

15 July 2013

International Integrated Reporting Council  
10 Lincoln's Inn Fields  
Holborn  
London  
WC 2A 3BP  
United Kingdom

Dear Sir/Madam,

**SAICA SUBMISSION ON THE CONSULTATION DRAFT OF THE  
INTERNATIONAL INTEGRATED REPORTING (IR) FRAMEWORK**

In response to your request for comments on the *Consultation Draft of the International Integrated Reporting (IR) Framework*, attached is the comment letter which has resulted from the deliberations of many members of our CFO Forum (top 40 Listed companies and top 5 State Owned Enterprises) in a variety of industries and the Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA), which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

**Sue Ludolph**  
**Project Director – Financial Reporting**

cc: Paul O'Flaherty (Chairman of the Accounting Practices Committee)  
Danie Coetsee (Deputy Chairman of the Accounting Practices Committee)

# **SAICA SUBMISSION ON THE CONSULTATION DRAFT OF THE INTERNATIONAL INTEGRATED REPORTING (IR) FRAMEWORK**

## **GENERAL COMMENTS**

We welcome the Consultation Draft of the International Integrated Reporting Framework (*Consultation Draft*). We are supportive of the Consultation Draft and we believe that it will be a useful document for organisations when embarking on the journey of preparing an Integrated Report.

Despite having reviewed the website, we are still concerned about how the International Integrated Reporting Council (IIRC) plans to legitimise the Integrated Reporting (IR) process globally and intends driving this process forward. We believe this is an essential part of global acceptance of IR and should be clearly communicated.

Many listed companies in South Africa have been preparing an Integrated Report for a few years and we are of the view that this is a journey and that IR will be enhanced over time, as long as the Framework remains principle-based. We therefore encourage the IIRC to continue along this path.

We reiterate the comments we made in our previous comment letter that there was also concern amongst our constituents that smaller listed companies, pension funds and medical schemes would struggle to produce an Integrated Report initially due to resource and experience constraints and recommended that, although the Framework is principle based, additional prescriptive guidance should be provided.

We have a concern regarding the achievability of comparability and this will include the lack of a standardised set of Key Performance Indicators and a core set of material issues by industry.

We also suggest that guidance is needed on how the Global Reporting Initiatives G4 guidelines will fit in with the Framework's Integrated Annual Report.

## **CHAPTER 1: OVERVIEW**

### **Principles-based requirements**

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

We agree that there should be a list of principle-based requirements.

Our constituents had strong views against the proposals that the primary audience of the integrated report should be the “*providers of financial capital*”. While it is mentioned in paragraph 1.7 that an Integrated Report is likely to benefit all stakeholders interested in an organisation's ability to create value over time, it does not follow that such benefit will be achieved from the Integrated Report if the primary audience is limited to the “*providers of financial capital*”. Furthermore limiting the scope of IR also has implications for the determination of materiality and what is included in the integrated report.

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IR is meant to be the product of a process of integrated thinking, so limiting the audience of the Integrated Report to primarily those “*providers of financial capital*” is inappropriate in our view.

Furthermore IR should tell a story of an organisation, its performance, how it has created value for its stakeholders and its impact on the society in which it operates. The impact would be relevant to all stakeholders.

In South Africa we have seen a distinct evolution from the “enlightened shareholder” approach to the “stakeholder inclusive” approach. The King III Report on Corporate Governance in South Africa (King III) states clearly that in the former approach “stakeholders are only considered in as far as it would be in the interests of shareholders to do so”, while in the more inclusive approach, the legitimate interests and expectations of stakeholders are considered “on the basis that this is in the best interests of the organisation, and not merely as an instrument to serve the interests of the shareholder”. Based on our experience in South Africa with King III, we are of the view that the more inclusive approach is more appropriate to follow for IR too.

Expectations of sound corporate governance in an organisation is equally appropriate for providers of other capitals beyond only financial capital.

Our constituents had concerns about the proposal that organisations should apply all the principle-based requirements identified in bold italic type in order to comply with the Framework as mentioned in paragraph 1.11. This principle is inappropriate given that Integrated Reporting is a journey and smaller listed companies would struggle to apply all the principle-based requirements. We propose to the IIRC that paragraph 1.11 should be re-worded to indicate that organisations should state which sections of the Framework they have complied with as opposed to a prohibition on partial compliance.

