JOHANNESBURG STOCK EXCHANGE

15 July 2013

The International Integrated Reporting Committee

Dear Sir/Madam

**COMMENTS ON THE CONSULTATION DRAFT OF THE INTERNATIONAL INTEGRATED REPORTING FRAMEWORK ("FRAMEWORK") ISSUED BY THE INTERNATIONAL INTEGRATED REPORTING COMMITTEE ("IIRC")**

We refer to the Framework that was released for public comment in April 2013.

We believe that overall the Framework is well written and provides the reader invaluable guidance on how to proceed with Integrated Reporting. We support the principles based approach of the Framework and like the structure of the document which remains true to its own guiding principle of being concise. We applaud the IIRC on this document being an excellent follow-on document to the original 2011 Discussion Paper ("**DP**").

The JSE supports the ongoing work of the IIRC to assist companies on their journey towards integrated reporting. Our detailed comments set out below are intended to support the development of a necessary and appropriate framework. We have not commented on each of the questions, but rather our comment letter focuses on certain key aspects where we disagree with the approach of the Framework, or where we believe clarifications are necessary. You will note that our comments are in line with the position we took on the DP as set out in our comment letter dated April 2011 ("**original comment letter"**) to the extent that those comments have not been addressed.

We remind you that from a South African context (detailed in our original comment letter) good corporate governance is guided through the Third King Report on Corporate Governance in South Africa ("**King III**"). Whilst we accept that this is an international framework we believe that we would be negligent not to comment on the Framework in the context of King III. Specifically it will be a difficult position for South African entities if the Framework diverges from King III such that an entity cannot simultaneously apply the Framework and King III.

**Assurance**

The Framework should focus on ensuring that the integrated reporting process and the reporting outcomes are appropriate. We are concerned that certain key decisions in the development of the Framework (such as the primary audience, views on materiality and the full compliance approach in par 1.11) are being driven with external assurance in mind, to the detriment of the Framework  (and potentially integrated reporting ) itself.

**JSE Limited Registration Number: 2005/022939/06**
One Exchange Square, Gwen Lane, Sandown, South Africa. Private Bag X991174, Sandton, 2146, South Africa. Telephone: +27 11 520 7000, Facsimile: +27 11 520 8584, www.jse.co.za

**Member of the World Federation of Exchanges**

We re-iterate the comments set out in our original comment letter that the decision regarding assurance (and the format of such assurance if any) should be left to the audit committee and the board, driven by the needs of that entity's stakeholders and within the context of the specific regulatory framework in which that entity operates. In line with the wording of King III we believe that the area of assurance must be addressed through the "apply or explain" approach. We are specifically concerned about the cost burden for smaller companies, and that they may be of the view that, on a cost verses benefit analysis, internal assurance is their preferred route. Even for larger entities, given the complexities of external assurance, it might be that internal assurance evolves to become the more desirable route.

From a South African regulatory perspective we believe that this should be considered in light of the increased regulation around the board of directors over the years. A listed company must now for example,

- appoint an audit committee consisting of only independent directors;
- appoint a remuneration committee;
- appoint a separate CEO, Chairperson and Financial Director ; and
- the audit committee must consider the competence and expertise of the Financial Director.

We believe that the much improved corporate governance makes the reliability of internal assurance obtainable.

The potential need for assurance comes from the desire to ensure the reliability of information. This should be addressed first and foremost through governance processes. We therefore believe that it is critical that the board of directors should make an explicit statement that the integrated report is their responsibility and believe that the wording in par 5.18 is too light. Our answer to your question 17 would therefore be a resounding yes. It is inconceivable for stakeholders to place any reliance on the integrated report if the board of directors themselves have not taken responsibility for it.

**Preparation of a stand-alone integrated report**

In our original comment letter we raised concerns with the proposal set out in the DP that the integrated report would be a separate primary report of the entity. We appreciate the fact that you have taken our comment into account in publishing the Framework by stating that the integrated report is no longer the primary report. Nevertheless we remain concerned that par 1.18 of the Framework states that the integrated report should be a stand-alone document.

Our concern with this approach is that we believe that it is inappropriate that integrated reporting is a "one size fits all" approach. Integrated reporting should not become an additional layer of reporting for entities. We are specifically concerned about smaller entities and their potential lack of capacity to produce more than one report.

Furthermore we remain concerned that the call for a separate report can potentially defeat the purpose of integrated reporting. To create a separate report is likely to encourage entities to continue to report in silos, where there is financial reporting in one block, environmental and social ("**E&S**") in another, and governance and compliance in another block. We are not advocating that entities merely lump financial and E&S information together. Rather, we believe that by using the annual report as the anchor, entities will better be able to understand that they need to connect sustainability issues to financial performance over the longer term.

