15 July 2013

Professor Mervyn King
Chairman
International Integrated Reporting Council
29 Lincoln's Inn Fields
London WC2A 3EE
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Via website: www.theiirc.org

Dear Professor King

Consultation Draft: International Integrated Reporting Framework

Thank you for providing us with the opportunity to comment on the Consultation Draft: *International Integrated Reporting Framework* issued by the International Integrated Reporting Council (IIRC) in April 2013.

The Global Network of Director Institutes (GNDI) was founded in 2012. It brings together member-based director associations from around the world with the aim of furthering good corporate governance. It is an international network among nine leading membership organisations for directors in Australia, Brazil, Canada, Europe, Malaysia, New Zealand, South Africa, the United Kingdom, and the United States. The following membership organisations are members of GNDI and collectively represent more than 100,000 corporate directors worldwide:

- Australian Institute of Company Directors (AICD)
- Brazilian Institute of Corporate Governance (IBGC) in Brazil
- European Confederation of Directors Associations (ecoDa)
- Institute of Corporate Directors (ICD) in Canada
- Institute of Directors in New Zealand (IoDNZ)
- Institute of Directors in Southern Africa (IoDSA)
- Institute of Directors (IoD) in the United Kingdom
- Malaysian Alliance of Corporate Directors (MACD), and
- National Association of Corporate Directors (NACD) in the United States.

The GNDI attaches its perspectives paper on Integrated Reporting, and hope that it will be of assistance when considering responses to the Consultation Draft.

If you are interested in discussing any of our views please do not hesitate to contact me or Nicola Steele on +61 2 8248 6600.

Yours sincerely,

John H C Colvin
Chairman
Global Network of Director Institutes

Title: Integrated Reporting: GNDI Perspective
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The Global Network of Director Institutes (GNDI), founded in 2012, brings together member-based director associations from around the world with the aim of furthering good corporate governance. Together, the member institutes comprising the GNDI represent more than 100,000 directors from a wide range of organisations. This paper describes the global perspective of GNDI in relation to **Integrated Reporting**.

Background

Corporate directors around the world have become increasingly aware of the need to provide a holistic view of a business enterprise, incorporating financial as well as environmental, social and governance frameworks, in order for key stakeholders to make economic decisions.

Globally, much work has been done to align international accounting standards, which form the basis of reporting of the annual financial statements; at present that task is incomplete. There has also been an increased focus on developing a framework for Integrated Reporting, with the International Integrated Reporting Council (IIRC) driving forward this body of work. The IIRC's goal is to create a framework that brings together the varying reporting requirements in a "clear, concise, consistent and comparable format"[1], which will "support transition to a more sustainable global economy"[2].

The IIRC's Consultation Draft on the international Integrated Reporting framework defines an Integrated Report as "a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term."[3]

There are numerous participants in this movement, which includes the Sustainability Accounting Standards Board (SASB), which is currently developing sustainability accounting standards for use by publicly listed entities in the United States for disclosing their material sustainability issues in their SEC Forms 10-K and 20-F. Other participants include the World Intellectual Capital Initiative (WICI), a global movement to encourage sustainability reporting, and the Global Reporting Initiative (GRI), which has produced the leading framework for sustainability metrics. GRI released its revised G4 guidelines in May 2013.

All of these participants have added value to the dialogue; however the global realities in applying this vision may limit its success given the challenges described below.

The ultimate purpose of any form of corporate disclosure is to provide material information to the market and stakeholders. There is no point in devising an elaborate structure of disclosure if no one is listening. Consequently, we need to be certain that there is genuine investor demand for what is disclosed - that it adds value to their investment process and is not just "nice to know".
Mindful of the importance of stakeholder communication, the Sustainable Development Forum of the Institute of Directors, Southern Africa (IoDSA), put forward in their Position Paper 3, *Integrated Reporting*[4] the following anticipated benefits for entities preparing an Integrated Report:

- A more informed strategy and operational plans to support this strategy, based on an understanding of core value drivers;

