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The International Integrated Reporting Council

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Dear Sir/ Madam

FEEDBACK ON THE ASSURANCE DEBATE

Background

The International Integrated Reporting Council (“IIRC”) issued two papers in July 2014 on the topic of Assurance on Integrated Reports (“IR”).

We refer to the purpose of Paper I which states that:

- the IIRC believes that the papers will provide a catalyst for those with an interest in assurance to become involved in discussion forums;
- the focus is on identifying issues from the assurance practitioner perspective for standard setters to consider rather than proposing solutions; and
- the paper is intended primarily for assurance standard setters and practitioners; and
- the paper’s secondary objective is to inform parties seeking assurance as to the concepts and forms of assurance engagements.

The more detailed paper II highlights a similar purpose, and from the 53 page detailed discussion it is clear that its target audience is very much parties that are involved in assurance.

We have given detailed consideration to both papers, but with the stated purpose in mind we have not responded in detail to the direct questions. Rather we wish to highlight certain concerns.

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Why independent assurance should not be a priority

We disagree with any assertion that assurance should be a priority. In fact, we are of the view that a strong focus on assurance at this stage in the development of IR could be very detrimental. This view of the JSE on assurance has been provided as part of previous consultation processes and remains unchanged. Our concern is detailed below.

IR is different to specific financial/sustainability data. The latter are factual and thus it is possible to obtain independent assurance thereon. IR on the other hand is largely about providing insight into the minds of management and the board.

There is no guarantee that the strategic direction/choices were correct, only time. Therefore, whether the particular strategy is the correct one is a matter to be determined by the board, and assurance cannot cross that line from being a tool to provide comfort about whether information is accurately reported to whether it is achievable or the most appropriate strategy.

We therefore believe that it is a mistake to approach the idea of assurance on IR from a traditional direction, and it is necessary to question whether independent assurance will in fact enhance the credibility of the IR. Credibility of IR will develop in time as a company builds a track record of communicating transparently and delivering on its promises. Trust comes as the company develops the relationship with its various stakeholders. To suggest that credibility can only be obtained through independent assurance could lead to the situation whereby the board and management of a company cannot make any statements by themselves/ without verification.

The board of directors takes responsibility for the IR, therefore it is appropriate to rather tackle the question from their perspective and to establish what they would require in order take the necessary responsibility for the information. This would vary from entity to entity and would be driven by the quality of the board members and the management team.

The potential need for assurance comes from the desire to ensure the reliability of information. This should be addressed first and foremost through governance processes. We remind you that in our previous comment letters we highlighted the increased regulation around the board of directors in South Africa over the past few year. We believe that the much improved corporate governance with the South African environment makes the reliability of internal assurance obtainable and that in the area of assurance of IR, the emphasis should be on internal assurance.

As it relates to data points included in the IR, robust internal systems and the involvement of internal audit would be critical. It is possible that the directors might want independent assurance on certain data points,

but these decisions would most likely be driven by the relative importance of a specific data point (e.g. is directly linked to remuneration) or perhaps to obtain independent oversight of the work of internal audit (in which case only a sample of data points may be considered). It is possible that the board would be entirely comfortable to obtain no external assurance on data points or to obtain assurance from the internal auditor.

Even then, assurance on a specific data point will not necessarily add credibility to an IR if that data point is not calculated in the same manner in which an investor or other researcher would perform the calculation. We have seen examples of this in dealing with our SRI index. The problem seems to arise from the lack of consistency for defining certain data points. Instead of enhancing credibility, assurance may add little value when users realise that the data is not what they were expecting or that different conclusions are possible.

As it relates to the broader context of the type of information that should be included in the IR the dangers of having a list of prescribed disclosures is two-fold. Firstly the IR would become another compliance exercise and secondly it is undesirable that all IR should be shaped the same, as all boards, business and their strategies are not the same. But without a list of prescribed disclosures to benchmark against it is very difficult to see how an independent assurer can add value to the board. We are therefore concerned that a high focus on assurance will result in the content of an IR being driven by what can be assured, as opposed to the correct focus of being driven by the IR framework.