**Conflicts between the Framework and King III**

In our original comment letter we highlighted our concern with certain conflicts between the DP and King III. The Framework does not resolve all of those conflicts and furthermore introduces an additional, and inappropriate, conflict in terms of the audience for the integrated report.

<u>Financial information</u>

King III states that "Sustainability reporting and disclosure should be integrated with the company's financial reporting." We are concerned that the wording of the Framework is not strong enough to ensure that financial reporting remains a key feature of integrated reporting, and that the integrated report should talk to the entity's numbers. We accept that the Framework guides the preparer to include certain financial and quantitative information, but nothing is to say that such information should be the information reported by the entity in its annual financial statements.

We believe that it is conceivable that, based on the Framework, an entity will not link its integrated report to the financial information reported by it (which is prepared in terms of a specific accounting framework). We find it difficult to believe that this was the intention of the IIRC and believe that the Framework needs to deal with this issue in a more explicit manner. This should, at the very least, be specifically addressed in both par 1.20 and par 4F.

Par 1.20 states that "*Although integrated reporting builds on developments in financial and other reporting it differs from other reports in a number of ways. In particular, it has a combined emphasis on……."* Par 4.27 goes onto say that "A*n Integrated Report should answer the question: To what extent has the organisation achieved its strategic objectives and what are its outcomes in terms of effects on the capitals".*

As detailed in our original comment letter we also believe that there should be more emphasis on the area of financial sustainability. The two examples we included were:

- What is the interaction and proposed resolution of potentially conflicting strategies? For example, the strategy of a high dividend payout policy that may inhibit longer term growth.
- If the entity sells products under licence, when do those licences expire and what steps are being taken to protect or replace income streams.

Finally we re-iterate the concern detailed in our original comment letter that the integrated report is completely separated from the traditional financial reports.

<u>Audience for the integrated report</u>

King III requires a stakeholder inclusive approach and states that the board must consider *"… the legitimate interests and expectations of stakeholders on the basis that this is in the best interests of the company, and not merely as an instrument to serve the interests of the shareholder".* This approach means that the legitimate interests of all stakeholders must be taken into account, and that the focus cannot just be on the providers of financial capital.

Par 1.6 of the Framework states that integrated reporting should be primarily for providers of financial capital in order to support their financial capital allocation assessments". We believe that this focus is contrary to King III and is inappropriate.

Through applying integrated thinking, and in considering all the capitals, the board should consider the interests of all stakeholders. Having considered the entity's value creation story with all key stakeholders in mind it seems contradictory and in fact counterproductive to then only report to one of those stakeholders, disregarding the rest. Whilst the Framework states that stakeholder responsiveness is one of the guiding principles we fail to see how this can be achieved by having only one of those stakeholders as the primary audience. Furthermore, we do not support the assumption set out in par 1.8 that the interests of the provider of financial capital will be aligned with those of all other stakeholders.

**Integrated reporting as a journey**

Integrated reporting is an evolution process both within an entity and across entities. Feedback received from South African entities involved in the pilot project highlight that tackling the various aspects of integrated reporting (as detailed in the Framework) is a labour and time consuming exercise. They explain how they have spent an entire year just trying to get one aspect, for example the business model or materiality, right.

We are therefore of the view that par 1.11 which states that "'*any communication purporting to be prepared in accordance with the Framework should apply all of the principle-based requirements "* is inappropriate, especially at the evolutional stage of integrated reporting . More specifically we believe that compliance with the Framework should be encouraged on an "apply or explain" basis. This would allow entities to tackle the various principles in the framework on a more structured and gradual basis which would be a more sustainable and beneficial process for the entity. If not, integrated reporting can become a matter of "ticking the box". This approach will also assist entities, who might feel that it is inappropriate to comply with all the elements of the Framework.

We would encourage the IIRC to consider this aspect carefully, specifically also from the perspective of the increased reporting burden on entities. The strain on resources will be felt more by smaller entities and a cost versus benefit analysis might lead them to conclude not to tackle any aspect of integrated reporting because of the all or nothing approach contained in the Framework.

**Conclusion**

We trust that our comments will be viewed as constructive in promoting global acceptance of integrated reporting, and we applaud the IIRC for its ongoing work in this regard. We look forward to further publications of the IIRC and the opportunity for further engagement in the process in the future.

Yours faithfully

**TANIA WIMBERLEY**
**HEAD: FINANCIAL REPORTING**
**ISSUER SERVICES**