IIRC Draft Framework Consultation

July 15, 2013

SAP welcomes the opportunity to comment on the <IR> Draft Framework and we are pleased to support the effort to improve corporate reporting and disclosure.

For over 40 years SAP has been a trusted advisor on technology matters to our customers who now number more than 238,000 in 120 countries including 86% of the Global Fortune 500. This input has been a collaborative effort including many of our expert technologists who understand Integrated Reporting to be an important development. Indeed our biannual meeting of the SAP Global CFO Executive Value Network meeting earlier this featured Integrated Reporting as a major agenda item. Insights from this meeting with global leading CFO's are reflected in this submission.

SAP is also co-signing a separate input from the German Integrated Reporting Working Group which reflects input from SAP corporate perspective. While both submissions are consistent and reinforcing this submission reflects our point of view from a technology development perspective. The German working group input reflects our corporate position.

The rise of social networking, the proliferation of big data, mobile devices and cloud computing is not only fundamentally changing the corporate IT landscape but it is also dramatically reshaping stakeholder expectations of corporate communication and disclosure of value.

Therefore it is vitally important that the IIRC community, not only look to improve the current process, but also to bravely look ahead to future stakeholder requirements. Although the Draft Framework allows us to consider making the annual report more concise and thereby allowing some production efficiencies, we must remain focused on the bigger picture – the corporate veil has been pierced and we increasingly live in the public domain and in real time. The demands internally and externally for more information, more insight, in real time will continue to grow. Flexibility to meet these information demands in order to secure access to capital is a competitive advantage. Agility in responding to market sentiment is also critical to value creation and speeding information end to end, from source to information consumer and back should be a key goal of integrated reporting.

Our feedback is organised in three sections : summary feedback, detailed feedback and consultation questions. Should you have any questions please do not hesitate to be in contact.
Thank you for the opportunity to participate in this consultative process.

1. Summary feedback

- **Data Integrity & Quality Management –** should be included as a content element to explain the data governance arrangements, current level of quality and future improvements.
- **Social Enterprise –** there is a need to recognise the demand to connect stakeholders and business function owners both ways in real time. <IR> needs to be technologically social by design.
- **Design Approach -** <IR> reporting must design for the current, future and latent needs of report users. <IR> must aim to delight and add significant value to all stakeholders in the process. It should not design an improved production process, rather, it should consider how to meet stakeholder needs in a way that adds value by leveraging new technology.
- **Integrated Thinking –** approach could be further developed in the framework. In order for the enhanced process to add value for all stakeholders we need to see reporting as a means to connect

and speed response to stakeholder/market demands. To do this effectively we must fully develop the linkage between the internal and external, the strategic and operational, the financial entity and its extended value chain.

- **The Business Case** – for integrated reporting needs to be made more explicit. How will the organisation, capital providers and other stakeholders appreciably and incrementally benefit from the enhanced process? We would suggest that the overriding objective is to help the organisation become more connected to and inclusive of its stakeholders and more agile in in its response to opportunity, risk and stakeholder demand. To achieve this businesses need to identify how to speed the flow of information from source to decision maker – internally and externally, from end to end.
- **Risk Management -** this section could be further developed so as to link clearly identified value & risk drivers with the business model and capitals over a clearly defined short, medium and long term.
- **Inclusiveness –** should be restored as a framework principle in recognition of the growing empowerment of stakeholders and the proliferation of social networks that can effectively connect the stakeholder to the corporation. Responsiveness alone suggests a monologue rather than the real and present demand for dialogue.
- **Connectivity of Data –** is crucial to a common source of truth and speed of inclusiveness and responsiveness. Connecting the internal and external view of performance is key to unlocking significant value of <IR> therefore much more emphasis is needed about the process of complete business integration for longer term business model transformation, resilience and value creation. In addition, the use of structured models for quantitative representation and analysis of the business model and how activities are connected to the capitals could provide multiple benefits. On one hand, the financial analysts as recipients of the information delivered in the integrated report would appreciate structured information about the business model and related quality measurements for their decision processes. On the other hand, quantitative models could provide the base information for internal management and control systems, therefore fostering alignment between internal decisions and external reporting.

2. Detailed Feedback

Data Integrity & Quality

- We recommend that every Integrated Report include a section on Data Quality Management as a Content Element. The section should explain the data capture process broadly and reliability of data both for the Financial Reporting Entity and beyond to the Reporting Boundary. The strategy for data quality improvement over time should also be explained. The following objectives should be realized:
    - Financial and non financial data should be of similar quality
    - Reporting boundary data should be of similar quality to that of the Financial Reporting Entity. Where it is not it should be explained and data quality objective and plan disclosed.
    - Data capture, governance and improvement plan should be disclosed and assured.

