Consultation questions

The IIRC welcomes comments on all aspects of the Draft International <IR> Framework (Draft Framework) from all stakeholders, whether to express agreement or to recommend changes.

The following questions are focused on areas where there has been significant discussion during the development process. Comments on any other aspect of the Draft Framework are also encouraged through the questions.

Please provide all comments in English.

All comments received will be considered a matter of public record and will be posted on the IIRC's website (www.theiirc.org).

Comments should be submitted by Monday 15th, July 2013.

Name:	Ansie Ramalho
Email:	ansier@iodsa.co.za
Stakeholder group:	Professional bodies – Other

If replying on behalf of an Organization please complete the following:

Organization name:	The Institute of Directors in Southern Africa and the King Committee on Corporate Governance in South Africa
Industry sector:	Not applicable
Geographical region:	Africa

Key Points

If you wish to briefly express any key points, or to emphasize particular aspects of your submission, or add comments in the nature of a cover letter, then the following space can be used for this purpose. Please do not repeat large amounts of material appearing elsewhere in your comments.

We commend the IIRC for its efforts in establishing an international framework (the Framework) for integrated reporting. We are ad idem that traditional reporting with its emphasis on financial reporting is not meeting the realities of today's world and its likely future trajectory, which creates a need for a Framework such as this to establish the guiding principles for integrated reporting. This is also a theme that permeates the King Report on Governance in South Africa, 2009 (King III) of which the IoDSA is custodian and which the King Committee drafted.

We have not commented on all the questions, but have focused on some of the key issues. Our comments in part flow from our own experience in South Africa after the issue of King III in 2009, as regards integrated reporting. We hope that this hands-on experience will be of value for your work on the Framework.

We thank the IIRC for the opportunity to comment on the Framework and look forward to further engagement on this important global development. Should you require clarification on any of our comments, please feel free to contact us at ansier@iodsa.co.za.

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.*

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?*

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?*

Other

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

From our experience in the implementation of King III, the concern has often been expressed that integrated reporting may lead to an increased reporting burden with concomitant cost and strain on resources. In anticipation of a similar response internationally, we recommend that the IIRC provides more guidance and insight to address any possible concerns.

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?*

We support the categorisation of the 6 forms of capital as one of the fundamental concepts that underpins integrated reporting. Such categorisation creates a more in-depth understanding of value-creation by companies, and the resources that they are dependent upon in doing so. We will encourage South African organisations to use this concept in their integrated reporting.

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

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?

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?

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)?

Other

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

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?

We disagree with the approach adopted by the IIRC in this regard, expressing concern in particular with the emphasis on the statements that "providers of financial capital" determine materiality (3.23) and are being regarded as the "primary intended report users" (1.6). This limited focus in fact undermines the breakthrough concept of the 6 capitals by focusing solely on one of them.

The integrated report should tell the 'story' of the strategy of the entity, its performance (financially and otherwise), how it has created value and its impact on all 6 capitals. To achieve this, the integrated report should contain sufficient information to record how the entity has both positively and negatively impacted on the economic life of its key stakeholders, and not only the providers of financial capital.

There is no dispute that the providers of financial capital are vitally important stakeholders of any entity. However, the introduction in this Framework of the 6 forms of capital demonstrates that value is co-created by all key providers of capital, not just financial capital, and that it is important that the report take them all into account.

A truly 'stakeholder inclusive' approach means that, in acting in the best interests of the entity, the legitimate interests of all important stakeholders must be taken into account and appropriate trade-offs be made based on what is in the best interests of the entity in the particular circumstances, acknowledging that not all interests may be accommodated. What is materially important and relevant to one stakeholder group is likely to influence all others. The evolution from the “enlightened shareholder” to the “stakeholder inclusive” approach requires more integrated thinking and understanding of what information the direct and indirect key providers of capital require.

King III is only relevant to South African entities. However, we quote from it below as it, in our view, sets out clearly what we believe the differences between the enlightened shareholder and stakeholder inclusive approaches are:

“In the “enlightened shareholder” 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.”

We believe that it is incorrect to assume that the providers of capital can serve as a proxy for all other stakeholders. Firstly, this is based on the incorrect assumption that providers of capital are investing for the long term, which is not necessarily true.

Secondly, even if one were to accept that this is the case, the assumption that the interests of “providers of financial capital who take a long term view… are particularly likely to align over time with the interests of other stakeholders” (1.8) is also not necessarily correct. For example, a power plant has a finite design life. At the end of the design life, the plant will be shut down and dismantled or decommissioned. The providers of financial capital will invest in such a project on the basis of earning a return over the life of the plant (or a shorter period). Such an investor would have no interest in that plant thereafter. However, during its operation the plant would have drawn natural resources (e.g. coal, water or land) and the concern of the 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 of crucial importance to the community that lives in that area. The fact that consequences may be removed in time and distance from the cause makes it almost impossible to link long-term impacts to entity actions.

If an entity embraces the stakeholder inclusive approach, which follows from an adoption of the 6 forms of capital, then materiality should be assessed from the perspective of what is material to the entity itself. Viewing the matter from this vantage point will link materiality to the 6 capitals.

Recognising these concerns, we propose the following alternative wording for par. 1.6:

An integrated report should be prepared for key stakeholders in a manner that provides a holistic view of the entity that is clear and understandable to most, if not all, key stakeholders.

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

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?

Integrated reporting should form part of an entity's governance and reporting processes and should not be viewed as an ad hoc or additional process. Therefore, the reliability and completeness of the information contained in the integrated report should for instance, be assessed on the same basis as any other information presented to the board and on the basis of which decisions are made.

We believe that the Framework should not deal with the matter of assurance. The approach adopted by the International Financial Reporting Standards, determining the financial reporting framework regardless of any assurance considerations, is one we would recommend for the Framework, so as not to detract from its main aims.

Our comment on assurance is of course not to discount the need for reliability of information in the integrated report. The point is that the board has the ultimate responsibility for the reliability of information in the integrated report. It is inconceivable that any stakeholder will place reliance on the integrated report if the board itself does take responsibility for it. The nature and extent of assurance should therefore be a decision for the board, audit committee and other relevant board committees, driven by the needs of the entity's stakeholders as well as country-specific legislation.

A statement to the effect that the board is assuming responsibility for the reliability of the information should be included in the integrated report. In making this statement, the board may place reliance on the internal assessment and assurance from management, internal auditors and external assurance providers, provided the board has reasonably tested the integrity of such assessment and assurance.

In considering the reliability and completeness of the integrated report, it will be important for the audit committee, board and other relevant board committees to consider and report on:

- the entity's internal information and data gathering systems and control measures
- the outcomes of key stakeholder engagement processes
- the materiality determination process
- details on the external verification process (scope and findings) and
- the nature of the role of senior management in the process, and their accountability for the outcome of the process.

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

Other

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

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).

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?

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

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?

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.*

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).*

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?*

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?*

Other

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