25 July 2013

The International Integrated Reporting Council

Submission lodged via website: www.theiirc.org/consultationdraft2013

Dear Sir/Madam

International Integrated Reporting (<IR>) Framework – Consultation Draft

Thank you for the opportunity to make a submission on the International Integrated Reporting (<IR>) Framework released by the International Integrated Reporting Council (IIRC) on 16 April 2013 for public consultation (Draft Framework).

Please find attached Telstra's submission in respect of the Draft Framework.

If you have any queries or would like to discuss our submission further, please contact my office on (03) 8647 2629.

Yours sincerely

Damien Coleman
Company Secretary

International Integrated Reporting (<IR>) Framework – Consultation Draft

Submission by Telstra Corporation Limited

Purpose and Background

The International Integrated Reporting Council (IIRC) has released the Consultation Draft of its proposed International Integrated Reporting (<IR>) Framework (Draft Framework).

The Draft Framework seeks to create the foundations for a new reporting model to enable organisations to provide concise communications of how they create value over time. The most visible expression of <IR> is an integrated report prepared in accordance with the Framework.

The Draft Framework is 'principle-based' and comprises the following key features:

- Fundamental concepts which underpin <IR> - being the capitals, business model and value creation;
- Building blocks for an integrated report - comprising the guiding principles and the content elements.

The <IR> process is designed to be applied continuously in developing reports and communications, including a stand-alone integrated report prepared annually in line with the statutory financial reporting cycle for stakeholders who want additional information. The Draft Framework does not seek to replace existing financial and other reporting (eg. sustainability reporting), but seeks to build on it by broadening the key concepts disclosed and embedding integrated thinking into the organisation.

Telstra wishes to make the following comments in relation to the Draft Framework. Where applicable, we have referenced our comments to the Consultation Questions or specific paragraphs of the Draft Framework.

Purpose of <IR> and interaction with existing requirements/reports [Consultation Question 2]

We support the underlying philosophy of <IR> and its aim to provide a framework for integrating thinking, through the use of the core concepts of the 'capitals' (which extend beyond financial capital) to help broaden business thinking about what constitutes 'value' beyond the traditional 'bottom line', in order to encourage a more future-orientated perspective and a longer term view. We see <IR> having the potential to influence sustainable business practices rather than merely being reporting for compliance within a discrete sustainability report.

We agree the Draft Framework is useful in assisting an entity to prepare a single report which sets out all aspects of the business to facilitate a better understanding of the company's 'value creation story'. However, in our view an integrated report prepared under the Framework should be consolidated within (and enhance) current reporting requirements, rather than creating an additional reporting requirement. We believe companies should have flexibility to prepare an integrated report that fits logically within its existing reporting suite/strategy. Otherwise there is a risk that <IR> could become an additional layer of reporting which lacks interaction with the current reporting suite.

As currently drafted, the Draft Framework appears to prescribe that an integrated report *must* be a 'stand-alone' report/communication. In our view, the Framework should allow flexibility for an entity to determine the best format and structure within which to present the integrated report. For instance, it may be logical for an entity to incorporate concepts of <IR> within its existing Annual Report/statutory reporting, rather than in a separate stand-alone publication. In this regard, we note the South African experience has been for companies to present the information comprising the integrated report within their existing Annual Report (in a clearly defined section).

'Principle-based' nature of the Framework and requirements for an integrated report [Consultation Questions 1, 4 and 23]

Telstra agrees the Framework should be 'principle-based' rather than setting out prescriptive requirements. Conceptually, each entity's value creation story will be different and entities should have flexibility as to how they tell that story. The way the guiding principles and content elements are currently formulated allows this flexibility.

As a general observation, we note the Framework has an emphasis on *reporting* (which will be a by-product of integrated *thinking*) and in our view it would be appropriate for the Framework to explicitly acknowledge that entities will need to devote time to integrated thinking before they can produce a report that fully embodies all aspects of an integrated report. In our view, the Framework should be seen as a benchmark for 'best practice' disclosure, and in this regard we believe the Framework should acknowledge an entity's disclosure practices will evolve overtime as it progresses along its <IR> journey.

We do, however, have concerns that the Framework is potentially very broad and does not provide adequate guidance on *how* to report, and at what point a company can call their report 'integrated'. In particular, we have concerns that certain aspects of the Framework are unclear and lack sufficient guidance (for instance, in relation to the concepts of value creation, connectivity, complexity, interdependencies and tradeoffs), which may cause issues with the practical application of the criteria (see further specific comments below). In this respect it may be useful if the IIRC could provide some practical examples of how to apply some of the concepts and criteria (either as an attachment to the Framework or in a separate publication) – for instance some examples of what interdependencies there may be between the capitals.