There are no bold type principles in the fundamental concepts and preparation and presentation sections. We propose that the IIRC consider cross referencing appropriate principles in the fundamental concepts and preparation and presentation section as mentioned in paragraph 1.11 to Chapters 3 and 4.

We consider the 'forward orientation' guiding principal requirement and the 'not disclosing if considered an issue regarding competitive advantage' clause challenging or conflicting concepts. Further guidance should be provided on how this is governed to ensure that non-disclosure of material information is not placed under the banner of 'not disclosed due to competitive advantage'. Further consideration should also be made on whether future oriented information (e.g. financial forecasting) is allowed to be provided with regards to certain stock exchange listing requirements.

### **Interaction with other reports and communications**

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

The Consultation Draft indicates that the Integrated Report should be a stand-alone document with links to the other reports and communications that the organisation

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prepares. While there is reference in paragraph 1.18 to the fact that the IR process is intended to be applied to all relevant reports and communications, the focus on an entire integrated process is not coming across strongly enough and should be emphasised more in our opinion.

Paragraph 1.18 also states that “*it is anticipated that a stand-alone integrated report will be prepared annually in line with the statutory financial reporting cycle*”, we would like the IIRC to clarify the period to which the financial reporting cycle relates to, whether it is the current year, previous year etc. In addition, some constituents who have interim and quarterly reporting requirements raised the issue as to how integrated reporting should be applied; if the intent is that integrated reporting is a “way of doing business” then it would be appropriate to apply the principles for these reporting cycles as well.

*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?*

In our view, the IIRC should not create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others. Authoritative sources differ per industry and the guidance could be seen as prescriptive and an endorsement of what is credible or not, leading to too much subjectivity. In addition it would also impose a burden on the IIRC to keep the list up-to-date.

### **Other**

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

There was much debate between our constituents on the need to have the “competitive harm” out clause in paragraph 1.12. The majority were of the view that it was good to have such a clause and that it would rely on the maturity of management and their integrity. A minority of our constituents were of the view that that such a clause could have unintended consequences. This is one of the areas where the constituents felt more explanatory material could be developed.

## **CHAPTER 2: FUNDAMENTAL CONCEPTS**

### **The capitals (Section 2B)**

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

As noted in our response to question 1, there are no bold type principles in the fundamental concepts section. We propose that the IIRC consider cross referencing appropriate principles in the fundamentals concepts and presentation and preparation section as mentioned in paragraph 1.11 to Chapters 3 and 4.

Constituents from the financial services industry raised concerns with the manner in which the approach to capitals was expressed. They were of the view that care should be exercised in ensuring that the capitals approach does not give rise to prescriptive

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guidance as to how a business model should be presented (Figures 2 and 3 in chapter 2) and it should be emphasised that these figures are generic and should be viewed broadly.

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

We have no further comments.

### **Business model (Section 2C)**

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

We agree with the definition of a business model.

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

We agree with the definition of outcomes.

We propose that the IIRC provide guidance on how the outcomes of the organisation's business activities and outputs link to the value over the short, medium and long term. This is a further area where the constituents felt more explanatory material could be developed.

*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).*

Our constituents raised concerns that it will be challenging in practice to explain how an organisation creates value over time to all the stakeholders. They were also of the view that if the primary audience for IR was defined (and it would not necessarily be only providers of financial capital), organisations would be able to better explain the value over time to their primary stakeholders.

### **Other**

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

We have no further comments.

## **CHAPTER 3: GUIDING PRINCIPLES**

### **Materiality and conciseness (Section 3D)**

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

We agree with this approach to materiality.

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

We propose that the IIRC include a requirement on the materiality determination process in paragraph 3.25 of the Consultation Draft to consider individual matters which are immaterial, but when they are combined they will be material.

We also propose that the IIRC change the first word of the first bullet of paragraph 3.25 from “*identifying*” to “*consider*” as part of the materiality determination process.

We further propose the IIRC link paragraph 3.25 to 5.13. In addition, Paragraph 3.28 links to paragraph 4.5, but should also link to paragraph 5.13. As materiality is discussed in the various sections of this Framework the references to materiality in the various sections could be structured more clearly and they should be linked together so as not to cause confusion of what is required or not.

### **Reliability and completeness (Section 3E)**

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

An Integrated Report should be drafted in such a way that the stakeholders will be able to understand the internal governance process that was undertaken to produce the report, as this will enhance the reliability of the information presented.