The type and quality of information that is provided in the IR will be largely driven by the quality of the company. If one considers the issue of risk disclosure for example, a company can only make disclosures of matters they have actually considered. The fact that they may have overlooked certain key risk areas which may materialise at a later stage will reduce the credibility of the company and the IR, but that does not mean that the IR was poor. In fact, stakeholders should be as concerned about what the IR doesn't say as about what it does say. The only assurance that can be provided is whether the IR contains the material issues that were actually considered by the board. In this regard, as these are issues that the board itself considers, it would be difficult to envisage that they would need independent assurance in this regard. The area that they could seek comfort in could be to enlist internal assurance to ensure that the preparer of the IR has included all the information that the board considered i.e. to establish some sort of internal control process.

Certain guiding principles of the IR contained in the framework, such as connectivity of information, materiality, conciseness and completeness are very subjective, which makes standardised independent assurance difficult. It should be an evolving process whereby the board performs a self- assessment after the fact i.e. in hindsight were the issues material and was the IR complete. They should also obtain feedback on these principles from the stakeholders who are actually using its IR.

The use of internal audit

With the above comments in mind, we believe that there should be a stronger focus on the work that internal audit can undertake and how they can create value for the board of directors. The role of internal audit should be prioritised in ensuring that the internal systems, controls and processes that feed into the external integrated report, have been applied consistently and with rigor. It is more important to expand the traditional internal audit role to incorporate skills across strategy, sustainability, materiality and integration than to focus on external assurance.

The use of IR by investors

It is to be expected that the investors' use of and reliance on the IR will evolve over time. It is possible that the IR could become a key input to help inform the investor view in time, but it is not at this early stage expected to form the primary consideration.

It is unclear at this early stage whether the IR will eventually contain the level of detail that investors often refer to as being "investment grade", and to introduce an assurance standard may constrain not only the natural evolution of integrated reporting, but the opportunity for investors to properly engage with companies as part of this evolution.

It will therefore be important to get the investor view on this matter. Firstly, it is important to understand to what extent they already rely on assured information across the separate financial and sustainability elements of corporate reporting. The follow on question is therefore whether assurance in the IR itself is a requirement in order to bring credibility. Investors already take broader qualitative information as inputs into their investment decisions, and while investment grade data points are arguably easier to incorporate into valuation and analysis models, it is unclear whether investors will generally expect the new data points introduced by IR to be assured. We have certainly not seen assurance being demanded in the quest to supply investment grade sustainability data to our clients.

If integrated reporting achieves its aim in enabling a company to provide a holistic perspective of its ability to create value in the long term, investors will benefit from enhancing their analysis of an organisation with the perspective that the IR provides, and it is important that neither assurance nor strict content standards constrain the company in providing this perspective and enabling quality investor engagement.

The need to standardise independent assurance

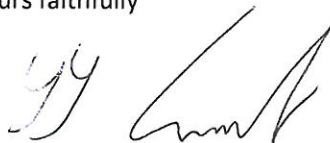
We have been advised that the standardisation of independent assurance is regarded as being important as inconsistencies arise when companies approach different service providers. The argument is that this leads to confusion for companies, and is detrimental to the reputation of external assurance industry.

While inconsistent assurance approaches are not ideal, it does not necessarily follow that a single assurance standard has to be developed at all cost. The question that needs to be answered is whether common assurance standards can be achieved at this early stage of IR (and in fact even at some stage in the future) and specifically in the absence of the kind of detailed reporting standards that exist in financial and sustainability reporting. As discussed above without standardised reporting, the value of assurance will always be diluted, and the matter of standardisation of underlying content is a much broader debate than can be resolved through an assurance standard.

Conclusion

We trust that the above provides insight into our view that prioritising assurance could be detrimental to the ideal evolution of IR. While we are supportive of the global efforts to find closer collaboration and alignment across the various parties interested in and affected by the emergence of IR, we would recommend that the IIRC be cautious in pursuing a drive towards setting standards and requirements that may constrain the organisations that produce integrated reports. We will follow the further discussions in this regard with interest.

Yours faithfully



TANIA WIMBERLEY
HEAD: FINANCIAL REPORTING
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