The concept of the 'capitals' [Consultation Questions 5 and 9]

In our view, the terminology used to explain the 6 'capitals' is difficult to understand and could be simplified (eg. use of a term such as 'resources' rather than 'capitals').

In addition, we do not believe the Framework should be prescriptive and require an entity to report against each of the 6 'capitals'. In this respect, the requirements of the Framework are potentially unclear. In particular, paragraphs 2.18 to 2.21 of the Draft Framework recognise that not all of the 'capitals' are equally relevant or applicable to all organisations and are provided: (1) as a benchmark for ensuring that an organisation considers all the forms of capital that it uses or affects and (2) as part of the theoretical underpinning for the concept of 'value'; but paragraph 4.5 of the Draft Framework provides that an integrated report needs to disclose the reason why the organisation considers any of the 'capitals' identified in the Framework to be immaterial given its particular circumstances. While we believe the concept of the 'capitals' is helpful as a tool for guiding integrated *thinking*, we do not consider that the 'capitals' should be directly translated into a reporting framework that is in any way prescriptive.

Measuring 'value' [Consultation Questions 3, 9 and 23]

The Draft Framework provides that the concept of 'value creation' lies at the heart of <IR> (paragraph 2.37). However, in our view, the Draft Framework is unclear in relation to the quantification methodologies of 'value' and we believe the Framework could be improved by providing additional guidance as to how to implement this concept in practice.

In particular, one of the key <IR> challenges entities face is in relation to how to define and measure non-financial value and, in our view, the Framework could provide more guidance in relation to measurement of non-financial value and substantiation of subjective claims. We do not believe the Framework should be prescriptive in relation to this issue, but we do believe it would benefit from the inclusion of additional guidance and some universally agreed principles that can be applied by entities, so there is a shared 'language' and information provided is both meaningful and comparable across companies and jurisdictions.

Reporting Boundary [Consultation Questions 21 and 23]

The Draft Framework provides guidance on the reporting boundary used for integrated reporting and generally links it to the boundary used for financial reporting purposes. However, under the Draft Framework an integrated report could also include information beyond the financial reporting entity to identify opportunities, risks and outcomes that may have a material effect on the ability of the financial reporting entity to create value over time (for instance it may extend to other parties which introduce opportunities, risks and outcomes (eg. labour practices of key suppliers)).

We are concerned the Draft Framework is unclear as to where the reporting boundaries lie in relation to an entity's sphere of influence and the scope of reporting. This could lead to inconsistencies in approach by companies, thereby limiting comparability of information across companies and jurisdictions and limiting the usefulness of <IR> to inform capital allocation decisions. We believe the Draft Framework could be improved if additional guidance, in the form of some examples, was provided to assist entities to understand what the IIRC would expect companies to include in an integrated report in response to this aspect of the Framework.

Reliability and Assurance [Consultation Questions 14, 19 and 20]

Without clear guidance as to the reporting criteria and clear expectations around measurement and value, assurance will be difficult, especially in terms of accuracy and completeness of subjective and non-financial aspects of an integrated report.

The role of the auditor and the level of assurance that can be provided by the auditor under <IR> is a key challenge and there will need to be on-going consultation with relevant auditing bodies and standard setters in relation to this issue (see below). The auditor is likely to only be able to give limited assurance in relation to an integrated report, where the information provided is outside the scope of the financial report (ie. in a form similar to that which has been used in the context of sustainability reporting). In light of these limitations, an entity may only be prepared to provide limited information in relation to subjective claims (as has currently been the experience in the context of sustainability reporting).

Regulatory reform to facilitate <IR> by Australian companies [Consultation Questions 22 and 24]

The IIRC note that adoption of <IR> will depend upon legal, regulatory and other developments, although organisations may choose to voluntary adopt the Framework and participate in the <IR> Pilot Program.

The current reporting regime in Australia is complex and dialogue will be required across the various regulators and standard setters (eg. GRI, AASB, ASX and government). In this regard, we note the comments made by corporates (including Telstra) in submissions to the Corporations and Markets Advisory Committee (CAMAC) in response to the recent discussion paper ‘The AGM and Shareholder Engagement’ of the desirability of review and simplification of the current reporting framework in Australia.

Expanded reporting content and director liability concerns on reporting non-statutory information and forward looking statements/outlooks, may be a barrier to companies fully embracing <IR> in the short-term. In this regard, in Australia there is general debate regarding the need to expand the current business judgment rule and while this issue remains unresolved there may be reluctance on the part of companies to report against all aspects of the Framework on voluntarily basis.

We encourage the IIRC to continue in its efforts to influence regulators in this area in order to facilitate the concepts of <IR> to be implemented in Australia.

Telstra Corporation Limited

25 July 2013