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[1] Refer to the IIRC's mission statement. http://www.theiirc.org/the-iirc/
[2] Refer to the IIRC's vision statement. http://www.theiirc.org/the-iirc/
[3] Paragraph 1.3 page 8 of Consultation Draft of the International Integrated Reporting Framework [http://www.theiirc.org/wp-content/uploads/Consultation-Draft/Consultation-Draft-of-the-InternationalIRFramework.pdf]
[4] Institute of Directors Southern Africa's Sustainable Development Forum: Position Paper 3 Integrated Reporting[http://c.ymcdn.com/sites/www.iodsa.co.za/resource/collection/4B905E82-99EB-48B1-BCDA-F63F37069065/SDF_Position_Paper_3_Integrated_Reporting.pdf]

- A true reflection of effective management of the opportunities and risks associated with sustainability considerations;
- Accountability of internal management for their performance;
- A platform for strategic communication and conversations with stakeholders that provides a meaningful account of performance, builds trust and helps inform strategy;
- Unlocking "value" from stakeholders and the market, through engagement on key issues;
- A wider view of the organisation's impact beyond financials, which can reveal valuable opportunities for value enhancement;
- Increased internal awareness about corporate social responsibility; and
- Increased trust, confidence and support by transparent reporting about the full societal impact.

Directors' Roles and Concerns

Non-executive directors are the gatekeepers of governance and provide the link between the shareholders and the management of the entity. As a group, directors place a high value on the following and believe corporate reporting should result in:

- concise, simple and focused reports that identify the material business risks that an entity faces, how that entity manages those risks and how they determine their success in managing those risks;
- a principles-based, non-regulatory "if not, why not" styled approach that allows entities to report on issues that are relevant to their business and allows directors to apply their collective expertise in overseeing the strategic objectives of the entity; and
- a framework that reduces the reporting burden on an entity and provides relevant and reliable information that is useful to the key stakeholders of an entity.

As stated in the paper on Integrated Reporting from the Sustainable Development Forum (Published as paper #3 by the IoDSA in November 2010):

> "Reporting entities are at different levels of maturity in their reporting of sustainability issues. Some may have already begun the process of integrating strategy and governance with risks and opportunities, while others are just at the start of this process. The scope, extent and format of financial reporting are well bedded down internationally but the same cannot always be said of sustainability reporting. International and local work on Integrated Reporting hopes to contribute significantly to the understanding and guidance in this regard. At its very core, however, Integrated Reporting should be a reflection of a balanced and integrated approach to performance, strategy, governance and long-term viability as influenced by each company's unique circumstances. Ultimately, the test of effective reporting is not only what is reported but how well stakeholders are able to understand the vision, strategy, risks and performance of the company and the broader impact of these leadership choices on society."[4]

GNDI have a number of concerns with Integrated Reporting, which are set out below. This list sets forth the key challenges in achieving an international Integrated Reporting Framework and accompanying guidance:

- There is a need to understand, recognise and provide for varying jurisdictional and pre-existing business reporting requirements.
- The potential for increased regulatory supervision requirements, as many entities are required to comply with multiple regulators and regulations.
- The potential to significantly increase the cost burden of compliance for entities, through the need to engage with subject matter experts to assist in the preparation of disclosures, as well as increased audit costs for external auditors or other 3rd party accreditation organisations to verify the disclosures; increased investment in information technology to record and maintain information for inclusion in disclosures.
- There is the potential for an increased expectation that directors can realistically take responsibility for these disclosures, especially in large complex corporations, and the

consequent impact on directors' liability. In many jurisdictions, the onus for correct reporting to shareholders lies with the board. Given that globally directors' liability differs from country to country, there is a need to provide a robust strategy on how to address liability issues, whether this is through the provision of globally accepted and harmonised safe harbours or a broad business judgement rule.

- There is a need to acknowledge that certain confidential information within an entity provides a strategic and competitive advantage and should not be required to be disclosed.
- There is the potential for increased focus on the audit committee and the procedures undertaken by this committee in its relationship with the external auditors in providing external assurance on the disclosures.
- An increase in the compliance load on directors, with the potential to reduce the time available for them to provide strategic guidance about business performance, for the benefit of stakeholders.
- A risk that the framework and accompanying guidance will result in boilerplate disclosures within industries, thus defeating the main aim of Integrated Reporting.
- The additional complexities that multinational entities face, both in terms of compliance with an Integrated Reporting framework should global consensus not be obtained, and also with respect to the varying governance frameworks within the countries in which they operate.
- The potential to constrict the ability of smaller business to potentially access capital markets.
- The absence of a single body with the oversight or authority to bring together the individual elements of reporting which are essential for an integrated picture of an organisation and the impact of environmental and social factors on its performance. (There is a risk that as individual regulators respond to the risks faced, multiple standards will emerge.)
- The lack of comparability, as entities are at differing levels of maturity with respect to their reporting on sustainability issues.

