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Edge International, Inc.

Opinions on the Assurance Discussion Paper

Edge International promotes sustainable growth and financial stability for companies and society by contributing to innovation in corporate reporting. In doing so, we aim to achieve shared value creation.

Recently, the International Integrated Reporting Council (IIRC) has publicly announced a discussion paper on assurance. We have compiled not only our opinions on the paper but also the opinions of interested parties with a high level of expertise on the topic. We would like to declare those opinions in hope that they will be taken into consideration for the practical popularization and permeation of future integrated reporting.

I. What we are anticipating

1. If we improve the credibility of assurance, it will be easier for investors to use it

What is prioritized in assurance is not the value of the written content itself, but rather whether or not the written content is correct or logical. In other words, is the accuracy of the content such as financial figures and KPI assured? And are assumptions and scenarios of future expectations logical? These are the things that should be checked when it comes to the credibility of assurance.

<Related Opinions>

- A country or a company's integrated thinking, and the results of that thinking, should be assured, and time should be taken to debate that assurance.
- Long-term investment is made possible through the use of integrated reporting by long-term investors. For a company, stable finances and long-term management are made possible by attracting long-term investors.
- Based on a market-led orientation, a continuous survey on the details of the potential needs of financial providers who are influenced by assurance is essential.
- For non-financial information, if a logical assurance is a limited assurance on a feasible fixed amount of data, then we support that assurance, and believe it will raise credibility with investors.

(Refer to questions 1, 6, and 7)

2. Improve quality by formulating guidelines and establishing independent institutions

We are expecting independent institutions who engage in assurance to create assurance standards and guidelines, and train assurance practitioners. We are also expecting a continuous check of the quality of those standards and guidelines, and of those practitioners. However, we believe a talent pool is necessary to accomplish this.

<Related Opinions>

- There are aspects of granting third-party assurance that contribute to improving the quality of management. This improvement comes from the internal creation of learning opportunities. The basic thought, consistent definition, and validity of the process behind these learning opportunities is that they enhance communication between divisions with certain information and divisions that are collecting that information. We also believe they display learning effectiveness. When it comes to the quality of assurance, we feel that if you enhance learning effectiveness, it will lead to creation of standards, and eventually, the improvement of those standards.
- While existing standards and guidelines for assurance should be referred upon, new ones are necessary.
- It is difficult to understand the difference between “credibility” and “reliability.” The reasons why assurance is important should be clearly stated from a principle based perspective. In order to secure the effectiveness of a principle based approach in a necessary range, the declaration of some form of guidance that can complement the guiding principles is desired.

(Refer to questions 3, 4, and 9)

II. What we are concerned with, and what we want to improve

1. A high level of risk is associated with assurance due to the fact that standardized assurance is given to various forms of reporting.

Up until now, assurance for integrated reporting has been able to utilize an auditing based

approach. However, there is no extension to this approach. Since this approach is not a precise check of standard reports, it is an unavoidable circumstance that standardized assurance is given to various forms of reports. In other words, to a certain extent, it unfortunately becomes a loosely defined approach. In contrast with auditing, it is necessary to prepare for a decline in accuracy. As a result, those who engage in assurance, as well as those who use assurance (interested parties), are taking on a certain amount of risk. On the other hand, we oppose the standardization of integrated reporting in order to raise the accuracy of assurance.

<Related Opinions>

- Integrated reporting in Japan is done on a volunteer basis. There is concern that assurance will weaken the amount of freedom within integrated reporting. Also, the possibility that the side engaging in assurance will bear the risk associated with it is high.
- We believe there is a possibility that companies will exhaust themselves with the effort it takes to improve report quality to meet standards and receive assurance.
- There is the impression that it is necessary to record all content elements. Depending on a company's story of value creation, we don't feel that it is necessary to demand that every company record all content elements.
- Determining materiality, reporting boundary, and connectivity are stated as part of the technical methodology for assurance. We believe this is to be a form of engagement related to integrated thinking and reporting, rather than assurance.
- A coordinated combination of a bottom-up approach, which supports consideration for the assurance of integrated reporting and elements that assert a connection with integrated reporting, and a top-down approach, which establishes new standards for the specifics of integrated reporting based on a holistic view and connectivity traits, is desirable. However, if we assume that integrated reporting and that combination will gradually expand, we feel it is best to emphasize the formation of a systematic framework to ensure the effectiveness and credibility of the creation process of integrated reports.

(Refer to question 10)

2. Other opinions

Materiality

(a) An objective approach is difficult. Objective analysis runs the risk of bringing about an incorrect decision. (b) A qualitative, subjective approach.

The reporting boundary

(a) It is necessary to use information from outside sources, but you cannot assure the accuracy of that information. (b) Clearly specify (in writing) the source of information. However, doing so does not necessarily mean the report issuer is exempt from responsibility.

Connectivity

(a) It is difficult to ensure rationality. (b) Evidence based approach.
(a) Can a third party assure the degree of connectivity and the content of the report? (b) There is an assurance risk, and it is difficult to anticipate.

In determining whether or not there is connectivity, shouldn't you confirm background elements that are expressed as disclosed information? Isn't it necessary for the assurance practitioner to consider how the relationship between information on XBRL is at risk?

Completeness

(a) It is a trade off with conciseness. (b) Realistic response. We do not mind if conciseness is prioritized.

Narrative reporting and future-oriented information

(a) It is difficult to ensure rationality. (b) Users are taking a risk.

Reasonable assurance

(a) There will be enormous costs. It is difficult to secure skilled assurance practitioners. Report issuers will become more conservative, integrated reporting will be standardized, and the meaning of integrated reporting will be lost. (b) In the case that an interested party cannot collect information other than disclosed information, an integrated report of this level is necessary.

Limited assurance

(a) There is a high risk of becoming dependent only on this type of report. (b) In the case that an interested party can communicate with the report issuer, an integrated report of this level will be useful.

Hybrid engagement

(a) It is too complicated. It will cause further confusion. (b) It is difficult to acquire assurance (no means of improvement).

Agreed upon procedures engagement

(a) It cannot be generalized. (b) It is difficult to acquire assurance (no means of improvement).