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Professor Mervyn King
Chairman
International Integrated Reporting Council

Email: dpresponses@theiirc.org

Dear Sir,

Towards Integrated Reporting, Communicating value in the 21st Century

The Australian Institute of Company Directors welcomes the opportunity to comment on the Discussion Paper, *Towards Integrated Reporting, Communicating value in the 21st century* ("Discussion Paper"), released by the International Integrated Reporting Council ("IIRC") in October 2011.

The Australian Institute of Company Directors ("Company Directors") is the second largest member-based director association worldwide, with over 30,000 individual members from a wide range of corporations; publicly-listed companies, private companies, not-for-profit organisations, charities and government and semi-government bodies. As the principal Australian professional body representing a diverse membership of directors, we offer world class education services and provide a broad-based director perspective to current director issues in the policy debate.

Company Directors believes that it is important to actively participate in the development of Integrated Reporting. Our previous submission to the IIRC, *The non-executive director view of Integrated Reporting*, highlighted some of the challenges we believe are relevant to the development of the Integrated Reporting framework. We also stated our belief that a reporting framework, should be "a principles-based, non-regulatory, 'if not, why not' styled" framework. This original submission is attached for your ease of reference.

1. Executive summary

In summary, Company Directors are of the view that:

(a) non-executive director focused organisations should be invited to contribute to the development of the Integrated Reporting framework;
(b) the Integrated Reporting framework should be a principles-based, non-regulatory "if not, why not" styled approach; and
(c) director liability is a significant challenge needing to be addressed, to ensure that Integrated Reporting does not significantly increase the liability of directors.

2. General comments

Company Directors continue to be concerned about the membership of the IIRC. We highlighted this in a letter to Sir Michael Peat, the previous Chairman, in April 2011. We note that membership of the IIRC does not include any director focussed organisations, but has a bias towards accountancy and sustainability professionals.

We believe that directors would provide a strong and valuable contribution in the discussions on the development of the Integrated Reporting Framework and we encourage the IIRC to include them in their membership.

3. Specific comments

Company Directors have provided comment on the questions posed in the Discussion Paper.

Question 1 (a): Do you believe that action is needed to help improve how organisations represent their value-creation process? Why/ why not? Question 1(b): Do you agree that this action should be international in scope? Why/ why not?

Companies already provide a large volume of disclosures through their current reporting which highlights their strategic objectives and how they generate returns; however these disclosures are not necessarily combined or linked to their "value creation process".

For Integrated Reporting to be a viable proposition for companies it needs to address the reporting burden on companies.

The Discussion Paper highlights the desire of the IIRC that the Integrated Report becomes the company's "primary reporting tool". We are concerned given the varying regulatory reporting requirements across jurisdictions globally, this objective may be difficult to achieve and that Integrated Reporting will have the unintended consequence of increasing the reporting burden on companies.

An international response to corporate reporting should be encouraged, especially given that many companies operate within multiple jurisdictions and have to comply with differing reporting requirements in their corporate report. We note that given the differing regulatory, prudential and financial accounting frameworks that exist globally and as evidenced in the difficulties in achieving convergence of IFRS and US GAAP, global consensus may be difficult to achieve in reality.

Integrated Reporting needs to be a principles-based framework that allows companies to report material environmental, social, governance and financial information that they believe to be relevant to the decision making needs of their key stakeholders.

There is a need to allow companies and the capital markets the freedom to develop their own methodologies, so as to encourage innovation in reporting and allow companies to report information relevant to their individual circumstances.

Question 2: Do you agree with the definition of Integrated Reporting on page 6? Why/ why not?

We agree with the definition of Integrated Reporting, it highlights the focus on material information in a clear and concise manner that is specific to the needs of a company's key stakeholders.

However, we are concerned with the following part of the definition, which states "Integrated Reporting combines the most material elements of information currently reported in separate reporting strands (financial, management commentary, governance, remuneration, and sustainability) in a coherent whole". This seems to indicate that the Integrated Report will be an additional report, and could result in an additional reporting obligation on a company. There is a need for Integrated Reporting to be a catalyst in reducing the reporting burden on companies. We do not support an increase in the reporting requirements for companies.

Question 3: Do you support the development of an Integrated Reporting Framework? Why/ why not?

Question 4(a): Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and the needs of their investors? Why/ why not?

Question 4 (b): Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organisations?

We believe that the development of the Integrated Reporting framework should be focussed on large public companies. The focus should be on developing a principles-based, non-mandatory framework, as this would enable other organisations outside the scope of the Integrated Reporting framework to apply these principles in the developing of their Integrated Report.

There needs to be recognition that smaller organisations may not have the resources and funding available to apply an integrated reporting approach and this should not result in preventing these organisations from accessing capital markets.

The IIRC needs to consider in developing the Integrated Reporting framework, that there are costs associated with information generation and this needs to be balanced with the benefit obtained from such information.

A principles-based, non-regulatory styled framework would enable smaller organisations, should they wish, to adopt the elements of the framework that are material and relevant to their stakeholders and to develop an Integrated Report that reflects its business model.

Question 5: Are (a) the organisation's business model; and (b) its ability to create and sustain value in the short, medium and long term appropriate as central themes for the future direction of reporting? Why/ why not?

Company Directors believe that the business model and their value creation model are relevant, as well as key governance, social, environmental and financial reporting aspects. The challenge facing companies is how to communicate these key aspects in a concise manner, in plain English that enables key stakeholders to make balanced and informed decisions.