- Analytic methodologies - similarly for identifying, quantifying and qualifying linkages and interdependencies between capital forms it is important for the IIRC to give guidance on typically acceptable methodologies for doing so. It is unlikely there will be or need to be uniformity but it is important that there is a minimum quality threshold. Reporters might deploy predictive analytics techniques such as cluster or associative algorithms in establishing these links. These methodologies should be made available for audit and assurance and the IIRC would be advised to encourage research and collaboration in this area to allow best practice to emerge. In modelling connectivity it is important that the data used to model is reliable.
    - The IIRC has said that the same information sources should be used with consistency internally and externally. To achieve this there needs to be a clear audit trail to source data commonly used for financial reporting and management accounting processes. It is important for the IIRC to suggest in the draft documents that reporters should identify and clarify their data architecture to achieve this. As reporting cycles speed from periodic to real time and expand across the value chain the importance of this becomes ever more urgent if firms are not to suffer a loss of credibility due to deteriorating data quality.
- Integrated thinking and reporting – following the previous point, we feel it is important to demonstrate that the data source owners and managers are connected to the reporting process in terms of commenting on drafts especially in relation to key KPIs. This will assure the reader that KPIs reported are indeed actively managed.
- Report quality and risk management – given the variability and complexity especially relating to non financial reporting we believe it is important for the IIRC to encourage and specify appropriate minimum risk and quality controls over the reporting process.
- Timeliness & Accuracy – we must accept that the future of disclosure is impacted greatly by trends relating to the consumerization of IT. Stakeholders expect higher frequency and disclosure on demand and on mobile device. This can pose a threat to quality or a perceived trade off of timeliness versus accuracy. We recommend that reporters should consider current and expected future demands and prepare their reporting processes and systems to meet these requirements to avoid difficulties later.
- Timeframe dimensions – we recommend that reporters are encouraged to identify and explain appropriate time frame for targets and measurement. For example cash flow may need to measured on a minute to minute basis whereas biodiversity may suffice biannually. Similarly employee engagement may need to measured directly and on a sentiment basis continuously in order for indicators to be truly meaningful and intelligently actionable. The key point is that IIRC Draft Framework should consider the current and likely future reporting requirements including granularity and frequency.
- Capital definitions – we believe that framework users would benefit from more complete definitions of the capital forms as this would encourage standardization of practice and reduce the risk of double counting. Greater standardization could lead to more consistent data gathering, benchmarking and performance management processes.

Stakeholder engagement

- Inclusiveness – we recommend that the IIRC reintroduce the principle of stakeholder inclusiveness which was included in the original draft but has been removed from the most recent draft.

Notwithstanding the fact that the IIRC has made a holding assumption of one stakeholder group – the long term investor, the reality is that IIRC presents both a challenge and an opportunity to more effectively communicate value & engage with all important stakeholder groups all of the time. Also with the rise of real time 'pull' forces and armchair aggregation companies need to be proactive in stakeholder management. The inclusivity principle encourages the proactive, reporting for the reader mind set where as we feel responsiveness encourages a more reactive mind set in reporting.

- Data model – for ease of reporting and intelligent performance management it is important to develop a unified data model for all operational drivers of value whether financial or non financial. Currently the data models for financial drivers of financial performance tend to be better defined. With a more unified data model Integrated Planning and Reporting becomes easier to achieve. New and emerging systems architectures such as SAP HANA can potentially play a role to help simplify matters and drive greater flexibility than was previously possible in earlier generations.
- Process – we believe the internet provides an unprecedented opportunity for stakeholder engagement and indirect sentiment analysis at scale. Inclusion and responsiveness we note are principles which carry some moral weight rather than suggested processes. Therefore it is important to emphasise that reporters should actively demonstrate their stakeholder engagement processes. Fortunately technology tools make sentiment analysis and direct engagement at scale quite feasible.
- Flexibility – following from the previous point we believe there is a distinction between the annual integrated report and integrated reporting. Framework users should be encouraged to accept and prepare for the reality to meet the various information demands of all stakeholders.
- Definition – we recommend that the term 'stakeholder' is defined by the IIRC.
- Assurance – we feel the IIRC needs to more clearly address the issue of assurance standards for integrated reporting. This helps set a quality baseline from which reporting systems can be improved over time.
- Audience – we believe section 1.8 contains some faulty logic. Financial capital providers taking a long term view certainly may not find that their interests align with short term shareholders.

