

15th July 2013

The International Integrated Reporting Council (“IIRC”)

Dear Sirs,

**Response to draft International Integrated Reporting <IR> Framework**

DBS Bank is pleased to comment on the Exposure Draft (ED) for the IIRC’s “*Integrated Reporting Framework*”.

We have chosen to furnish you with this letter to provide our views and recommendations in a format we find most conducive but following the structure of the questions raised by the Council. In addition we will upload the specific feedback form requested by the Council to the website using identical wording where possible.

***Overall comments***

We congratulate the Council on the issuance of the first draft Framework. We believe it will go some way in achieving a high quality integrated external report for those who choose to adopt the Framework.

We also congratulate the Council for having come far in terms of building support amongst many different stakeholders that will influence the success of <IR><sup>1</sup> and IIRC. We wish to continue to actively engage with the Council in order to help build a Framework of high quality - yet practical to apply, that has wide acceptance and is understood by those using it.

Only a principle based approach to <IR> will in our view achieve wide acceptance and we therefore agree with the principle based approach taken in the Framework.

The objective of the <IR> in our view should be the development of a single document that clearly outlines how an entity’s strategy and business model provide a competitive advantage that adds value to its stakeholders. In achieving this objective we have four main concerns with the draft Framework that we discuss further in our comment letter:

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<sup>1</sup> In this letter we use the term <IR> interchangeably to the full reporting process but also to the external publication - e.g. an annual report - that is the main externally communicated product of the reporting process.

1. Separating the <IR> from the current Annual Report creates the risk that the <IR> at best remains a secondary source of information and at worst is regarded by stakeholders as a report used to promote the entity. In our view the <IR> therefore must seek to replace the traditional Annual Report.
2. Trying to do “too much too soon”. Specifically we are concerned that the focus on management attestation and assurance processes although not made mandatory in the Framework may preclude otherwise suitable preparers from adopting the Framework in the near future. Similarly the objective to report on the “outcomes” of an entity’s action - unless better explained - could deter entities from adopting <IR>. In our view the main focus of the <IR> should be the coherent and consistent reporting on those value drivers and Key Performance Indicators (“KPIs”) that the entity use to measure its progress against its strategy. We recommend that the Framework makes this clearer.
3. Too prescriptive wording. We outline in our response areas where the Framework - perhaps inadvertently - includes language that may be misread and would prevent entities from adopting the framework.
4. Illustrative Guidance. Notwithstanding that the Framework is principle- and not rules based we believe that there is a need for more cohesive and comprehensive guidance on what an <IR> may look like in the context of different industries and geographies. The current “database” of best practice disclosures is helpful but not sufficient.

## Question 1 - Principle Based Requirements

- 1.1 *Investors as the primary recipient of <IR>.*** We agree that the primary recipients of the <IR> are investors. An <IR> aimed at meeting all the information needs of all stakeholders is neither practical nor desirable in preparing a report that concisely captures the entity’s strategy and business model. In addition we note that some stakeholders - e.g. regulators - will have specific information needs and access to additional information that would not be suitable to an <IR>.

We recommend: The Framework should retain the notion that the investor as the primary recipient of the <IR> but recognize that when the <IR> encapsulates financial statements and risk reports based on framework developed by other standard setters or regulators that the <IR> may include directed also at other stakeholders.

- 1.2 *Illustrative Guidance.*** The development of a robust and coherent set of illustrative <IR> would helpful and important for preparers of <IR>. Our experience is that many parties seek such guidance at this point. We find the database of real life “best practice” on the IIRC’s website helpful. However, it suffers the shortcoming that it does not provide a single cohesive example of a good <IR> but only good practice of some

elements of an <IR>. Also “best practice” examples are not available for all industries and geographies. This makes such examples less useful. We also worry that should the Council not provide such more detailed principles this will be developed via other avenues (e.g. “Illustrative Integrated Reports” by various service providers) and that these would in practice achieve a level of “authority” that may ultimately be unhelpful.

We recommend: The development of a set of illustrative <IR>.

