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Association of German Banks | P.O. Box 040307 | 10062 Berlin | Germany

Mr Mervyn E. King
Chair
International Integrated Reporting Council
29 Lincoln's Inn Fields
London WC2A 3EE
United Kingdom

Submitted via
www.theiirc.org/consultationdraft2013

Ingmar Wulfert
Advisor
Telephone: +49 30 1663-2120
Fax: +49 30 1663-2199
ingmar.wulfert@bdb.de

Consultation Draft of the International <IR> Framework

12 July 2013

Dear Mr King,

Ref. BdB: BI.01
Prepared by Wu/Gk

Enclosure
Comment letter

We would like to thank you for the opportunity to provide the International Integrated Reporting Council (IIRC) with our comments on the Consultation Draft of the International <IR> Framework.

Non-financial questions, such as sustainability, and their disclosure and interdependence with financial issues have become increasingly important against the backdrop of the financial crisis. The Association of German Banks has followed this development with great interest. We recognize that there is an international trend, reflected in the initiatives of the IIRC, towards integrating non-financial information and indicators into company reporting. Prerequisites for sound integrated reporting are that requirements are principles-based and that businesses only have to report financial and non-financial information which is really relevant to their particular company. It is essential, in our view, to avoid information overload and any further increase in disclosure requirements. The question of how to reduce the overall scale of disclosure, which is touched on in the consultation draft, should therefore be explored in more detail.

For further details, please see our attached comments.

Yours sincerely,

Dirk Jäger
Managing Director

Ingmar Wulfert
Advisor

Association of German Banks
Burgstraße 28
10178 Berlin | Germany
Telephone: +49 30 1663-0
Fax: +49 30 1663-1399
www.bankenverband.de
USt.-IdNr DE201591882

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Comments of the Association of German Banks on the Consultation Draft of the International <IR> Framework

12 July 2013

Ingmar Wulfert
Adviser
Tel.: +49 30 1663-2120
Fax: +49 30 1663-2199
ingmar.wulfert@bdb.de

Ref. BdB: BI.01
Bearbeiter: Wu/Gk/To

Association of German Banks
Burgstraße 28
10178 Berlin | Germany
Telephone: +49 30 1663-0
Fax: +49 30 1663-1399
www.bankenverband.de
USt.-IdNr. DE201591882

Summary

- *Non-financial questions, such as sustainability, and their disclosure and interdependence with financial issues have become increasingly important against the backdrop of the financial crisis. The Association of German Banks has followed this development with great interest.*
- *The Association of German Banks recognises that there is an international trend, reflected in the initiatives of the IIRC, towards integrating non-financial information and indicators into company reporting.*
- *The Association of German Banks shares the IIRC's view that both financial and non-financial information and also the interdependencies between the two are important for assessing a company's future development. We therefore see the inclusion of non-financial information in company reporting as a timely development.*
- *Prerequisites for sound integrated reporting are that requirements are principles-based and that businesses only have to report financial and non-financial information which is really relevant to their particular company.*
- *It is essential, in our view, to avoid information overload and any further increase in disclosure requirements. The question of how to reduce the overall scale of disclosure, which is touched on in the consultation draft, should therefore be explored in more detail.*

Specific comments

1. Principle of integrated reporting welcome

Non-financial considerations are already an integral part of the business strategy of many banks. Key issues such as environmental and social standards for lending practices, integrating sustainability considerations into investment policies and promoting sustainable development are already taken into account and reflected in banks' sustainability reports or comparable documents. In our view, an important feature of meaningful and timely reporting is that financial and non-financial information is released at the same time. This is the only way to ensure that stakeholders can have a better, up-to-date understanding of the company's current situation and environment. For this reason, we believe it basically makes good sense to link non-financial and financial aspects together in an integrated report.

2. Principles-based approach important

Even bearing in mind that the IIRC's recent publication presents a framework still in the drafting stage, the concept of the various categories of capital and of the links to be drawn between them are not totally clear. Further explanation of these issues is needed, in our view.

A key general point, however, is that all requirements should be principles-based – as the draft framework itself mentions – and take due account of a company's individual business model and the nature of its business. We would recommend that when addressing the aspects of materiality and the business model (chapters 3.22 ff. and 4.21 ff. respectively), the framework should clarify that companies need only report on those matters which are really relevant to their particular business. Only under these conditions, in our view, will reporting be meaningful and able to reflect the company's situation and industry. Detailed requirements and the mandatory inclusion of non-financial information on aspects without relevance to the company's business would lead to information overload. This would not adequately fulfil the objective and purpose of providing a holistic view of a company's performance and environment.

3. Incorporation into existing reporting structures – avoidance of information overload

The IIRC sees its present task as drawing up a framework for integrated reporting. The draft framework is rather vague on precisely how the proposed information would be incorporated into the existing reporting structure. This has sparked fears among companies that an integrated report will have to be prepared in addition to the extensive reporting already required.

In view of the various existing regulatory initiatives and requirements, we believe it is vitally important that the current scale of disclosure obligations is not further increased by an integrated report. This would lead to information overload.

We would welcome it if the IIRC explained and clarified how it envisages concrete implementation of its proposed integrated reporting framework.

- One conceivable option would be to adopt the finalised version of the framework as an IFRS in its own right and, in return, reduce the existing IFRS disclosure requirements.
- Another option would be to give the integrated report the status of an executive summary containing cross-references to more detailed information elsewhere (financial statement, sustainability report, etc.).
- In Germany, for example, companies' annual financial statements have long been supplemented by extensive information in a management report. Possible ways are already being explored of converting this management report into an integrated report.

With this in mind, we would have welcomed the IIRC addressing in more detail the potential for reducing or consolidating the scale of disclosure requirements.

The IIRC also needs to address an issue related to the question of incorporating integrated reporting into the existing reporting landscape – namely how an integrated report is to be audited. We believe an important point to remember in this context is that the cost of auditing an integrated report should be proportional to the anticipated benefit.

We agree that sensible modifications and improvements to corporate reporting would be desirable. The process should seek to significantly reduce the administrative burden on affected companies. It is therefore essential, in our view, to involve all interested parties at an early stage (companies, users of reporting, standard-setters, auditors and regulators). The publication of a draft reporting framework is not, in itself, sufficient.