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The 100 Group

Investor Relations & Markets Committee

Professor Mervyn King
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Website submission: www.theiirc.org/consultationdraft2013

15 July 2013

Dear Sir

Consultation Draft of the International <IR> Framework

I am writing in my capacity as Chairman of The 100 Group Investor Relations & Markets Committee to share with you our views on the IIRC's Consultation document on the above stated topic.

As Directors of large international companies, we understand the importance of narrative reporting, effective dialogue with all stakeholders and the impact that these vehicles of communication have on capital allocation decisions. We are supportive of the IIRC's desire to improve the transparency of such reporting and active promotion of long-termism. Our comments and recommendations below should be read in this context.

Appreciating that <IR> seeks to promote a different form of business reporting focused on shareholder value, we have concerns that a number of difficulties still need to be dealt with before it is sufficiently compelling to ensure that take up by companies is maximised and the report be regarded as essential information by investors.

Furthermore, without sufficient integration with existing reports, <IR> adds a further layer of complexity to a company's, already voluminous, reporting requirements. Fundamentally we cannot support IR unless it is clear that it replaces existing reports. This would require a harmonised approach across jurisdictions. In the longer term <IR> may enable more concise reporting in areas covered by existing reports but the consultation draft does not currently consider how this may be achieved if implemented today.

Who we are

The 100 Group represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the FTSE 100, collectively employing over 7% of the UK workforce and in 2012, paid, or generated, taxes equivalent to 14% of total UK Government receipts. Our overall aim is to promote the competitiveness of the UK for UK businesses, particularly in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance.

Our views

For the purposes of avoiding repetition, we have chosen not to respond to each of the questions proposed in the Consultation Draft, but provide our main comments in the body of this letter.

General

The IIRC needs to be clearer on the purpose of <IR>. In its current form, the consultation draft will be interpreted by many as the integration of corporate social responsibility reporting with financial reporting. Approaching <IR> from this narrow perspective, will not provide investors with the real story of business value.

Confusion is created in the Framework over what 'value' means in the context of <IR>. We would recommend that there should be a distinction between explaining the creation of shareholder value (the objective of an investor focused report) and stakeholder value (which in an <IR> should simply be a means to understanding how shareholder value will be created).

Principles based guidance

We are supportive of the measures within the draft that give us, as management, the freedom to present information about the company's performance in a manner which is most suited to the requirements of its shareholders. Principles based guidance for identifying relevant performance measures and communicating future outlook is of most benefit to our members, and would be particularly important in ensuring that the information provided in an Integrated Report can support investor decision making.

We are not in favour of detailed rules as these will add to the already significant regulatory burden on our members and often attempt to apply a 'one size fits all' approach which, in this case, is not compatible with the aim of <IR> being tailored to provide investment relevant information. We would be very concerned if it became a requirement for companies to disclose information that they do not, as a matter of management priority, monitor and track, as that will result in a distraction of management time and effort from those items which are of relevance and which should be a priority.

Duplication and boilerplate disclosures

It would appear from the draft framework that an <IR> report is intended to be a standalone document and in addition to companies' existing reports. We cannot support this. If integrated reporting is to have meaning it must replace documents to avoid yet more burden falling on companies and we see this as a major barrier to the adoption of any IR framework. With existing reports being produced in accordance with requirements that vary from jurisdiction to jurisdiction, we expect the decision to offer <IR> reporting should remain with the company. Unfortunately however, this means that <IR> will, inevitably lead to duplication between various reports and, ultimately, will impose additional costs and disclosure requirements on companies at a time when we should be attempting to streamline disclosures. If <IR> becomes too long – and experience in South Africa highlights this risk – much of its value will be lost.

We support any drive to reduce boilerplate disclosures, reduce the complexity and length of company's reporting and focus user's attention on the key performance indicators of a business and it results.

