

Professor Mervyn King
Chairman
International Integrated Reporting Council
Submitted via www.theiirc.org/consultationdraft2013

15 July 2013

Dear Professor King,

Consultation draft of the International <IR> Framework

I welcome the opportunity to make a submission on the Consultation Draft of the International <IR> Framework (**the Framework**) released by the International Integrated Reporting Council (**IIRC**) on 16 April 2013.

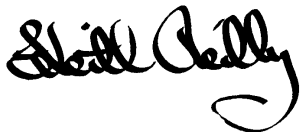
This submission has benefited from discussions that I had with you following your recent visit to Australia where you explained the background to this Consultation Draft, and various constituents in Australia that I have spoken to since the Consultation Draft was released.

I believe that the Framework is now in a position where it will enable various entities to produce an Integrated Report that will enable readers to much better understand the operations of the entity, and I see the Integrated Report as being the main information source for most interested constituents of the particular entity that they have an interest in. It is clear to me for some time that the traditional information sources being the Annual IFRS based Report and even stand-alone Corporate Governance and Sustainability Reports, are too complex and lack the linkages that an Integrated Report is able to provide.

My specific comments on the Framework are attached as an Appendix.

Please feel free to contact me if you require any further information.

All the best.

A handwritten signature in black ink that reads "Keith Reilly". The signature is written in a cursive, flowing style with a large loop at the end of the last name.

Keith Reilly

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Specific Comments on the IR Framework

Chapter 1: Overview

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

1. Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.

The principles-based approach to the framework. However that the principles used in the framework should, where possible, be consistent with frameworks used in other existing reporting frameworks to allow for ease of integration, to enable linkage to other reports and communications made by an entity (as envisaged by the framework), and to improve understanding of preparers and users.

Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

2. Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?

The <IR> process should be applied continuously to all relevant reports and communications, and with the way in which the interaction with other reports and communications has been characterized in the framework. It is important that the framework is not seen as an additional burden to report preparers and that it is seen to add value to corporate reporting. In our view, the framework should be used as a mechanism to reduce duplication in reporting and the IIRC is encouraged to work closely with regulators and other reporting bodies in consultation with the primary users of corporate reporting to reduce the clutter in the reporting landscape. Whilst it is envisaged that the integrated report would be a stand-alone document, it can be included as part of say the annual financial report and it should be up to the individual organisation to determine which way to present the information described in the Framework.

3. If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?

An accessible database of authoritative sources of indicators is supported as it would assist preparers and may also enable reference for assurance providers. The IIRC consult with established standard setters for Financial Reporting, Sustainability Reporting including carbon and emissions trading reporting and emerging measurement methods in areas such as Natural Capital and Social Capital measurement, in order to ascertain what should appropriately be included in such a database. The Climate Disclosure Standard Board is developing a comprehensive database of reporting standards and requirements and the IIRC can provide support to this project through its member organisations. Other sources include the Global Reporting Initiative (GRI), the Greenhouse Gas Protocol and the work of the World Intellectual Capital Initiative (WICI).

Other

4. Please provide any other comments you have about Chapter 1

Balance between Financial Capital and Other Capitals

Financial capital is singled out and given undue prominence in the Objectives of Integrated Reporting section. This appears to conflict with information given in the Framework which refers to enhancing accountability and stewardship with respect to broad base capitals.

The Objective of This Framework

Assisting organisations to establish the content of their integrated report, rather than develop their integrated reporting process, should be the primary objective of this Framework.

Corporate Reporting expanded to Organisational Reporting

As stated in the introductory remarks, integrated reporting is equally important to not-for-profit entities, public sector organisations, and all other non-corporates, and the SME market, as it is to corporations. Therefore, it is recommended that the scope be expanded from “corporate reporting” to the more neutral “organisational reporting,” throughout the Framework especially because it already talks about organisations throughout the text and because the text in paragraph 1.10 does not sufficiently explain or make the case *why* the Framework would be “intended primarily for application by private sector, for-profit companies.”

Cost/Benefit Analysis

Paragraph 1.11 refers to circumstances when the Framework may not be followed. It does not refer to the cost of providing the information being a consideration. It may be helpful to refer to cost/benefit considerations having an impact and allowing organisations to include cost/benefit

analysis in their considerations on application of the Framework. There is good explanation of cost/benefit of information in paragraphs 3.38 to 3.41 which could be referenced.

Chapter 2: Fundamental concepts

The capitals (Section 2B)

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

5. Do you agree with this approach to the capitals? Why/why not?

Whilst the capitals approach is supported at a conceptual level, it does seem to be causing difficulties for report users and preparers on a practical level. This may be due to the language which is not well understood and means different things to different people. More commonly used terms such as resources or inputs could be considered. The elements referred to as the six capitals capture generally agreed thinking about the inputs that create value in an organisation. However more guidance could be provided from the Capitals discussion paper, as financial capital should not be singled out as the primary capital. Given that the capitals are interdependent, further guidance is required to show how trade-offs between capitals are reported by the organization.

6. Please provide any other comments you have about Section 2B?

The stewardship of the capitals by those charged with governance is the key to <IR>. With reference to paragraph 2.25, how the organisation manages the connectivity and trade-offs between the capitals in relation to the strategic objectives of the organisation must be disclosed in the Integrated Report as this will influence the value creation process.

Business model (Section 2C)

A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

7. Do you agree with this definition? Why/why not?

This definition of the business model is supported but it is recommended that the IIRC seek the views of the primary reporting users regarding their expectation in relation to disclosure. Since business models are in a constant state of evolution and larger companies may have a variety of business models the framework will need to address different circumstances for different companies. Some further context could be given to show how inputs, business activities, outputs, and outcomes interact to create and maintain value.