GNDI believe that the IIRC needs to address the following as priority issues:

- Setting robust **materiality criteria**. Developing a clear definition of materiality is critically important to the success of developing the Integrated Reporting framework.
- Identifying the **types of entities** that would apply an Integrated Reporting framework. Should SME's choose to follow the Integrated Reporting framework, this should be applied on a proportionate basis.
- Ensuring **global consistency**, (which we note has not been achieved yet for financial reporting under IFRS), perhaps through an oversight body.
- Ensuring that the framework addresses the **directors' liability** issue.
- Providing guidance on how the Integrated Reporting framework would fit within individual countries corporate governance framework, tax and corporate laws.
- Determining the **cost/benefits and implementation implications** for entities and their shareholders.

Encompassing all the above within a principles-based, non-regulatory, "if not, why not" style framework that recognises the diversity of business, encourages innovation and promotes entrepreneurial activity.

Key Integrated Reporting Developments Around the World – Some Highlights

Australia In Australia, listed entities are required to include an operating and financial review as part of their broader Directors Report, the requirements of which are set out in section 299 - 300A of the Corporations Act 2001.In April 2013, the Australian Securities and Investments Commission (ASIC) released Regulatory Guide 247, *Effective disclosure in the operating and financial review.* This guide details those disclosures ASIC believe to be in accordance with the intent of the relevant sections within the Corporations Act. Some of disclosures within the Directors Report are similar to the requirements set out in the Integrated Reporting framework. Sustainability reports are prepared on a voluntary basis in Australia.

Brazil There is not any provision requiring companies to do sustainability reporting in any law or regulation in the country (at least amongst most acknowledged ones). Despite that, sustainability reporting in Brazil has been increasing steadily. The number of companies that declare to report according to the GRI standards has grown from 3 in the year 2000 to 109 in 2012. In addition, as of 2011, Brazilian companies already represented 6% of all companies reporting according to GRI standards, being the fourth country in the top ten list of reporting countries. By the end of 2012 the BM&FBOVESPA, the Brazilian stock exchange, issued a recommendation that companies should indicate in their Reference Forms (most complete piece of information disclosed annually and updated regularly by listed companies), whether or not they publish a sustainability report, where is it available and, in case of not publishing one, the reasons for not doing that (in a Report or Explain fashion).

Supporting sustainability development as a whole, the IBGC has been hosting the GRI Focal point in Brazil since 2011, which "provides guidance and support to local organizations, driving GRI's mission to make sustainability reporting standard practice"[5].

Besides that, the IBGC has taken part of the IIRC Council since 2012, represented by its chairwoman Sandra Guerra (there are also other Brazilian representatives in the Council and other IIRC governance bodies), and also has been participating in the local initiatives related to the development of the Integrated Reporting framework, as the public consultation (gathering a group of IBGC members to build a positioning on the issue), working groups and accompaniment commission.

Canada Canadian public companies are required to disclose their corporate governance practices as well as provide disclosure related to environmental matters. Sustainability reports are generally prepared on a voluntary basis in Canada.

South Africa The South African governance leadership has traditionally supported sustainability reporting. It is a key theme of the King Report series, chaired by Mervyn King, who currently chairs the IIRC. Useful guidance appears in *the Integrated Reporting Sustainable Development Forum Position Paper 3* (November 2010), sponsored by Standard Bank.

The United Kingdom The UK government has already announced reforms to simplify and strengthen companies' non-financial reporting. The restructure and simplification of the reports aims at giving all stakeholders, whether potential shareholders or existing shareholders, the information they need in a clear and effective way so they can be active stewards of the companies they own. The main changes to the reporting regulations include:

- Introduction of a "Strategic Report". This will apply to all companies and replace the previous 'Business Review'. The aim is to allow the company to tell its story, starting with the strategy and business model and the principle risks and challenges the company has faced.
- A breakdown of the number of men and women on their board, in senior management positions and in the company as a whole. This follows on from the recommendations made by Lord Davies in 2011 in his review of women on boards.
- New disclosures on their greenhouse gas emissions. This will encourage the companies to think about ways in which these can be reduced.