We urge caution to ensure that the <IR> Framework does not create a shopping list of disclosures that are not material to an assessment of shareholder value. In particular, we note the following from the Consultation Draft:

- The requirement to disclose immaterial information on the "capitals" is not consistent with the materiality principle. We do not agree that any disclosure should be provided regardless of materiality as this defeats the object of reporting providing clear, concise and relevant information that enables investors to understand the company's performance. We strongly urge that the concept that information is shown regardless of materiality is reviewed and clarified.
- Paragraph 3.29 says that there should be a balance between conciseness and completeness. The need to disclose all material information should not be constrained by conciseness. The requirement should be to concisely disclose all material information.

Forward looking statements

We welcome the Framework's focus on producing a forward looking report but believe that the emphasis should be on providing information that enables report users to form their own views on the future prospects of the business: responsibility for judgements over the future performance of the business should not be transferred from the investor to management. Where possible, our members seek to provide meaningful forward looking information to illustrate the Board's view of the future prospects. These statements are often presented with caution, not least because of the reputational impact on the individual Directors should the actual performance fail to live up to expectations. We, thus, believe that it is important to ensure that limitations and assumptions for any information being presented are clearly expressed so that users can apply their judgement over the reliability of information contained in the report.

Equally as important are the commercial constraints which exist over the disclosure of certain aspects of detailed forward-looking statements. Whilst an understanding of the direction and intentions of a company are required for investors to make appropriate investment decisions, this must be offset by the need to keep some commercially sensitive developments inside the company. We are pleased to see the proposal (paragraph 3.42) that organisations should not have to disclose information for <IR> that would damage their interests.

Consistency of application of <IR> with other regulation and guidance

We note that a number of bodies are looking at similar issues to <IR> and it is critical that any framework developed is harmonised with the current and future regulatory environment being proposed by, for example, by the UK government and the European Union, such that the overlap between these frameworks and the requirements of national authority is maximised. To fail to do so is a missed opportunity and will cause confusion amongst users and regulatory overload for preparers.

By way of example, we are doubtful how far the guidance on "balance" set out at paragraph 3.33 would be applied alongside national regulation. The 2012 revision of *The UK Corporate Governance Code* includes a requirement that "The board should present a fair, balanced and understandable assessment of the company's position and prospects". This would appear a reasonable approach.

Costs of implementation

There are various areas where we believe there will be challenges in applying <IR>:

- As previously described, if the intention is for an <IR> report to be a standalone document, this only increases the preparation burden on companies.

- The implementation of <IR> may be challenging for certain companies, requiring the disclosure of information from sources that have not traditionally been subject to the same level of internal control as information processed within established financial reporting systems.

- We recognise that, in certain circumstances, stakeholders may benefit from and <IR> report being externally assured, either on a 'reasonable assurance' or 'limited assurance' basis depending on the identified need. It is therefore important that investors' views are taken into account in this regard. Given the diversity of the information that would be provided by different sectors, it is not possible to generalise over the nature of information that would benefit from assurance. A voluntary code which permits a separate assurance engagement – rather than an 'audit' engagement – would be more appropriate and allow a more tailored approach. This is because the preparedness of businesses and the level of interest in this reporting among stakeholders is likely to be different according to jurisdiction, industry or entity. It would be important for the IIRC to work with the IAASB if assurance is to be considered further.

A test of the success of <IR> would be whether it influences investor decision making. We would welcome views on whether this has been achieved in the implementation of <IR> in South Africa and would further welcome summaries of the experiences of companies engaged in the Pilot Programme.

Timetable

We note the IIRC's firm plans to publish the final framework in December 2013. This is an ambitious timetable if is going to address the fundamental barriers that we have noted in this letter

We would hope that the IIRC would be receptive to comment following the end of the formal consultation period and we would welcome the opportunity to meet and further discuss our concerns as mentioned within this document.

Please feel free to contact me if you wish to discuss the views contained within this letter.

Yours faithfully

Matthew Lester
Chairman
The 100 Group: Investor Relations & Markets Committee