Design

- We believe it is important for the IIRC to provide practical guidance on what an integrated report should contain and drive for practical alignment or standardization as much as possible. The development of illustrative mock report formats might help stimulate thinking and move the community towards a common and practical understanding.
- We believe reports should be designed for the user and not for compliance although we recognise that is too a reporting objective. Stakeholders should be able to arrive at the report site and quickly navigate to the desired content. It is also important to the extent possible allow the reader the freedom to interrogate and aggregate the data to maximise usability. This means allowing embedded analytics capability, tagging, download capability. By design we must recognise that the reader may not in reality nor want to view the report in the totality it was presented. The reader may just wish to extract content to form their own analytical view. To meet the demands for context we recommend that the reporter make available trend analysis and 3rd party benchmark data for ease of comparison and context setting. The acid test for presentation of performance and

context is that the reader should not be able to an alternative view of the performance in carrying out their own independent interpretation and analysis.

- Multidimensional views – we believe the reporting model should be flexible enough to meet diverse stakeholder needs and to present multidimensional views of the data.
- XBRL – we believe that the IIRC should consider the development of an XBRL taxonomy to aid in data consumption. In doing so we recommend integrating best practices from other standard setters developing XBRL taxonomies for financial reporting part (such as the IASB with the IFRS taxonomy or the FASB with the US GAAP taxonomy). This will add to the adopting of such solutions esp. if the IIRC taxonomy architecture and the filing understanding will match the one agreed between the Interoperable Taxonomy Architecture (ITA) group (IASB, US SEC, Japan FSA) and represented in the Global Filing Manual (GFM). We believe that electronic disclosures will enhance the closing process, increase data quality and for most facilitate data consumption by better comparisons of reported items. In doing so we recommend integrating best practices from other standard setters developing XBRL taxonomies for financial reporting part (such as the IASB with the IFRS taxonomy or the FASB with the US GAAP taxonomy). This will add to the adopting of such solutions esp. if the IIRC taxonomy architecture and the filing understanding will match the one agreed between the Interoperable Taxonomy Architecture (ITA) group (IASB, US SEC, Japan FSA) and represented in the Global Filing Manual (GFM). We believe that electronic disclosures will enhance the closing process, increase data quality and for most facilitate data consumption by better comparisons of reported items.
- Social – we should design reporting for the social enterprise and aim to connect stakeholders in both directions from stakeholder to board to business process owner.

Collaborative Process

- Data collection techniques are often a one way street with the data owner merely asked to submit data centrally. Shared insight and linkage to the external stakeholder can help to drive not only integrated reporting but integrated thinking throughout the organisation. Further, by linking materiality, risk and sentiment analysis into such a collaborative process can help the organisation react faster to changing external conditions and improve responsiveness.

Risk Management

- We recommend that some further definition and emphasis is placed on risk management particularly as it relates to materiality assessment and the business model including inputs, business activities, outputs and outcomes. We also recommend Value Drivers & Risk Drivers are clearly identified as a feature of the business model and as a focal point of departure for risk management.
- We would urge some caution in assessing external risk solely on the basis of magnitude versus likelihood. First, risk managers need to differentiate their perspective in assessing risk either at Financial Entity level or at Extended Boundary level. Next, we need to acknowledge that even where capital is not owned risk associated with the stewardship responsibility must be owned and managed. Finally, we must also acknowledge that likelihood of occurrence must be categorized according to short, medium and long term with clear mitigation ownership assigned.

- We recommend, consistent with an Integrated Thinking approach, that the Integrated Report should identify and disclose not only strategic risk but also significant operational risk across the value chain. This includes inputs, activities, outputs and outcomes according to the framework. It should also include process risk as well as occupational related risk.
- Resilience – emphasis should be encouraged towards active and intelligent risk management and mitigation for the short, medium and long term for capitals owned and accessed. Risk management capability should also be assessed according to the organisation's capability for proactive, predictive and reactive risk management. Identifying risk alone should not be the hallmark of good disclosure.
- Future oriented disclosure such as financial and non financial projections should be risk adjusted.

Materiality

- We recommend that more guidance be developed on materiality decision making and analytical methodologies that might be used for quantitative and qualitative assessment.
- We recommend that materiality analysis is carried out successively from the perspective of the Financial Entity, the Reporting Boundary and by Capital type before arriving at a single view of materiality for disclosure.

