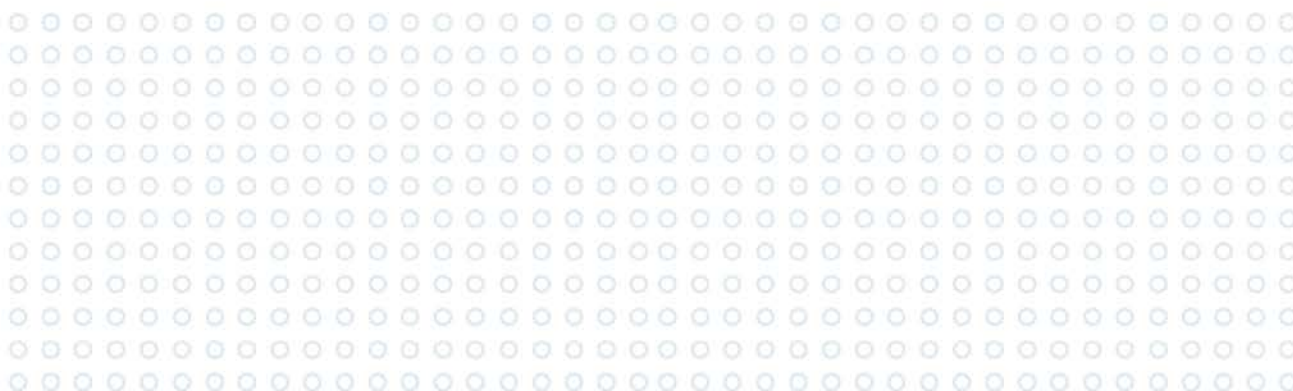


Business
Council of
Australia



Submission to the International Integrated Reporting Council regarding the Consultation Draft of the International Integrated Reporting Framework

JULY 2013

About the BCA

The Business Council of Australia (BCA) brings together the chief executives of 100 of Australia's leading companies.

For almost 30 years, the BCA has provided a unique forum for some of Australia's most experienced corporate leaders to contribute to public policy reform that affects business and the community as a whole.

Our vision is for Australia to be the best place in the world in which to live, learn, work and do business.

Introduction

This submission responds to the International Integrated Reporting Council's Consultation Draft of the International Integrated Reporting Framework discussion paper.

The Business Council of Australia (BCA) supports effective progress to more transparency regarding business reporting but emphasises this must be balanced against the need to minimise the reporting burden being placed on business. Businesses require certainty and stability in the regulatory and standard setting environment.

The BCA does not support any proposals to introduce mandatory integrated reporting. Instead the BCA supports giving each business the option to voluntarily determine the aspects of integrated reporting they wish to adopt.

The BCA supports a principles-based approach to integrated reporting that allows businesses to report on issues that are relevant to them and does not prescribe matters that may not be of relevance to each and every business. This is important to minimise the compliance burden on business and account for variable factors across business.

Summary of key points

The BCA is supportive of the principles-based approach to reporting which is outlined in the draft framework, but suggests that greater clarity around the principles could make them more meaningful for users. For example, there may be a need for a more detailed user guide with examples demonstrating how the principles may apply in different areas of reporting.

The key concerns the consultation draft on integrated reporting raises for the BCA include:

- the likely increase in the reporting burden on business
- the potential for increased costs to collate additional data and associated increased assurance expenses
- the limited, or poorly defined, benefits to businesses of integrated reporting
- understanding the size of the audience that integrated reporting is anticipated to appeal to
- the lack of appropriate safe harbour arrangements in Australia and the risks for director liabilities with respect to future-oriented disclosures
- the introduction of an additional layer of reporting above what businesses are already required to produce adding to already cluttered reporting requirements
- setting an appropriate size threshold so that small businesses are not unnecessarily caught up in reporting that is costly and meaningless in the context of their operations.

The key concerns are outlined in more detail below:

Increase in the reporting burden to business

While the BCA welcomes the principles-based approach to integrated reporting, we remain concerned that it could create an additional layer of reporting above what business are already required to produce.

The BCA is concerned that the proposal for a “stand-alone integrated report to be prepared annually” is over and above existing reporting requirements in Australia and is duplicative and unnecessary.

Instead the BCA recommends that it should be left to the discretion of the individual business to adopt an integrated approach to reporting that is appropriate for them. This may mean developing an integrated approach to reporting that forms part of their existing published material.