[5] https://www.globalreporting.org/network/regional-networks/gri-focal-points/focal-point-brazil/Pages/Focal-Point-Brazil-English.aspx

- Reporting on any human rights issues, where necessary for an understanding of the development, performance, and position of the company's business.

These narrative reporting changes will affect all reports produced in relation to financial years ending on or after 30 September 2013.

The Financial Reporting Lab in the UK provides an innovative new means of testing proposed disclosures. It brings both investors and companies together into an intensive dialogue and testing process before any new disclosure regulations are implemented. The aim is to ensure that any new disclosure requirements will genuinely add value, and not just represent an additional costly disclosure burden for companies. Based on this kind of approach, we could stress that any new disclosure framework should be justified by proper testing and an impact assessment.

Europe In April 2013, the European Commission proposed an amendment to existing EU accounting legislation in order to improve the transparency of large companies on social and environmental matters. Companies concerned will need to disclose information on policies, risks and results as regards environmental matters, social and employee-related issues, respect for human rights, anti-corruption and bribery issues, and diversity on the boards of directors.

Under the proposal, large companies with more than 500 employees would be required to disclose relevant and material environmental and social information in their annual reports. Concise information that is necessary for understanding a company's development, performance or position would be made available rather than a fully-fledged and detailed "sustainability" report. If reporting in a specific area is not relevant for a company, it would not be obliged to report but only to explain why this is the case. Furthermore, disclosures may be provided at group level, rather than by each individual company within a group.

The proposed measure has been designed with a non-prescriptive mindset, and leaves significant flexibility for companies to disclose relevant information in the way that they consider most useful. Companies may use international or national guidelines which they consider appropriate (for instance, the UN Global Compact, ISO 26000, or the German Sustainability Code).

Regarding transparency on boardroom diversity, large listed companies would be required to provide information on their diversity policy, covering age, gender, geographical diversity, and educational and professional background. Disclosures would set out the objectives of the policy, how it has been implemented, and results. Companies which do not have a diversity policy would have to explain why not. This approach is in line with the general EU corporate governance framework.

The United States The US Integrated Reporting movement dates to the American Institute of Certified Public Accountants' massive report *Improving Business Reporting* (1995). This 200-page tome (called the Jenkins report after its chair, Edmund Jenkins) contained an "enhanced business reporting framework" to enable companies to "focus more on the factors that create longer term value, including non-financial measures indicating how key business processes are performing". Out of that early initiative emerged the Enhanced Business Reporting Consortium, now affiliated with the IIRC. Existing regulations in the US related to sustainability already requires some disclosures. These include the Management Discussion and Analysis section of the annual report, which sets forth all key risks including non-financial risks. There are also disclosure requirements around such matters as conflict minerals (under the Dodd-Frank Act of 2010), as well as SEC guidelines on climate change. The National Association of Corporate Directors, a GNDI member organization, regularly includes sustainability reporting in its publications and educational programs. The NACD recently published an article on sustainability reporting; refer to "Sustainability Rising" in the January-February 2013 issue of *NACD Directorship.*

GNDI Member Comment Letters about Integrated Reporting

A number of GDNI member organizations have commented on Integrated Reporting. To visit the GNDI member organization websites, go to GNDI.org.

GNDI Conclusion

GNDI supports corporate reporting that is principles based and enables entities and their boards to effectively communicate those issues of significance to their shareholders. Indeed, we recommend that companies strive to improve their reporting and this may be guided by the emerging integrated reporting framework, and using metrics when appropriate. Such disclosures should be subject to the concerns expressed in this paper and be material to the investment decisions of shareholders. This said, however, we strongly caution against any government, regulator or stock exchange mandates.

We strongly encourage the IIRC for each disclosure requirement in the Integrated Reporting framework to vigorously test the disclosure and assess the potential impact of such disclosures on preparers.

We are of the view that should Integrated Reporting become regulated, it may again result in corporate reporting becoming compliance driven and overly prescriptive.