Integrated thinking, materiality, strategy and stakeholder responsiveness

- Business case – we believe the IIRC could help clarify the value added business case for integrated reporting in terms of expected benefits accruing to the organisation itself as well as its stakeholders. In clarifying this we believe the <IR> framework can be strengthened to:
  - Better meet the information needs of the user in order to create value
  - Connect the stakeholder to accountable business function owner and so improve accountability, performance and speed of responsiveness

  The guidance in section 3.38 is somewhat vague. Here we believe materiality should be the only test. If the data is material it should be disclosed regardless of the effort to acquire the data. We question the guidance given in 3.39. Again we believe materiality is the benchmark and there should either be some level of disclosure or explanation of the data improvement plan to where the data is fit for external disclosure.
- Integrated Thinking – given the rising expectation of real time connectivity of and responsiveness to stakeholders we recommend that much more guidance is given on how to connect, end to end, from external report user to internal data/process/operation owner; from front end to back end. The vision should be to build the connectivity links of a truly social enterprise where the shareholder and business owner are truly connected.
- The future oriented principles of <IR> require capability for strategic modelling not only of expected business outputs but also of expected outcomes and impacts. This capability is essential to materiality assessment at all levels of the organisation from strategic to operational.
- More guidance should be provided on what is short, medium and long term. It is understood that different business models have varying cycles but general guidance on what phase of the cycle is considered short, medium and long term with a description of the typical type of business planning activity associated with each. For example we would expect that businesses might develop quantitative and qualitative analysis predicting the growth trajectory with risk adjustments to allow for identified external megatrends.

Other

- We recommend that the IIRC develop and publish an IT maturity matrix for the <IR> that identify the key capabilities required for <IR> and the organisations readiness to meet the challenge of integrated reporting and thinking.
- Benefits – while we recognise <IR> as a positive development we feel it is important for the IIRC to set out the case for what the expected benefits are for companies adopting this reporting method above any other. These benefits will encompass would include streamlining report production as well as strategic benefits of improved alignment of financial and non financial management.

3. Consultation questions

Principles-based requirements

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

The stakeholder inclusiveness principle included in the first exposure draft should be restored. In an era of unprecedented social networking reach, the challenge companies to reach and engage stakeholders in real time has never been more important. By re-emphasising the importance of not only responding to stakeholders but including them, the principles can help reporters focus on proactively meeting the information needs of the report consumer and proactively seeking actionable insight to incorporate into strategy.

Greater attention is required to the principle of sustainability context in the framework. The firm should disclose relevant information about the general availability and capacity limits of capital forms – especially natural capital. Without this insight stakeholders will have limited ability to analyse risk to capital access over the medium and long run and the appropriate incentives to manage scarce non financial capitals are less likely to emerge. Consideration should be given to either introducing context as a principle or providing expanded guidance for this matter as a required content element.

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?

Yes. But it should be emphasised that the reporter must have good systems of information control to ensure consistency of disclosure across multiple channels. Report consumers should expect consistency and therefore a section on data quality in the <IR> annual report is important so that report users are fully aware of the relative strengths and limitations in data quality.

See above.

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?*

N/A

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

N/A

Chapter 2: Fundamental concepts

The capitals (Section 2B)

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

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?

Yes. But the figurative illustration and explanation needs to do more to be explicit about value creation and capture which is the main objective of the business model. The differentiation between outcomes and outputs remains clouded – eg. emissions are described as an output and environmental effects are described as an outcome while capital value creation is described as a consequential outcome.

See above

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?

Yes

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)?

Depending on maturity of a company's information and reporting system the business model could be described in different ways. While the business model could be described in a narrative way as a starting point, this may not satisfy the needs of Financial Analysts for structured information. The framework should recommend using quantitative information available in a company's information systems within a structured model to enable insights about the dependencies in the business model between activities and capitals.

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?

See above

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

See above

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?

See above – there should a required content element describing data quality management and governance processes. The section should provide a view on data quality of key disclosures as well as details of the strategy for data quality improvement.

In addition, the use of information systems to capture information about relevant indicators, influencing factors and capitals would allow performing confirmatory analysis of the described business model and its dependencies. This could be performed by companies and / or auditors. Depending on the scope and quality of the available data a set of different methodologies from statistics could be recommended and applied in this context, namely from the area of regression analysis.

See above for additional detail.

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

See above

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).

See above

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?

N/A

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

N/A

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?
N/A

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.

N/A

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).

See above

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?

See above

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?

1. Data governance and quality – connectivity and information flow throughout the reporting cycle
2. IT strategy for integration – real time engagement, reporting, strategy, operations and culture (thinking). How do corporations prepare to meet future and latent reporting needs? This should include methodologies and models for describing the business model and its relation to capitals as well as quantitative methodologies for confirmatory analysis of the business model
3. Integrated risk management - connecting materiality with corporate governance, operational & strategic risk management and business planning.

Other

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

See above

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