Many companies provide information in their current corporate reporting that addresses these issues, however given the vast volumes of disclosures; this information often loses its relevance and is difficult to identify.

Question 6: Do you find the concept of multiple capitals helpful in explaining how an organisation creates and sustains value? Why/ why not?

Company Directors believe that not all the capitals as identified in the Discussion Paper are relevant to all companies, and there is the need to ensure that companies report only on those capitals that are materially relevant to their business model and value creation process.

We believe that there are other capitals that may be beneficial to be included, for example regulatory capital, which is particularly relevant for those companies subject to prudential reporting requirements.

With respect to "manufactured capital", we note that "infrastructure assets", namely roads, ports and general infrastructure have been included. Our recommendation would be that "public infrastructure assets" be removed from manufactured capital and made a separate capital component. These assets are used by more than one entity and are provided by governments and although companies utilise them in their business model, they do not have control over their use or development. For those infrastructure assets over which an organisation has complete control, our recommendation would be to retain them within manufactured capital.

The challenge with respect to the "capitals" will be when a company attempts to attach a value to their capitals. The valuation mechanisms required to reflect the value of the individual capital components may be a challenge to develop, particularly with respect to those capitals that have a more intrinsic nature, for example elements within social, intellectual and human capital.

Question 7: Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other guiding principles that should be added? Why/ why not?

Company Directors are concerned that the "Strategic focus" guiding principle may require companies to provide information that contributes to their competitive advantage. We believe that a company should provide information that broadly details their strategic focus, but that the Integrated Report should not require companies to disclose any information that they believe to be "commercially sensitive".

Materiality is the key to a company setting the boundaries for their Integrated Report, and as such we believe that Materiality should be a separate guiding principle and should not be included as part of "Conciseness, reliability and materiality" guiding principle.

The challenge with respect to materiality is being able to develop a robust materiality definition, which will allow companies to set their materiality limits for both financial and non-financial information. There has been a tendency in the past for companies to adopt an "if in doubt, disclose" risk adverse attitude to corporate reporting. This has resulted in immaterial information being included in corporate reporting and has added greatly to the volume of disclosures.

Question 8: Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate and are there other Content Elements that should be added? Why/ why not?

Company Directors believe that Governance is a significantly important content element and should be separated from remuneration. The Governance content element should focus on how the company is governed, namely what governance framework the company has adopted, what policies and procedures they have in place to ensure adherence with that approach and any reporting that flows there from.

Remuneration is relevant but we believe it is more appropriate to be included as part of the Performance content element. Remuneration and how a company sets its executive and other remuneration requirements are linked to the performance of the company.

For true, business focussed reporting we don't believe that comparability should be a content element. We believe that each company has a differing value creation model and although there may be aspects to their disclosures that are similar within sectors, data comparability should not be a primary focus.

Company Directors are concerned about the content element, "Future outlook". There are differing laws and regulations globally that address "forward looking statements", which in turn make it difficult for organisations to provide this information, especially in any one format. The IIRC needs to consider how to manage these differing laws and regulations when developing this content element further.

Further, there is a need to develop a robust a "safe harbour" defence for directors for any forward looking statements that are included within an Integrated Report. Without a "safe harbour" any disclosures will tend to become "boilerplate", legally scrutinised and thus less useful to users.

Finally, coupled with the above, there is a need to educate users of the Integrated Report as to the care that should be applied when relying on these forward looking statements.

Question 9: From your perspective:
(a) Do you agree with the main benefits of Integrated Reporting as presented in the Discussion Paper?
(b) Do you agree with the main challenges as presented in the Discussion Paper?
(c) Do you agree that Integrated Reporting will drive disclosure of information that is useful for integrated analysis (from the perspective of investors)?

Company Directors are not convinced that the benefits of Integrated Reporting as highlighted on page 21 of the Discussion Paper, are truly a result of Integrated Reporting. Rather they are the consequence of a company with a clear communication strategy and engagement policy with key stakeholders.

We agree with the challenges raised. We also believe the following issues to be significant and requiring concerted effort to address in developing an Integrated Report that achieves the benefits highlighted:

1. Director liability concerns, including a focus on a globally accepted and harmonised "safe harbour" or broader business judgement rule.
2. Regulation across jurisdictions, including the need to reduce red tape and to be cognisant of the cost vs. benefit of information.
3. Commercial confidentiality.
4. Materiality.

Question 10(a): Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/ why not? Are there other significant actions that should be added?
Question 10(b): What priority should be afforded to each action? Why?

Company Directors believe that is it critically important that the IIRC focus on developing the principles on which Integrated Reporting will be based, including their conceptual framework.

The IIRC should also focus on developing and disclosing the governance structure that will set out the role and responsibilities of the IIRC, and how the organisation will operate in the future.

We believe that the IIRC also need to set out their objectives and how they envisage measuring their success in achieving these objectives.

Question 11: Do you have any other comments that you would like the IIRC to consider?

We would like to reiterate our previous comment with regards to the membership of the IIRC, as we believe that there is a need to extend the membership beyond accountancy and sustainability interest groups, to include the "stewards" of the long-term future of companies and the agents of owners of those companies that is directors.

We would be happy to discuss these views with you or your nominees.

Yours Sincerely

Rob Elliott
General Manager Policy