

The IIRC
www.theiirc.org/consultationdraft2013

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Dear Sir

**Submission of comments on the IIRC Consultation Draft Framework
by Eskom Holdings SOC Limited**

The comments by Eskom Holdings SOC Limited on the IIRC Consultation Draft Framework are attached in the Appendix below.

Please contact me should you want to discuss any of our comments submitted.

Yours sincerely



Lelanie Sherman

General Manager Financial and Management Reporting

Appendix

Question	Response
<p>Chapter 1: Overview</p> <p>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).</p> <p>1. Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.</p>	<p>1. a) One of the requirements is that the integrated report should primarily be prepared for providers of financial capital in order to support their financial capital allocation assessments. We do not agree with this requirement and suggest that the Integrated Report should be prepared for the entity's material stakeholders.</p> <p>In motivating this view we also deal here with comments on materiality as it is directly related to this issue.</p> <p>The approach adopted contemplates that although the primary audience is the long term investor, the integrated report prepared for the primary users will benefit all stakeholders. Further, the definition of materiality uses the perspective of the long term investor in determining what is to be regarded as material for disclosure and reporting purposes.</p>
	<p>The integrated report should tell a story of the company, its performance, how it has created value and its impact. If this is based on materiality, then the story that needs to be told would be relevant to any stakeholder and the lens of the providers of capital who take a long term view (long term investor) as the primary intended user is unnecessary. More importantly, the definition of materiality is not appropriate to the extent that the test of materiality is with regard to what is material for the long term investor.</p> <p>First, there is no reason why the providers of capital should enjoy a special place of preference in considering these matters. This kind of thinking is similar to the approach that has been followed when the interests of shareholders (and I use shareholders as a proxy for the providers of capital noting that it is more than just shareholders that are contemplated) were considered, and has led to the evolution from the "enlightened shareholder" approach to the "stakeholder inclusive" approach.</p> <p><u>In this regard the King Report states as follows:</u> "The way in which the legitimate interests and expectations of stakeholders are being treated in the two approaches is, however, very different. In the "enlightened shareholder"</p>

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	<p>approach the legitimate interests and expectations of stakeholders only have an instrumental value. Stakeholders are only considered in as far as it would be in the interests of shareholders to do so. In the case of the "stakeholder inclusive" approach, the board of directors considers 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."</p> <p>There is no reason why the shareholder, or in this instance the long term investor, should enjoy a predetermined place of preference in determining materiality and when reporting to stakeholders. In reporting to stakeholders, we should not make the same mistake of giving providers of capital a special preference – there is a need to consider all the capitals and not focus unduly on a particular capital (financial).</p>
	<p>A truly "stakeholder inclusive" approach means that in acting in the best interests of the company, the legitimate interests of all stakeholders must be taken into account and appropriate trade- offs be made based on what is in the best interests of the company in the particular circumstances - acknowledging that not all interests may be accommodated.</p> <p>Second, the assumption that the interests of the long term investor and other stakeholders are likely to align is not necessarily true. For example, if a power plant was to be constructed, it will have finite design life, for example 30 years. After 30 years the plant would be shut down and dismantled or decommissioned. The long term investor will invest in such a project on the basis of earning a return over the life of the plant (or a shorter period).</p> <p>Such an investor would have no interest in that plant thereafter. However, during its operation the plant would have drawn natural resources (coal or water, land, etc.) and the concern of the long term investor would be limited to the availability of such resources for the life of the plant. Aside from any legal liability that may arise, the fact that coal, water or other natural resources may be depleted 10 or 20 years thereafter is of no concern – but this would be</p>

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	<p>of crucial importance to the community that lives in that area.</p> <p>Finally, the wording of 1.6 should be compared to 5.22 where the Framework provides that timeframe to be determined for reporting should be decided, amongst other factors, with reference to the company's "stakeholders' legitimate needs, interests and expectations," and not only the needs of the long term investor.</p> <p>Finally, the wording of 1.6 should be compared to 5.22 where the Framework provides that timeframe to be determined for reporting should be decided, amongst other factors, with reference to the company's "stakeholders' legitimate needs, interests and expectations," and not only the needs of the long term investor.</p> <p><u>Recommendation:</u></p>
	<p><i>Option 1 - Amend 1.6 as follows:</i> An integrated report should be prepared for key stakeholders in a manner that provides a view of the company that is clear and understandable to most, if not all stakeholders.</p> <p><i>Option 2 - Amend 1.6 as follows:</i> A reporting entity should define its primary audience to suit the needs of the business in the context in which it operates. An integrated report could be prepared primarily for providers of financial capital in order to support their financial capital allocation assessments, or a broader range of stakeholders as determined by the reporting entity.</p> <p>b) The exemption allowed in paragraph 1.11 is necessary, but the disclosure regarding the exemptions required by paragraph 1.12 can be onerous. Consideration should also be given to the fact that there might be cases where the data relating to the material information might not be cost-effective to obtain.</p> <p>c) Paragraph 3.7 refers to the combination, inter-relatedness and dependencies between the components that are material. It is suggested that it should read "components of the capitals". That will eliminate any possible confusion on what the components refer to.</p>