- 1.3 Focus on Competitive Advantage.** The framework is primarily focused on how the transformation of “*Capitals*” adds value to stakeholders. The framework - primarily in paragraph 4.20 - also indicates that an entity should explain how an it’s usage of these capitals creates a “*competitive advantage*”. Paragraph 4.21 may attempt to capture the concept of a competitive advantage with the use of the words “*to what extent is [the business model] resilient*”. We believe that a competitive advantage is at the core of what an entity should report on in its <IR>. Only entities with a competitive advantage will be viable and valuable to stakeholders in the long term.

We recommend: Paragraph 4.21 should be reworded to more explicitly capture the concept in paragraph 4.20 around an entity’s “competitive advantage”.

- 1.4 Drafting points and clarification.** In terms of the specific requirements (“bold letter statements”) our comments are as follows:

- a) Paragraph 1.12. We agree with the principles as stated. Practically we wonder when an entity would ever conclude and disclose that material data is unavailable. We would expect that material data is that which the entity uses to currently manage the entity including the KPIs. Perhaps the Council is concerned with historical information for current KPIs. This could be clarified in the Framework.
- b) Para 3.30. The explicit requirement to disclose “*all*” material matters is logical and commendable. In practice we are concerned with the practical burden of proving that this is the case. What is material can be different when considered ex-ante and ex-post with the hindsight of knowledge of actual performance of the entity. We recommend the paragraph be amended to “*all material aspects that in managements best assessment....*” See further our comments to question 11 below.
- c) Para 3.48. Please refer to our comments to question 14-15.
- d) Para 4.4. We do not believe the <IR> should be thought of a separate document detached from the Annual Report or Financial Statements. See further our comments to question 2 below.

## Question 2 - Interactions with Other Reports

- 2.1 **<IR> and Annual Report must remain closely linked.** A good <IR> would in our view clearly and logically explain the interaction between an entity's strategy, risk and financial performance. This is best done by keeping the <IR> as closely linked to the Annual Report and financial statements as possible at least at this stage of the <IR>s evolution.

Our impression from attending the recent IIRC Conference in Frankfurt is that investors continue to see the Annual Report as the “cornerstone” of an entity's reporting and hence the <IR> must build on the familiarity and trust build with investors through this report. We have concerns that a <IR> presented as a separate document would be seen by stakeholders as a document used to promote the entity and would not consider the <IR> as the primary report issued by entities.

We recommend: The Framework should explain its intention for how <IR> and the current Annual Report are expected to interact and if the Council agree with our views articulate the need for a close alignment between the <IR> and the reports currently part of the Annual Report.

- 2.2 **<IR> will focus initially on the Annual Report.** We acknowledge and agree with the statement in the Framework that the longer term vision is for the <IR> to be “*applied continuously to all relevant reports and communications, including analyst calls and the investor relations section of an organization's website.*” We suspect that today only few preparers would be able to attest to this ambitious vision for all aspects of its external communication.

We recommend: We support the notion that the Framework does not require that all reports be in compliance with <IR> but only those that are purported to follow the Framework. In practice we suspect that would initially encompass mainly the annual report.

## Question 3 - Specifying relevant Frameworks

- 3.1 **Authoritative sources of indicators or measurement methods.** We believe relevant discussions are already taking place in other forums such as the IASB, with the Basel Committee etc. As these frameworks and methods develop it would be seem difficult for the Council to have to evaluate their intended usefulness for <IR> and the more logical approach would seem to be leave the choice of frameworks and methods to preparers as long as they serve the overall principles of the Framework.

We recommend: The Council should at this point resist stating explicit requirements as to what current reporting framework or methodologies would qualify as “*of sufficient quality*” to allow an entity to comply with <IR>.

#### Question 4 - Other Comments

No further comments.

#### Question 5 - Approach to Capitals

- 5.1 **<IR> need not be structured around capitals.** As articulated in our initial comments we believe the fundamental principle governing the process of <IR> is the entity’s strategy. Accordingly this is also how the <IR> report should be presented. We agree that an entity should consider how it uses and creates “*Capitals*” via its business model. However, we believe that as currently worded the Framework could be read to require that the external <IR> report also be structured around these Capitals.

We recommend: The Framework should make clear that an entity is not required to report using a format based on Capitals.