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

In terms of paragraph 3.42, where the banner of commercial sensitivity is not to be used inappropriately to avoid disclosure, consideration should be given as to how this is to be defined and governed.

### **Other**

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

Some constituents from reporting organisations raised concerns about the manner in which consistency and comparability are expressed in the Consultation Draft. They are of the view that requiring comparability across organisations would limit the information that should be included in the Integrated Report; it should rather be a choice to help explain how an organisation measures its success. However, requiring comparability within an organisation and from period to period would be acceptable.

## **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).*

The content elements in the Consultation Draft are appropriate. We do however have a few suggestions below.

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We propose that the IIRC include additional guidance under the “Performance” element that will assist entities to increase their comparability across periods by reporting against their targets. The additional guidance should not be prescriptive.

Paragraph 4.5 in our view is out of place and the layout is difficult to read and comprehend. Chapter 3 indicates that materiality is a principle, chapter 4 discusses the content elements and paragraph 4.5 says “ *in addition to the Content Elements, an integrated report should disclose:*

- *The organisation’s materiality determination process”*

and chapter 5 contains the presentation section. Paragraph 5.13 refers again to disclosing the organisation’s materiality determination process. We reiterate our view that as materiality is discussed in the various sections of this framework, the references to materiality in the various sections could be structured more clearly and they should be linked together so as not to cause confusion of what is required or not.

We also propose that the IIRC consider swapping around chapter 3 and chapter 4, as it appears that certain of our constituents better understood the Guiding Principles in chapter 3 after they had read the Content Elements in chapter 4.

Furthermore, in our view the “Summary of Principles-Based Requirements” could be further enhanced as to how the chapters are related and an introductory sentence under each chapter and each content element linking it to the others would be useful.

We also propose that the IIRC include the additional disclosures in paragraph 4.5 should be grouped under their own heading entitled “Reporting Structure” (which should also be referred to in paragraph 4.1). This should be called 4A, and the other elements should be renumbered.

We also propose that the IIRC include “Remuneration” to the heading on 4B “Governance” as remuneration is a principle as explained in paragraph 4.12 and is such a relevant and pertinent matter.

### **CHAPTER 5: PREPARATION AND PRESENTATION**

#### **Involvement of those charged with governance (Section 5D)**

*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?*

It is our view that there should be a requirement for those charged with governance to include a statement acknowledging their responsibility and to ensure the integrity of their Integrated Report (for example the Board and/or the Audit and Risk Committee should sign off the Integrated Report).

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

We refer to our response to question 13, where we stated that an Integrated Report should be drafted in such a way that the stakeholders will be able to understand the internal governance process that was undertaken to produce the report, as this will enhance the reliability of the information presented.

### **Credibility (Section 5E)**

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

We are of the view that the Integrated Report should not be prescriptive on the issue of assurance. The manner in which that paragraph 5.20 is worded “*organisations may seek independent, external assurance*” is in line with a principled Integrated Report and the organisation can then decide how it would wish to deal with the issue of assurance on any part of the Integrated Report, if at all.

*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.*

The concept of combined assurance is defined in King III and was referred to in the previous IRC of South Africa discussion paper, but it has not been described in the Consultation Draft. It is our view that a brief description of what combined assurance is, be provided.

The majority of the constituents felt that the Consultation Draft does not provide suitable criteria for an assurance engagement that will be consistent across organisations. This is a further area where the constituents felt more explanatory material could be developed.

### **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).*

There are no bold type principles in Chapter 5. We propose that the IIRC consider the need to bold any pertinent sections in Chapter 5.

Integrated reporting can only be achieved if organisations have proper governance processes in place. We propose that the IIRC consider encouraging the organisations to have a concise Integrated Report and include all the other information as supplementary information by means of reference (for example information on how to determine materiality, etc.)



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### **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?*

We are supportive of the Integrated Reporting Framework and believe that it will evolve over time. We have already seen this evolution process in South Africa in the few years that our listed companies have been preparing them. We also believe that only by keeping the content of the Framework principle-based will it continue to evolve over time and would be useful for providing IR users with information about an organisation'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?*

If the IIRC were to develop explanatory material on IR we would suggest the following:

- Guidance on how the outcomes of the organisation's business activities and outputs link to the value over the short, medium and long term (also linked to value chain across the capitals) ;
- Guidance on items which could be excluded due to commercial sensitivity; and
- Guidance on what information and/or elements of the integrated report could be assured and by whom.

### **Other**

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

We have no further comments.

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