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	<p>d) Paragraph 3.22 refers to the integrated report that should provide material information to assess the entity's ability to create value over short/medium/long term. It is suggested that it should also provide material information that will provide insight into the historic performance. The way it's currently written might lead to the perception that it's only about future value creation.</p> <p>e) Paragraph 4.4 creates the impression that an entity has to prepare other reports and communications that is linked in its Integrated Report. Is this seen as a requirement or can there be cases that because of the way an entity has prepared its Integrated Report, it might not need other reports and communications referenced in its Integrated Report?</p> <p>f) Paragraph 4.5, last bullet, requires an entity to explain the reason why any of the capitals are deemed to be immaterial. We do not believe this should be a requirement.</p>
	<p>Paragraphs 2.19 to 2.21 indicates that the use of the capitals are for benchmarking to ensure companies consider all forms of capital and is a part of the theoretical underpinning for the concept of value. This forms part of the process of writing the integrated report. It should also be clear from the entity's materiality determination process (see paragraph 5.13) on why capitals are included / excluded.</p> <p>g) It is suggested that two additional principles be added, transparency and accessibility. While both of these principles are indeed mentioned or at least alluded to, it is submitted that these are higher order principles and should be highlighted. Conciseness and completeness are included in the principles but these are actually the means to achieve transparency and accessibility of the information reported on. For this reason, it is more appropriate that transparency and accessibility be included as principle based requirements</p> <p>h) The way section 4 is structured around the questions an Integrated Report should address is very useful.</p>

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<p>Interaction with other reports and communications</p> <p>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 (paragraph 1.18-1.20).</p> <p>2. Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?</p> <p>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?</p>	<p>2. See point 1.a above.</p> <p>Paragraph 1.18 states that it is anticipated that a stand-alone integrated report will be prepared annually. It is suggested that it should state "as a minimum on an annual basis, in line with the statutory financial reporting cycle." In paragraph 1.2 it is referred to as a "periodic integrated report". Entities should be encouraged to also use integrated reporting for quarter and/or interim results, should they publish them. Our view is that at least interim results should follow the same internal process and format as an Integrated Report, albeit more condensed.</p> <p>The reporting frequency should be guided by regional and local circumstances in terms of the regulatory requirements governing the entity. More frequent reporting, if focused within a short period (e.g.: 3 month quarter), should not detract from some of the longer term –forward looking imperatives (where relevant).</p> <p>3. Only a reference to the database should be included as an overall note. No detail references to specifics as these can be different between different countries.</p>
<p>Other</p> <p>4. Please provide any other comments you have about Chapter 1.</p>	<p>4. The focus of the <IR> toward its material stakeholders (including the providers of financial capital) places the <IR> framework's focus within the same stakeholder domain as other reporting frameworks (notably the GRI's G4 publication). It is therefore imperative that there be clear lines of distinction (if at all) between the stakeholder audience of the <IR> and the GRI's G4. This area of concern is one that pervades throughout the responses given within this feedback</p>
<p>Chapter 2: Fundamental concepts</p> <p>The capitals (Section 2B)</p> <p>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).</p>	<p>5. Yes. The section sets out a logical flow of areas to consider for an entity's integrated reporting processes and emphasizes the fact that the integrated report should include where value is created/ diminuend or destructed (paragraph 2.16) which is critical component of having a balanced report.</p> <p>When compiling an Integrated Report, using the capitals as benchmarks, assists in</p>

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<p>5. Do you agree with this approach to the capitals? Why/why not?</p> <p>6. Please provide any other comments you have about Section 2B?</p>	<p>identifying possible material items for inclusion in the report.</p> <p>It also recognises the constraints that are applicable to this approach (paragraphs 2.24 and 2.25). It also recognises that it is not a “one size fits all approach” (paragraphs 2.19 to 2.21).</p> <p>6. Please see 1(f) above.</p>
<p>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).</p> <p>7. Do you agree with this definition? Why/why not?</p> <p>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).</p> <p>8. Do you agree with this definition? Why/why not?</p> <p>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 (Section 4E).</p>	<p>7. Yes. It's broad enough to cover all aspects of the business (direct and indirect), allows each entity the flexibility of how to apply it and interlinks well with the rest of the framework's requirements. The link with the reporting boundary (Section 5 G) can be made stronger as the reporting boundary is critical for establishing how to report the business model.</p> <p>8. Yes. It is clear and allows for flexibility within an entity.</p> <p>9. None. Paragraph 4.26 is very important – re the alignment between external and internal reporting and considering the information that is reported to those charged with governance.</p>
<p>Other</p> <p>10. Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.</p>	<p>10. a) Paragraph 2.6 – referring to creating an appropriate oversight structure – the portion that reads “within which the various elements are in dynamic flux” – it is not clear what is meant by this.</p> <p>b) Paragraph 2.37 – first bullet. The emphasis on financial returns and providers of financial capital creates the same impression that traditional reporting did – that it is all about money – an entity's valuation creation story covers more. Material value can be created without necessarily having a material impact on financial returns. See point 1a) above.</p> <p>c) Paragraphs 2.38 – 2.39 - See point 1a) above.</p>