Increased data and audit costs

The BCA is cautious about any requirement for additional data collation that would require business to invest in new technology and systems resulting in additional costs. New systems also require the training of employees in their use and processes to ensure data accuracy. This also has implications for auditing costs.

The way in which technology is used is a matter for individual companies and should remain that way to account for the cost considerations of different-sized companies and varying shareholder profiles.

Poorly defined benefits to business

Limited evidence is provided in the consultation draft as to the benefits integrated reporting is expected to provide to business. Before locking down a framework for integrated reporting, the benefits to business should be clearly defined to ensure the framework is designed to maximise said benefits.

Undefined demand for integrated reporting

In Australia, the majority of shareholders do not receive an annual report and there is little evidence to suggest there is great demand for a further integrated report in Australia. The BCA is concerned about any proposal to make the publication of an integrated report mandatory in the absence of identified demand for it amongst Australian shareholders.

Forward-looking statements

Significant issues of liability arise from the current requirements in Australia in relation to forward-looking statements. Annual reports in Australia must detail matters that will affect performance in future years and the operating and financial review must include information on a company's future prospects. While in many cases such disclosures have a necessary degree of uncertainty and should be treated with some caution by investors, they are subject to strict provisions regarding misleading and deceptive conduct in the Corporations Act and there has been a trend for shareholder actions to be based on statements containing forward-looking information.

In order to improve the balance in this area, the BCA would support the consideration of appropriate statutory safe harbours for forward-looking information that could be applied in Australia, drawing on experience from safe harbours applied in jurisdictions such as the United States. Such safe harbours would provide relief for directors and companies that took reasonable care in meaningfully outlining the limitations and appropriate caution that should be applied to certain disclosures.

Clutter in reporting

As the Financial Reporting Council's report *Managing Complexity in Financial Reporting* recently found, there are a range of factors driving increased complexity in financial reports in Australia, including:

- increasingly complex business operations
- complexities in the regulatory framework
- a more litigious business environment driving increasing disclosures
- developments in integrated reporting.

The BCA is concerned at the growing demands on annual reports to meet existing Australian legislative obligations for both financial and non-financial disclosures and the prospect of mandatory integrated reporting adding a further layer to existing requirements.

The BCA does consider that these growing demands are creating a degree of clutter and adding to the compliance burden of business and therefore integrated reporting should seek to work within existing reporting requirements rather than create another layer of reporting.

Setting appropriate size thresholds

The BCA has consistently argued that in the area of corporate governance and shareholder communication, 'one size does not fit all'. What may work well for one company and its shareholders may not be suitable for another. Ultimately, each company and its shareholders need to agree the best approach to communication for their circumstances.

The BCA supports a similar approach for integrated reporting that allows business to tailor their reporting to their needs based on their needs, nature of their operations, their risks and the size of their business.

Therefore, the BCA welcomes the requirements of the framework to be principles-based with those charged with governance able to exercise judgement to determine which matters are material.

Detailed response to issues raised in discussion paper

IIRC question	Business Council of Australia position
Principles-based requirements	
1. Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.	<p>The BCA considers the requirement for business to explain the exact nature of the competitive harm that may result from the disclosure of any information omitted is unwarranted.</p> <p>Information that has been omitted should simply require the note that it is commercially sensitive. Detailing how this sensitivity commercially impacts a business is unnecessary and could in itself be commercially sensitive.</p>
2. Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?	<p>The BCA is concerned that the proposal for a "stand-alone integrated report to be prepared annually" is over and above existing reporting requirements in Australia and is duplicative, unjustified and unnecessarily onerous.</p> <p>Instead the BCA recommends that it should be left to the discretion of the individual business to adopt an integrated approach to reporting that is appropriate for them. This may mean – as part of, but not in addition to – existing published material.</p>