Business model (Section 2C) continued

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

8. Do you agree with this definition? Why/why not?

As detailed in the Question 7 response, whilst the definition is supported, the views of the primary reporting users should be sought.

9. Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (see Section 4E)?

No further comments.

Other

10. Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.

Paragraph 2.4 refers to the 'elements of an organisation'. The use of the word elements is different to its use later in the Framework when it refers to Content Elements. It may be helpful to use different terminology in paragraph 2.4.

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

11. Do you agree with this approach to materiality? If not, how would you change it?

It is agreed that materiality is determined by company management with reference to assessments made by the primary intended report users. As detailed in the answer to Question 1, it would be desirable to have consistency between the materiality definition used for international financial reporting purposes and for <IR> purposes, in order to achieve a consistency of application between different company reports and communications.

12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).

A material assessment may need to refer to a broad range of users to inform the determination of materiality for the purpose of an integrated report. Therefore it is important that any reference to materiality refers to the role of professional judgment in making a materiality assessment.

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

13. How should the reliability of an integrated report be demonstrated?

Reliability can be enhanced in a number of ways, for example through a declaration by those charged with governance and through the provision of assurance. Internal assurance can help to test the robustness of the system of internal control and this can be enhanced through independent, external assurance. The integrated report could briefly describe how this communication has taken place.

14. Please provide any other comments you have about Section 3E.

Persistent criticisms of integrated reporting are around the potential loss of competitive advantage and disclosing future-oriented information. A lot of the criticism arises from a lack of understanding of what the Framework is proposing in these paragraphs (3.42 to 3.47). When early adopters of integrated reporting explain what they are doing in respect of these areas, many of these concerns diminish. It is important that the expectations are clearly communicated around competitive advantage and forward looking statements to ensure they are understood by the preparers of the integrated report and those charged with governance.

Other

15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

No further comments.

Chapter 4: Content Elements

16. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).

Future outlook

This is an area which is causing concern to some potential preparers of an integrated report. It may assist preparers and those charged with governance if further guidance was included. This may include reference that statements around future outlook should be made with consideration to local regulations on continuous disclosure and prospective statements.

Chapter 5: Preparation and presentation

Involvement of those charged with governance (Section 5D)

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

17. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?

Yes, such a statement would improve the reliability of the report assuming that this type of statement is consistent with the governance code requirements of the jurisdiction in which the report is filed.

18. Please provide any other comments you have about involvement of those charged with governance (Section 5D).

Involvement of those charged with governance

The reference in the Framework to the involvement of those charged with governance should be expanded. Those charged with governance have a vital role in the reporting process including integrated reporting. It is important that the role of governance is acknowledged as being more than responsibility for strategy, performance and prospects. The importance of setting the right ethical leadership is also crucial.

The importance of the audit committee as part of the governance framework as well as its important role in the reporting process could be covered in the committee in the Framework.

Credibility (Section 5E)

The Framework provides reporting criteria against which organizations and assurance providers assess a report's adherence (paragraph 5.21).

19. If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?

Over time, assurance should be provided on the report as a whole otherwise it would be inconsistent with the overriding principles of <IR>. However, the development of integrated reporting will be an evolutionary process and so assurance on some elements of the report might be appropriate as practice evolves.

However the provision of assurance on an integrated report will not be easy, as the form of assurance between financial and non-financial assurance varies due to the difference between verifiable, objective information compared to the subjectivity of some reporting assumptions and non-financial information. International Standard on Assurance Engagements (ISAE) 3000 is effective for engagements other than audits or reviews of historical financial information and further development of assurance standards to ensure that they can support integrated reporting requirements is needed.

20. Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.

No further comments.

Other

21. Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).

No additional comments.

Overall view

22. Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?

The Framework is an important first step in developing an approach to integrated reporting. However, the Pilot Programme, which is still on-going, has an important role to play in determining whether the concepts within the Framework such as application of the Capitals are practical for implementation.

Development of <IR>

23. If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?

The framework overall is appropriate for use by preparers and for providing users with information that is useful for decision making purposes. Further guidance is required by the IIRC to clarify the context for the application process. The IIRC needs to set the parameters for how the fundamental concepts such as the capitals should apply to their organization. At present it just requires a company to report that it uses, changes and affects capitals and there is no evidence of any requirement for a company to make a statement about the actions it has taken to ensure that it is "creating value" within certain parameters.

Development of <IR>

23. If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?

The three topics on which further explanatory material should be developed are:

a) Connectivity of information –further guidance would be helpful on both how an organization connects their strategy, performance and prospects with the use of capitals, and how <IR> links with existing reporting mechanisms with an aim to reduce the reporting burden on preparers and make reports more useful to the user.

b) Reporting Boundary –further guidance on the impact of external factors on an organization would help organizations to address this issue, which is critical to <IR>.

c) Capitals –further information on how an organization manages the trade-offs between the different capitals, to aid a better understanding of their interdependencies.

Other

24. Please provide any other comments not already addressed by your responses to Questions 1-23.

It seems that the introduction of a form of integrated reporting in South Africa has not resulted in the shortening of, or removal of "clutter" from, annual reports. In this respect, the IIRC needs to develop proactive strategies for removing "clutter", not least because its own activities, if unchecked, may lead to significantly increased volumes of information. Without clarity on how to declutter reports, it may be hard to win over the sceptics who are already overwhelmed by the amount of information provided in reports.

As a foreword to the framework, the IIRC may wish to reiterate the purpose of <IR> and how existing reporting fits within the reporting landscape.