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	d) Paragraphs 2.41 to 2.44. It is said in the framework that the value for IR purpose encompasses other forms of value that the entity creates. However, when reading through the framework, and the fact that the framework states that the report should be aimed at providers of financial capital; it seems to always come back to financial capital – it creates a perception of contradiction within the framework.
<p>Chapter 3: Guiding Principles</p> <p>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).</p> <p>11. Do you agree with this approach to materiality? If not, how would you change it?</p> <p>12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).</p>	<p>11. With regards to paragraph 3.23 - the definition of materiality refers to whether the item will substantively influence the assessments of the primary intended report users – The definition of materiality is not appropriate and places an undue emphasis on the interests of the long term providers of capital - please see comments under 1a) regarding the primary intended report user.</p> <p>12. No other comments. It is important that the requirement to disclose the materiality determination process and the key individuals involved stays as it will guide the user in the comfort he can have that due process was followed in compiling the report.</p>
<p>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).</p> <p>13. How should the reliability of an integrated report be demonstrated?</p> <p>14. Please provide any other comments you have about Section 3E.</p>	<p>13. The integrated report should include the internal process / governance structures that were utilised to ensure the reliability of the data. Where applicable, the level of external assurance should be indicated. The Board should sign a statement of responsibility for the integrated report – similar to what they do for financial statements in South Africa.</p> <p>14. None</p>
<p>Other</p> <p>15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.</p>	<p>15. None</p>
<p>Chapter 4: Content Elements</p> <p>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).</p>	<p>16. None</p>

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<p>Chapter 5: Preparation and presentation</p> <p>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>.</p> <p>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?</p> <p>18. Please provide any other comments you have about involvement of those charged with governance (Section 5D).</p>	<p>17. Yes, see 13 above. Agree with paragraph 5.18.</p> <p>18. Paragraph 5.2 – propose that it should read stand-alone integrated report would be prepared at least annually....</p>
<p>Credibility (Section 5E) The Framework provides reporting criteria against which organizations and assurance providers assess a report's adherence (paragraph 5.21).</p> <p>19. If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?</p> <p>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.</p>	<p>19. There should be an option to do both. Similar to how sustainability information is audited – where you can choose whether you want No, Limited or Reasonable assurance. Therefore the assurance can mature as the company's reporting matures. Companies can then also do cost/benefit analysis as assurance on a whole integrated report will be quite costly.</p> <p>20. The framework can work as criteria but consideration should be given that it is a principle based framework and that external assurance should not turn it into a tick-box exercise. It is therefore suggested that consideration be given to broadening the concept of assurance to support a principle based opinion. By way of example; this could consider key stakeholder reviews on material issues associated with the capitals disclosed.</p>
<p>Other</p> <p>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).</p>	<p>21. Don't believe XBRL should form part of the framework (paragraphs 5.40 to 5.41). This provides exclusivity to one type of reporting system.</p>
<p>Overall view</p> <p>22. Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate</p>	<p>22. The framework is appropriate, easy to understand and has sufficient flexibility to allow a company to develop an integrated report that tells the company's value-creation story. The framework has done extremely well to address the first key challenge with</p>

Question	Response
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?	integrated reporting: the need for some of standard reporting that can be comparable. The danger with any standard or template is that it could easily become a checklist leading to a "tick-box" approach. The framework has also done well to avoid this consequence by using questions rather than being prescriptive.
<p>Development of <IR></p> <p>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?</p>	<p>23. Examples of best practice will further enhance the value of the framework. Business model, stakeholder feedback disclosure, risk disclosure. This could be in the form of an annex or dedicated publications.</p>
<p>Other</p> <p>24. Please provide any other comments not already addressed by your responses to Questions 1-23</p>	<p>24 The IR is the result of proper processes supporting the outcome of an IR. Some of the more important items are:</p> <ul style="list-style-type: none"> • A robust business planning process and corporate plan • Procedure manuals supporting key KPIs disclosed in IR • An internal and external assurance process • A governance process to manage the IR process