IIRC question	Business Council of Australia position
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?	The BCA can see merit in the suggestion for an online database of indicators or measurement methods as long as the intent remains that these measurements are for the purpose of guidance and do not become instruments of compliance.
4. Please provide any other comments you have on Chapter 1.	No comment.
<p>The Framework describes six categories of capital (paragraph 2.17). An organisation is to use these categories as a benchmark when preparing an integrated report (paragraph 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. Do you agree with this approach to capitals? Why, why not?</p>	The BCA does not have any objection to the categories of capitals listed but strongly supports these categories being benchmarks that an individual business can choose to adopt, or not, based on what is appropriate to their business.
6. Please provide any other comments you have about Section 2B.	No comment.
<p>A business model is defined as an organisation'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>	The BCA believes that the elements of the business model described already form part of corporate disclosures in Australia and cannot see the justification for additions, or changes, to this process.
<p>Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organisations business activities and outputs.</p> <p>8. Do you agree with this definition? Why, why not?</p>	No comment.
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)?	Some Australian Corporate Financial Officers have expressed concern that increasingly detailed disclosure in areas like product differentiation and market segmentation, as may be expected by integrated reporting, could result in commercially sensitive information being released. The BCA does not support any requirements for such matters to be disclosed.
10. Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.	No comment.

IIRC question	Business Council of Australia position
<p>Materiality is determined by reference to the assessments made by the primary intended report users (paragraph 3.23-3.24). The primary intended report users are providers of financial capital (paragraph 1.6-1.8).</p> <p>11. Do you agree with this approach to materiality? If not, how would you change it?</p>	<p>The BCA is concerned that this is a new approach to materiality and may be inconsistent with way materiality applies in Australia's continuous disclosure regime.</p> <p>The BCA therefore supports a framework that provides business with the option to choose a materiality assessment appropriate to their circumstances based on established practice in Australia.</p>
<p>12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5b).</p>	<p>No comment.</p>
<p>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>The BCA believes existing arrangements in Australia are already robust in ensuring accuracy of data and additional processes, including independent external assurance assessments, are not required.</p>
<p>14. Please provide any other comments you have about Section 3E.</p>	<p>No comment.</p>
<p>15. Please provide any other comments you have on Chapter 3 that are not already addressed by your responses above.</p>	<p>The BCA is strongly opposed to legal or regulatory requirements applying to the disclosure of future-orientated information and any obligation to publically update such information. The assumptions applied by a business, and the volatility of those assumptions, are commercially sensitive and there should be no requirement for mandatory public disclosure. Future-orientated information by its very nature is variable and directors should not be held liable for assumption that may underpin information that is likely to change in the future.</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>The BCA is concerned about the potential risk for directors' liability that integrated reporting could pose. With reports to be based on an organisation's cycle, which could be as long as eight to ten years, it is important that users of the integrated reports be appropriately cautioned about the potential for variability of any disclosures over this time period so that investors can appropriately take these matters into account in their decision making.</p> <p>There is no adequate or appropriate safe harbour for forward looking information in Australia. Therefore directors would be limited in their ability to provide future orientated disclosures in order to ensure they are not held liable for long-term predictions accompanied by appropriate caveats and cautionary statements.</p>

IIRC question	Business Council of Australia position
<p>Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organisations to disclose the governance body with oversight responsibility for integrated reporting.</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>The BCA does not support this proposal given the ambiguity it is likely to create for a director's obligations when the present arrangements in Australia make this sufficiently clear.</p>
<p>18. Please provide any other comments you have about involvement of those charged with governance (Section 5D).</p>	<p>No comments.</p>
<p>The Framework provides reporting criteria against which organisation 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>The BCA supports the latter option of assurances focusing on specific aspects of the report given an assessment of the whole integrated report presents new information for auditors and it is unclear how these could be assessed, such as future orientated information.</p>
<p>20. Please provide any other comments you have about Credibility (Section 5E). Assurance Provider are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.</p>	<p>No comments.</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 rather than here).</p>	<p>No comments.</p>

BUSINESS COUNCIL OF AUSTRALIA

42/120 Collins Street Melbourne 3000 T 03 8664 2664 F 03 8664 2666 www.bca.com.au

© Copyright July 2013 Business Council of Australia ABN 75 008 483 216

All rights reserved. No part of this publication may be reproduced or used in any way without acknowledgement to the Business Council of Australia.

The Business Council of Australia has taken reasonable care in publishing the information contained in this publication but does not guarantee that the information is complete, accurate or current. In particular, the BCA is not responsible for the accuracy of information that has been provided by other parties. The information in this publication is not intended to be used as the basis for making any investment decision and must not be relied upon as investment advice. To the maximum extent permitted by law, the BCA disclaims all liability (including liability in negligence) to any person arising out of use or reliance on the information contained in this publication including for loss or damage which you or anyone else might suffer as a result of that use or reliance.