#### 5.2 **Drafting points and clarification.**

- a) Paragraph 2.22 requires disclosure regarding “*factors that affect the availability of Capitals*”. It is not clear to us what such disclosures would include and help. We do not assume that entities would have to discuss in detail the supply of skilled labour in the market it operates in and what for example the government may do to increase or limit the supply.
- b) The requirement for entities to explicitly state the reasons a specific Capital is not material seem largely obsolete to us. We would propose that for many entities it would be relatively obvious why certain Capitals would not be material to entity.

#### Question 6 - Other Comments

No further comments.

## Question 7 - Business Model Definition

- 7.1 ***The definition of Business Model is appropriate.***
- 7.2 ***Reporting on objectives must align with entities internal measurement.*** We agree that a strategy can be measured in terms of short, medium and long term objectives. However, not all entities would have objectives and targets set for all three time horizons.

We recommend: A modification of paragraph 4.19 to reflect that an entity should only report on objectives and targets for those time horizons it uses for its management reporting.

## Question 8 - Outcomes Definition

- 8.1 ***Definition of “Outcomes” is unclear.*** We agree with the conceptual definition of “Outcomes” but believe the Framework - including the glossary - does not sufficiently clearly explain this concept. Taking an example from the financial industry, lending (an “output”) to small and medium size companies may create a number of different “outcomes” including creating employment, capital investment and the development of new product. These “first order outcomes” in effect may have further impact on the local community that again have an impact on the country and so on. It is not sufficiently clear which of all these potential outcomes the Framework would expect entities to report on.

We recommend: One approach to clarifying the concept of outcomes may be via examples as the concept may prove difficult to articulate in a single succinct definition.

- 8.2 ***Entities cannot control the ultimate outcomes.*** Outcomes are not in the control of the entity in the same way as is output. Taking the example from above an entity can decide on the size and composition of its loan portfolio and would consider any direct significant negative “first order outcomes” that these loan may create. Nevertheless, the link between the loan and the outcome it creates (via the borrower’s deployment of funds) is only indirect. It would be very challenging for entities to select the outcomes to report on in a way that would not be seen as unbiased not to mention capture the relevant data points to consistently report on such matters.

We recommend: The Framework should more clearly recognize this difficulty and add more guidance in this area.

## Question 9 - Other Comments

No further comments.



## Question 10 - Other Comments

No further comments.

## Question 11 - Materiality

- 11.1 ***We agree with the definition of materiality.*** We agree with the conceptual definition of materiality being linked to an entity's value creation. Indeed we find that the concept of materiality is the best guardian against an <IR> that becomes excessively long.
- 11.2 ***Drafting and clarification.*** We are concerned that the current requirement in paragraph 3.30 to explicitly disclose "*all*" material information could inadvertently create a too voluminous <IR> as entities may be concerned with the legal implications if disclosures were omitted.

For example entities may rightly be concerned that a later event that turns out to be material to say the share price and was not described in advance in the <IR> would be cause for legal challenge against an entity that claim compliance with the Framework. That may be the case even if management had taken all reasonable efforts to ascertain what was material at the time of reporting but naturally did not have the benefit of hindsight. This risk exists already with current financial reporting but is aggravated with the requirement in the Framework. To address this concern paragraph 3.30 could be amended to "*all material aspects that in management's best assessment....*"

## Question 12 - Other Comments

No further comments.

## Question 13 - Reliability and completeness

- 13.1 ***Consistent use of KPIs is the best way to ensure reliability.*** In our view the most powerful and therefore primary mechanism to ensure reliability is the requirement for consistency in reporting. In other words entities choose a way of reporting and a set of KPI's to report on and should consistently report on these KPIs. Changes or exclusion of KPIs should be explicitly explained and may be warranted in those less frequent situations where the strategic direction or priorities are changed.

We recommend: This point could be better brought to bear if the concept of "*Consistency*" was emphasized directly in section E of the Framework that deals with "*Reliability*" rather than as a separate section (section F).

- 13.2 ***The inherent conflict between comparability and explaining a strategy needs clarification.*** We appreciate the objective of ensuring some level of comparability between entities operating within the same industry and/or are subject to the same competitive forces. However, entities' value propositions and strategies are different and hence it is not likely that all the same KPIs are used to manage entities even in the same industry. Paragraph 3.51 acknowledges this.

