging practices. This would provide a clearer vision of what integrated reporting might look like externally and thus encourage other companies to change.

Role of audit

There may need to be a reassessment under the proposed reporting model of how auditors provide assurance on the information reported and thereby enhance the reliability of the information, recognizing that issues involving governance, the business model and business risk are as important to a company's long term sustainability as its financial performance.

Primary audience

We agree that the project should initially concentrate on the needs of investors. We believe that a project aimed at addressing the needs of all stakeholders at once would be impractical and that providing relevant information for investors on the basis proposed would also provide relevant information for other stakeholder groups. The model should promote consistency and comparability in satisfying investor needs. Adding any other stakeholders later in the project is likely to expand the initiative’s scope, so the benefits would have to be clearly demonstrable. A filter might be needed to determine which requirements are most relevant (see below), otherwise the process would be in danger of becoming a ‘free for all’ for any special interest group and risks losing its focus.

Clarity on principles and definitions

- Value creation – we note a certain ambiguity in the phrase ‘create and sustain value’; this will mean different things to different stakeholders, or indeed investors, depending on whether they are short or longer-term. The definition will therefore differ when you consider a company’s activities and whether you take into account activities outside the traditional accounting definition of control. We therefore encourage clearer guidance on what is meant by ‘value creation’ and outline the linkage to the different forms of capitals in a simpler and more direct way. In this context, the use of the term ‘materiality’ in the paper is potentially confusing, given its existing use within financial reporting. The term ‘relevance’ would be better, together with a clearer definition of what is meant by it and how it will be determined – by the preparer, investor, auditor and regulators. This will help in determining what is meant by value creation.
- Clarity on the process – there needs to be more clarity on how the process will move from the discussion paper to an exposure draft to standards. For the reasons set out above, it does not



appear possible or advisable to move to an exposure draft of a proposed framework in 2012, as there appear to be many intermediate steps that need to be addressed. Instead, we encourage the IIRC to continue to use the paper and the subsequent pilot programme as the basis to present a vision and make a case for change. Those who are responsible for the system need to consider how this type of model can evolve in a structured, valuable and logical way. Ultimately, the integrated reporting framework needs to be maintained by a body equivalent to a standard-setter, with proper governance and a representative geographical balance. The IIRC might play this role, but we would not advocate them moving too quickly away from the critical role they are currently playing in creating awareness, promoting best practice and maintaining the momentum behind such an important topic.

In summary, we believe that integrated reporting could represent an opportunity for better corporate reporting, incorporating greater consideration of the importance of a concise and aligned reporting model that focuses on how businesses create and sustain value in the 21st century. With the right governance and direction, the IIRC is well placed to lead a global debate about how a simplified and more holistic corporate reporting model can be developed to respond to the evolving needs of the global capital markets.

If you would like to discuss any of these points in more detail, please contact John Hitchins ((+44) 207 804 2497).

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'John Hitchins', written in a cursive style.

PricewaterhouseCoopers LLP