We recommend: The Framework should clarify what entities are expected to report to achieve comparability given this apparent conflict between the need for comparability and the premise that the information provided must reflect the unique strategy of the entity.

- 13.3 ***Risk is the most comparable factor for an industry.*** The aspect where comparability is perhaps most achievable and valuable to stakeholders is in terms of the *risks* that entities in the same industry are subject to. For example in the financial industry all banks are subject to a degree of credit and market risk and somewhat uniform measures exist around how to report in these risk. Similar concepts may exist for other areas of risk.

We recommend: The framework may choose to emphasize that entities are expected to report on those risks that impact the industry and how entity choose to respond to the risks.

#### Question 14 to 15 - Other Comments

No further comments.

#### Question 16 - Content Element

- 16.1 ***Future Outlook.*** We acknowledge the sensitivities and regulatory impediments of information about the future outlook and targets. Practically we believe entities could disclose:

- a) Information around the main risk that could significantly impact the success of the strategy and how the entity intends to mitigate the risks. Such information should be as specific as possible; and
- b) An outlook on the environment in which the entity operates and some level of expectation about future targets and performance.

We recommend: The horizon and specificity of statements around future outlook should be allowed to vary. The Council may help encourage more explicit guidance by giving examples of “best practice” as is the case today.



## Question 17 - Statement of Responsibility

- 17.1 ***Management Responsibility for <IR> is implied.*** We appreciate that in some entities the specific sign off by relevant parts of senior management on the <IR> can help ensure an appropriate level of ownership. The concern by some is that otherwise the <IR> become another report generated by the finance department and hence is not embedded in the entity's thinking and reporting.

However, it naturally falls upon the most senior management to implement the entity's strategy and report this to its stakeholders. Accordingly, we do not believe such explicit statement of responsibility is imperative in all entities. We worry that providing such statement may be another impediment for entities to adopt <IR> also because the exact wording of such statement considering legal implications may unnecessarily engage resources that are better used on improving the <IR> itself.

We recommend: Retaining the current Framework that does not mandate the sign off by management.

## Question 18 to 22

No further comments.

## Question 23 - Explanatory Material

- 23.1 ***Additional material for communication is useful.*** As outlined in our introduction we believe <IR> remains subject to a lot of misperception and believe that further explanatory material that preparers and other advocates can use to engage stakeholder would be very useful. The material should include clear and concise explanations of:

- a) The purpose of <IR> and the benefits to various stakeholders. What it is and what it is not;
- b) The vision of <IR> and the support it receives;
- c) The key recipient of the <IR>;
- d) That the <IR> is not a distinctly separate report to the Annual Report nor a simple compilation of reports already prepared;
- e) What it means to attest to the Framework;
- f) Some visual expression of what an <IR> could look like.

We recommend: The development of material as outlined above. In addition we encourage the Council to continue to engage with the main traditional investor groups (fund managers, pension funds, private

investor organisations etc.) and analysts. The outreach must go beyond the main markets in US and Europe.

## Question 24 - Format of <IR> and Other Comments

**24.1 *The format of the <IR> should be aligned with the strategy.*** The Framework does not directly address the format and structure of the <IR> except to require that the Capitals be considered. In practice the <IR> can be structured in multiple different ways including around strategic priorities, risks, stakeholders or capitals. In addition Annual Reports for multinational and/or diversified groups are often structured along specific lines of business or geographical operations.

All these perspective are relevant and provide valuable information to stakeholders. However, it seems clear that entities cannot report on all dimensions at the same time without the risk of confusing stakeholders or creating dramatically larger reports (even if web based) or both.

We recommend: We do not recommend that the Framework mandates a certain format for reporting the <IR>. However, the Framework should provide further guidance stating its expectations in this regards more clearly.

We trust that the comments provided are useful in assisting with the Council's effort in finalising the Framework. Should you require any further clarification, please contact me at [mikkellarsen@db.com](mailto:mikkellarsen@db.com). Thank you.

Yours faithfully

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MANAGING DIRECTOR